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6th January, 1967

CABINET

LIMB-FITTERS: DEFIANCE OF THE STANDSTILL

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

My colleagues will be aware of the difficulty which has arisen over the pay of limb-fitters employed by J.E. Hanger & Co, which led to a work-to-rule by members of the Association of Supervisory Staffs and Technicians (ASSET) employed at all the limb-fitting centres. The worst delays and hardship to the disabled occurred at Queen Mary's Hospital, Roehampton, and at Liverpool and Birmingham.

2. The origins of this difficulty and the course of events since April, 1966, are summarised in the Annex.

3. The firm's offer to pay the increase from 2nd January, 1967, would have been a clear breach of the standstill and the Minister of Labour proposed that the matter should be referred to the National Board for Prices and Incomes with a request to the parties to withhold the increase pending the Board's report.

4. The Minister of Labour recognised that ordinarily consideration would have had to be given to the making of an order under Part IV of the Prices and Incomes Act prohibiting payment of the increase, but with the interests of the disabled so deeply involved in the not unlikely event of a resumption of the work-to-rule, he considered that it would be politically difficult to take this course. The Minister of Health was prepared to accept the reference to the National Board for Prices and Incomes, but he was opposed to making an order at least until after the Board's report was available when it would still be open to the Government to make an order rescinding the increase if the report justified such action.

5. The Chancellor of the Exchequer and I felt that the course proposed by the Minister of Labour should be adopted because of the desirability of avoiding the impression that we were using our statutory powers with unimaginative inflexibility, but we considered it essential that the Government should stand ready to make a Part IV order in the event of the parties refusing to withhold payment pending the Board's report. The Ministers of Labour and of Health reserved their position over the making of an order even in these circumstances.
6. Unfortunately, J.E. Hanger & Co have informed the Ministry of Labour of their intention to make the £100 payment to their limb-fitters as from 2nd January, 1967. This means that the employers are in clear breach of the requirements of the standstill because payment of the increase should be deferred until after 30th June, 1967, unless it could be justified against the criteria for severe restraint (Cmd, 3150). Neither the employer nor the union have argued that it could be so justified and the agreement does not appear to satisfy any of these criteria.

7. The number of men involved is quite small; J.E. Hanger employ 100 out of a total of 210 limb-fitters. But it is very difficult to regard this breach of the standstill as "insignificant" because the matter has attracted widespread publicity and the newspapers are pressing for a statement of the Government's intentions in the face of this "defiance" of the standstill. We have felt compelled to make Part IV orders in other cases involving similarly small numbers of employees because of the strong likelihood of undermining the voluntary support of the great majority of employers and unions if "the selfish few" seem able to flout the Government's policy with impunity.

8. We justified the enactment of Part IV with its exceptionally wide powers on the grounds that it was necessary to have power to deal with the selfish few. Our decision over the use of Part IV in the present case will be seen as a test of the Government's resolution in seeking to maintain the standstill.

9. I recognise that in the event of ASSET instructing the limb-fitters to work to rule again, there may well be criticism of the Government on the grounds that we are ignoring the interests of the disabled who will suffer through the delays. ASSET have taken a militant line throughout the standstill and one cannot rely on the union to defer a resumption of the work-to-rule at least until the National Board for Prices and Incomes has reported, although some union members last year apparently quietly ignored the work-to-rule. But a decision not to use our powers will also attract considerable criticism particularly as the Government had asked the parties to withhold payment pending the Board's report and has been rebuffed.

10. We have come through the first six months of the standstill with considerable success thanks to the readiness of most employers and unions to abide by its requirements and, I believe, to the Government's own firmness in dealing with threatened breaches of the standstill. We are now entering the more testing period of severe restraint when many workers will be paid under the rules relating to existing commitments while many others will have to wait until after 30th June, 1967. It will be more difficult to persuade these workers to be patient if they see some people "getting away with it" in a flagrant manner.

11. The Confederation of British Industry have raised no objection to the exercise of Part IV powers. The Trades Union Congress (TUC) did not wish the matter to be referred to the National Board on the grounds that this was a misuse of the Board, and that the Government should be able to settle this matter by themselves. The TUC felt also
that Part IV was a somewhat heavy instrument to use but they did not raise objection to an order.

12. I invite my colleagues, therefore, to agree to the making of an order under Section 29 of the Prices and Incomes Act to prohibit J. E. Hangor & Co. from continuing to pay the increase from the date of the order.

M.S.

Department of Economic Affairs, S.W.1.

6th January, 1967
ANNEX

PAY INCREASE FOR LIMB-FITTERS EMPLOYED BY J.E. HANGER AND COMPANY

There are nine manufacturers of artificial limbs under contract to the Ministry of Health, employing limb-fitters at centres throughout the country. J.E. Hanger and Co. employ 100 out of a total of 210 limb-fitters, and by tradition take the lead in negotiations. The current pay-scale is £1,187-£1,350 a year.

2. In April, 1966 the Association of Supervisory Staffs and Technicians (ASSET) presented a claim to Hangers that the duties of limb-fitters should be revalued and salaries brought into line with those of comparable technicians. Both sides agreed to consider arbitration and in June the firm offered to negotiate a 5 per cent cost-of-living increase and further increases based on ASSET's acceptance of proposals for increased efficiency. On 9th August ASSET claimed £100 a year as an interim increase back-dated to 1st May, 1966, in return for setting up a joint committee of the company and the limb-fitters to improve efficiency and productivity. The company agreed in principle to the setting up of a joint committee and to an increase, but said that in view of the prices and incomes policy it would not be possible to implement the increase as from 1st May; the date was more likely to be 1st January, 1967 or some other time permitted by Government policy.

3. Following the company's refusal to implement and back-date the increase ASSET members imposed a work-to-rule in all limb-fitting centres from 5th September. This created long delays and hardship, particularly at Queen Mary's Hospital, Roehampton, and at Liverpool and Birmingham, though some union members apparently quietly ignored the work-to-rule.

4. Approaches were made to Mr. Clive Jenkins, General Secretary of ASSET, to call off the work-to-rule, pointing out that it was causing hardship to the disabled. He said that he would call it off if the increase were conceded from November, while reserving the legal rights of his members with regard to the period from 1st May. A joint discussion under Ministry of Labour chairmanship in November produced no softening on the union's side, but it was obvious that the company was willing to pay the increase at the earliest date permitted by the Government.

5. Subsequently the firm itself offered to pay the increase from 2nd January and to hold further discussions on methods of improving efficiency, with a possible later pay increase of £30-£60. This offer was accepted by ASSET on 2nd December, and the work-to-rule was called off from 5th December.
CABINET

PAY INCREASE FOR LIMB FITTERS

Memorandum by the Minister of Health

After the decision in August by Messrs. J. E. Hanger to defer any increase in the pay of limb fitters, in conformity with the Government's standstill on prices and incomes, the fitters employed by the Company at Roehampton and certain other limb fitting centres began working to rule on 2nd September and continued to do so until 5th December.

2. This action had serious effects on the treatment of the limbless. At Roehampton the numbers attended to during September averaged 700 a week instead of the normal figure of 900 and despite all we could do to maintain the service the waiting list continued to grow. At the beginning of December there were about 900 limbless patients waiting for a new limb or a major repair as compared with the normal figure of 500; and in spite of sustained efforts by all concerned in the month since normal working was resumed the waiting list at present stands at 750. Many patients suffered considerable hardship and inconvenience in having to attend repeatedly at the Centre before they succeeded in securing attention from a limb fitter and many more have been seriously affected by the aggravated delay in the delivery or major repair of an artificial limb.

3. If an order is made now to prevent payment under the agreement between the Company and the Union it is likely that the fitters will renew their work-to-rule and that this time the disruption will not be confined to Roehampton and the two larger Centres at Liverpool and Birmingham but will affect every one of the twenty-eight Centres in the United Kingdom.

4. There is little or no emergency action that we could take to provide alternative arrangements for maintaining the limb service and many patients, some of them with grave disabilities, would inevitably suffer. All this would be seen to be the result of a deliberate decision of Government, taken after the Government had appeared to acquiesce in the settlement over a month ago which brought the industrial action to an end. We should have the greatest difficulty in defending our actions in Parliament and outside from attacks by the Opposition, the Press and organisations representing the interests of the disabled. Public opinion is not likely to be on our side.

5. I therefore suggest to my colleagues that the disadvantages of making an Order outweigh the advantages and that consideration of any such action should be postponed at any rate until after the National Board for Prices and Incomes has reported.

K.R.

Ministry of Health, S. E. I.

10th January, 1967
CABINET

VISITS BY THE PRIME MINISTER AND FOREIGN SECRETARY 
TO EEC HEADS OF GOVERNMENT

Note by the Secretary of the Cabinet

I circulate for consideration by the Cabinet on Thursday, 12th January, 1967 the attached steering brief which has been revised in the light of the discussions of the Ministerial Steering Committee on Economic Policy.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

10th January, 1967
Visit of the Prime Minister and Foreign Secretary to Rome, 16th-17th January, 1967

Scope of this brief

This brief is designed for the visit to Rome. The course of discussion in Rome, and also other developments, will certainly require variations in the brief for Paris and the other capitals visited thereafter. But much of the present brief may well apply in all cases. Accordingly it is proposed to revise this brief in anticipation of each separate visit.

Purpose of visit:

2. In his statement in the House of Commons on 10th November the Prime Minister said that Her Majesty's Government had conducted "a deep and searching review of the whole problem of Britain's relations with the EEC, including our membership of EFTA and of the Commonwealth". The Prime Minister went on -

"Every aspect of the Treaty of Rome itself, of decisions taken subsequent to its signature, and of the implications and consequences which might be expected to flow from British entry, have been examined in depth.

"In the light of this review the Government have decided that a new high level approach must now be made to see whether the conditions exist - or do not exist - for fruitful negotiations, and the basis on which such negotiations could take place."

3. The Prime Minister then referred to the EFTA Conference (which in the event was held on 5th December). He added -

"Following that conference my right honourable Friend the Foreign Secretary and I intend to engage in a series of discussions with each of the Heads of Government of the Six, for the purpose of establishing whether it appears likely that essential British and Commonwealth interests could be safeguarded if Britain were to accept the Treaty of Rome and join the EEC. In the light of these discussions the Government will then take its decisions whether or not to activate the arrangements for negotiating for entry, and what the appropriate time for such negotiations would be."

4. A further objective is to impress on the Six the importance of a successful outcome of the Kennedy Round. We told our EFTA partners that we would do this and we are publicly committed.
5. No communique should be issued after the Rome visit or after the subsequent visits.

Order and Timing of Visits

6. The order and timing of the Prime Minister's and Foreign Secretary's tour of the Six has been determined by three considerations:

(a) That it would be best to visit Paris neither first nor last (and Rome would be a friendly capital to visit first).

(b) The availability of Ministers in the Six (there have been recent Government crises in Germany, the Netherlands and Luxembourg).

(c) The desirability of completing the visits before the next regular meeting of the EFTA Ministerial Council at Stockholm on 2nd-3rd March.

7. The complete programme for the discussions is:

- Rome: 16th-17th January
- Paris: 24th-25th January
- Brussels: 31st January - 1st February
- Luxembourg: 2nd February
- Bonn: 14th-16th February
- The Hague: 26th-27th or 28th February

Essence of the Discussion

8. It will be essential for the Prime Minister to mention all the major problems to which we attach importance, and, if there are other problems on which we shall have to fight in any subsequent negotiations, either to mention them or to use some general language clearly implying that such problems exist. Otherwise, if such questions are raised in subsequent negotiations, we may be accused with very damaging effect of having misled the Governments of the Six as to the nature and extent of our requirements. Although the Prime Minister will be seeking in the first place to state our problems and to learn what Community Governments may be prepared to do in the way of dealing with them, he will also need to be ready to face the question how we ourselves would wish to treat them. He may be told, perhaps in other capitals as well as Paris, "these are your problems. It is up to you to suggest solutions to them. We cannot say what we have in mind unless you tell us what you want." Such questions cannot be evaded. The more precisely our difficulties can be stated, the more likely we are to learn what the Six would be prepared to do about them. But we do not want to introduce rigidity into our own position prematurely. If they are pressed, the Prime Minister and Foreign Secretary can say - and carry conviction by saying - "that there are some questions which cannot be answered at the present stage; that in their nature these are questions on which the British Government can only come to a firm view at the conclusion of the present round of
high level probing; and that meanwhile, in order to assist them to come to a firm view, we would be grateful for advice from our Community colleagues."

To take a line of this kind does not of course prevent Ministers from exploring questions, going into the pros and cons, asking counter questions and so on. But Ministers need not be afraid of having to say baldly that they have not come to a firm or final position on this question or that.

The particular problems which the Prime Minister will wish to raise

9. There will be advantage in the Prime Minister making clear at the outset what is our position on the Treaty of Rome. The Speaking Note attached to this Brief covers the point. In addition there are certain questions which must be raised. These are agriculture (including of course Commonwealth agricultural trade), capital movements, regional policies and certain Commonwealth problems. Finally, the Prime Minister should say that he also foresees the need for discussion of a number of subsidiary questions for which special arrangements may eventually be needed. He should give illustrations of these latter questions without indicating the nature of the solutions we might want.

10. We may well need both derogations and transitional arrangements in order to solve the range of problems connected with our entry into the Community. However, until we come to work out our negotiating position, it is not possible to indicate specifically whether a derogation or a transitional period or a combination of the two would meet our requirement in a particular case. There are some problems affecting Commonwealth interests which, so far as we can judge at present, can only be solved by a derogation. (In a recent message to the Prime Minister, Mr. Holyoake said that permanent rather than transitional arrangements were needed to safeguard New Zealand's position.)

11. The Prime Minister will certainly be pressed, both in Rome and in the other capitals, to accept transitional periods as the universal solution (except perhaps for the New Zealand case and that of the less developed countries, to whom special arrangements, e.g. association or trade agreements, might be offered). Here the Prime Minister will remember that on some questions, e.g. agriculture, the longer the transitional period we can negotiate the better. Whereas on other question too long a transitional period would postpone the advantages which we might otherwise hope to secure. A case in point is the dismantling of internal tariffs in the enlarged Community, as contrasted with the adjustment of our tariffs, and particularly our preferential tariff for the Commonwealth, to the common external tariff. In the Heath negotiations a transitional period of 7 years looked like being secured for the Commonwealth adjustment. In fact, different questions will call for different transitional periods or a combination of derogations (hard to obtain) and transitional periods (easier).
12. It is suggested that the Prime Minister should take the following line:

(a) He should avoid going into any detail. He should particularly avoid being drawn on any actual periods of years as regards the length of transitional periods. He need not be afraid of explaining the reason. It is because this question is essentially one for negotiation. It is a highly detailed and complicated one. We might want different periods within the same subject (see above on internal and external tariffs). And, in a case where we wanted a long transitional period, our opening bids would of course require careful thought, as well as the length of the period which we might in the end be ready to settle for.

(b) The Prime Minister should avoid giving any impression that transitional periods, as opposed to derogations, would be acceptable as the universal solution. That point of view will be pressed on him. If he is asked pointed questions, he can say that he cannot give a simple answer because of the interrelation between derogations and transitional periods. The greater the area of derogation the less may be the need for transitional provisions in any particular case.

13. The main lines to be followed in discussing the problems which the Prime Minister is recommended to raise are set out in the following paragraphs.

Points which the Prime Minister must raise and deal with

14. (a) Agriculture. The Prime Minister should say that there are four main aspects of the agricultural problem: the effect on our balance of payments (including the question of contributions to the Guidance and Guarantee Fund); the effect on the cost of living; the effect on Commonwealth trade; and the effect for our own farmers. The Prime Minister might go on to illustrate under each of these four heads, the difficulties (which were discussed at the Chequers Conference and the subsequent meetings of Cabinet) to which we think the application of the c.a.p. as it stands would give rise; and to indicate the need, if these difficulties are to be overcome, for arrangements of four kinds in modification of the c.a.p.;

(i) a further review of the existing financial arrangements, so as to ensure equitable sharing of the burdens and the advantages between all members of the Community as it would then be;

(ii) further consideration of support and pricing policies, and arrangements for their regular review, in the light of the circumstances of an enlarged Community;
provisions to mitigate the major problems arising for certain Commonwealth countries, particularly New Zealand and some developing countries; and

an adequate period of transition so that all interests affected - farmers, consumers, Exchequer, Commonwealth - would have time to make a complete and somewhat painful adjustment.

(b) Capital movements. The Prime Minister could point out that the capital account is another vital element in our balance of payments. There is at present a gap between our stringent controls on capital movements and the liberal regime which we should have to adopt towards the Six if we became members of the EEC*. One particular problem which must be discussed with the Six is how to guard against the danger that portfolio investment to the Six could become a channel for portfolio investment world-wide, thus imposing a significant additional burden on our external account. We recognise that the gap between our present policies and those of the Six will have to be closed and we shall need to discuss with them how this should be done acceptably to both sides and what transitional period would be reasonable.

(c) Regional policies. The State aids* involved in our current regional policy measures will, under Article 93 of the Treaty, become subject to examination by the Commission, who have the power to require us to withdraw those measures found to be incompatible with the EEC regulations, subject to appeal to the Court of Justice or to a unanimous decision by the Council. Our own regional measures are similar (but on a more extensive scale) to those of the Six, all of whom are pursuing regional policies of varying character and intensity with Community approval. Some of our present instruments of regional policy, e.g. industrial development certificates and office permits, may become less effective, if for example enterprises take advantage of the wider choice of location inside the Community. The Prime Minister will wish to mention the particular difficulties which might arise for Northern Ireland.

This subject will be of special interest to the Italians in view of their own regional policies. And the Treaty of Rome had a "Protocol concerning Italy" designed to ensure that Italian development plans for the South of Italy and the islands could be carried out, with assistance from the Community.

(d) Commonwealth questions, other than those dealt with under the heading of agriculture at (a) above. The Prime Minister should make it plain that we have undertaken to consult with other Commonwealth countries at all stages of any negotiations. We shall want to carry them with us if we can. In so far as we ask for mitigations, we shall be doing no more than the Six did at the time when they negotiated the Treaty of Rome. They then arranged special provisions for overseas territories, e.g. Part IV of the Treaty, the Morocco Protocol and the Declaration of Intention in respect of the association of the Kingdom of Libya, etc.

* State aids also feature in existing United Kingdom arrangements for agriculture (see Annex A(A) 1(i)) and for management of the economy (see Annex A(C) 1). All would be subject to Articles 92-94 of the Treaty of Rome.
(e) Treaty of Rome. This is a special point on which the Prime Minister is certain to be tackled in all capitals, Rome not the least. He should therefore raise it himself (see paragraph 9 above). While the French Ministers might raise the question in a more hostile fashion, our friends among the Five are likely to say "When you are asked whether you accept the Treaty of Rome, why cannot you reply with a plain yes? If you could do that, you would disarm the French on an important point." In reply to questions of this sort, the Prime Minister must rely on what he said in the House of Commons on 10th November in a supplementary reply to Mr. Grimond; the text is in the speaking note attached to this brief. The Prime Minister could explain that the "necessary adjustments consequent upon the accession of a new member" correspond to the requirements of Article 237 of the Treaty. That is the Article about new members. The more the Prime Minister qualifies his remarks about the Treaty of Rome, the less will be their effect.

Points important enough to warrant mention but not important enough to be gone into in depth

15. A list is attached at Annex A. It is suggested that the Prime Minister should cover those points listed in the speaking note, making it clear that he cites them as instances, not as an exhaustive list, that there are a good number of such points which must in the nature of things be dealt with but that to go into them all would be proper only to a later stage in the proceedings, viz. an actual negotiation.

EFTA and the Irish Republic

16. The Prime Minister will also wish to make it clear that he neither wishes nor is empowered to speak for EFTA countries. But it would be useful if, without appearing to seek information, he could elicit the views of his interlocutor on Community membership or association for other EFTA countries and the Irish Republic.

Important points which may be raised by the other side

17. These are: (a) Sterling, (b) Political union, (c) Defence. It is undesirable to raise any of these questions though we must be ready to discuss them, on the lines of the discussion in the Cabinet after the Chequers Conference, when they are raised by Community countries.

Problem of 'Manageability'

18. The problem is that the number of fields in which new arrangements will have to be made, either before or after entry to the Community, is so large that we may expect enquiries and suggestions from the Six as to how the range could be reduced to manageable proportions. The question may arise in various forms, but in essence it is how far we think we shall have to negotiate a comprehensive set of terms before becoming members, and how far we can leave issues to be decided after entry. The problem of finding a manageable method of negotiation is likely to be raised with us at least in The Hague and in Bonn. We also have evidence that many influential people in France, though not the Government, are interested in this problem.
19. The best way for Ministers to deal non-committally with enquiries or suggestions from the Six on this question would be by means of counter questions and exploratory discussion. Ministers might take the line that one of the objects of the present probing is to ascertain the possibilities in this field and that whilst therefore we should welcome exploratory discussions we should clearly not be in a position to take a view on such questions until after the probings were completed.

Kennedy Round

20. The Prime Minister should emphasise the importance of a successful conclusion.

Differences of emphasis in approaching the different Governments

21. It will be necessary in different capitals to lay different emphasis on certain questions. For instance, it will be necessary to emphasise technology in Rome because of the Italian proposals on this subject. Technology, defence and sterling may require fuller treatment with the French than with the others. But, however the emphasis is applied, it will be essential for what is said to each Government to remain consistent with what is said to the others. The Six Governments have decided that they will pool information about each visit. The (Belgian) Chairman of the Council is to keep the Commission informed. We can be sure that what is said in each capital will percolate through to EFTA and Commonwealth countries; and we are in any case ourselves committed to keeping EFTA and Commonwealth countries informed.

"Follow up" to discussion

22. The question is whether there will need to be any "follow up" to the Prime Minister's probing before Ministers reach their decision whether or not to seek negotiations; and, if so, at what level (ministerial or official); and what subjects might be so discussed.

23. It is recommended that the Prime Minister should not agree to any request for immediate "follow up" discussions, on the grounds that he could not carry talks with individual Governments further forward until all the Six capitals had been visited. After the planned tour of visits it will be necessary for Ministers to consider the outcome, and the next steps. The question of any possible "follow up" discussions will be for consideration then.
FOOD AND AGRICULTURE

1. The main "second eleven" points (likely to call for detailed discussion with the Community in due course) in the food and agriculture field relate to the "Rules of Competition" Chapter of the Treaty of Rome, viz:

(i) State Aids. We should need to discuss reconciliation of some of our agricultural direct grants with the provisions of Articles 92-94 of the Treaty.

The Six have not yet adopted rules for the implementation of these Articles, which are intended to " outlaw" any form of aid by national Governments that distorts fair competition. But it seems likely that any aids related specifically to the production of a particular commodity will be ruled out, while those that seek generally to improve farm structure would be permitted. This would put at risk many of our production grants - including particularly those to hill cattle and sheep farmers, who will be among those most adversely affected by the Community's price policy. At the least we shall need time for reviewing our present arrangements and adapting them to the changed circumstances.

(ii) Approximation of Laws. There may be problems over reconciling our existing national laws and regulations with Community directives in the agricultural and food sector, under Articles 100-102 of the Treaty, on such matters as food standards, plant health, veterinary regulations and farm safety.

The Community is making slow progress in its plans to harmonise economic legislation over a wide range of Government activity which might affect the terms of competition among member States. The extent of any problems this might present for us will depend on the stage reached in the Community at the material time and the form which Community law has taken by then. Again, at the least we shall need time for review and adaptation.

(iii) Marketing Boards. The question would arise as to what would be the future of these statutory boards, concerned generally with the production and marketing of some major agricultural commodities, e.g., milk and dairy products, eggs, potatoes, having regard to the provision of, in particular, Articles 85-90 of the Treaty.
It is probable that as the Community's policy-implementing machinery develops there would be some role for these boards if we joined the Common Market. But it is not clear whether statutory powers of compulsion over producers which our Marketing Boards possess would be compatible with the rules of the Common Market.

(2) TRADE ARRANGEMENTS

1. Entry into the Customs Union and adoption of the Common External Tariff

There are a number of problems here which will require separate discussion, but they should not and need not be pursued during the probing.

2. Accession to the association arrangements and Trade Agreements of the Community with other States

The Community has association arrangements with the remaining dependencies of the member countries and, under the Yaounde Convention, with the former African dependencies now independent and special arrangements with Algeria. It also has association agreements with Greece and Turkey and Trade Agreements with Israel and the Lebanon. The question whether the United Kingdom should accede to these arrangements with or without modification, would need to be discussed. Membership of the Community would not automatically entail accession to the arrangements made between Community Member Governments and the Associates and other countries. Policy questions might arise e.g. where exports from the countries in question compete with those of the Commonwealth. The Yaounde Convention expires in May 1969 and its renewal will have to be negotiated within the Community. Since the French benefit most from this Convention the need for it to be renewed might provide us with bargaining counters.

3. Films

We should want to have the opportunity of discussing the rules for this industry with a view to harmonising support procedures. Here we would hope to avoid having to conform entirely to the Community rules and to be able to negotiate amended rules more suitable for the enlarged Community.

(3) MANAGEMENT OF THE COMMON

1. In general, those aids to industry which tend to distort competition and intra-Community trade are liable to be disallowed by the Commission. For instance, of the long term measures, the premium element in the Selective Employment Tax and the proposed levels of investment grants would be vulnerable. Some of the proposed IDC operations might also cause difficulty.
2. Medium-term policies (National Plan, "Little Neddies", Productivity Prices and Incomes Policy, etc.) and the concept of planning in general, are compatible with membership. Our export promotional measures are generally acceptable, with the outstanding exception of the export rebate in relation to exports to the Community, but aids for exports to third countries are subject to harmonisation.

3. In the short-term, we face closer co-ordination and surveillance of policies and less freedom to innovate economic management techniques; this may be offset by provisions for mutual assistance.

(D) FREE MOVEMENT OF WORKERS

(i) If the question of free movement of labour is raised, Minister should say that, apart from the need for a transitional period such as the member countries of the Community had themselves, there will be some problems to be resolved in connection with immigration from the Commonwealth into the United Kingdom.

(E) ECSC

1. We may have to look at the problems raised by the size of our nationalised undertakings in the coal and steel industries. The point would arise particularly on steel if we acceded after vesting but before the re-organisation of the industry had been completed, when we should need to negotiate the right to carry through the re-organisation as we saw fit.
CONSPIRATIONAL

VISITS BY THE PRIME MINISTER AND FOREIGN SECRETARY TO EEC HEADS OF GOVERNMENT

STEERING BRIEF

Visit to Rome, 16th-17th January 1967

Speaking Note

Reply to welcome from the Italians?

The Foreign Secretary and I are very glad that you were able to make it convenient for us to visit you first and at the outset of our round of visits to the capitals of Community countries. We have always known that the Italian Government is sympathetic towards our membership of the Community and we are very grateful for this opportunity of discussing our problems with you at this stage.

2. I should like to run over briefly the background to our present visit. Much of it will be familiar to you, but it may be helpful if I restate at the outset what our position is and the reason for the visits which we are making to the capitals of the Six.

3. I told the House of Commons on the 10th November what it was that we had it in mind to do, and a copy of my statement on that occasion was given to the Italian Government at the time. I explained that over the previous weeks, and following the early process of exploratory talks carried out by Mr. Brown in his capacity as First Secretary of State and by Mr. Thomson, the Chancellor of the Duchy of Lancaster, the Government had conducted a deep and searching review of the whole problem of Britain's relations with the Community, including our membership of EFTA and of the Commonwealth. In the light of this review, I said the Government had decided that a new high level approach must now be made to see whether conditions exist - or do not exist - for fruitful negotiations, and the basis on which such negotiations could take place. I said that following the Conference of EFTA Heads of Government which I proposed to call - and which took place in London on 5th December - I intended to engage in a series of discussions with each of the Heads of Government of the Six "for the purpose of establishing whether it appears likely that essential British and Commonwealth interests could be safeguarded if Britain were to accept the Treaty of Rome and join the European Economic Community". I added that in the light of these discussions the Government would then take its decision whether or not to activate the arrangements for negotiating for entry, and what the appropriate time for such negotiations would be.
4. The meetings which we are now entering upon are thus a logical extension of the process which we began last summer of determining whether conditions exist for fruitful negotiations and thus whether it is likely that, if we embark on a negotiation, it could be brought to a successful conclusion. I am sure that neither you, nor we, nor any of our friends in the Six wants a repetition of the events of early 1963. But I should like to stress again something that I said in the House of Commons on 10th November: that "we are approaching these discussions with a clear intention and a determination to enter the Community if, as we hope, our essential British and Commonwealth interests can be safeguarded. We mean business."

5. And I should like to say how much we were encouraged by the reaction of the Italian Government to my statement. I thought Signor Fanfani put the situation very well when he said "The decision clearly does not solve the problem but it sets in train procedures which can solve it". And we were very happy to see his next remark "Italy will collaborate fully in this so as to arrive at a positive conclusion." This remark provided confirmation, if any were needed, that we could look to the Italian Government for a helpful and constructive approach to the problems that we shall be discussing today.

6. Following my statement in the House of Commons there have been two developments in London. The first was a two-day debate in the House of Commons on the question of our relations with Europe. I expect that reports of this debate will be available to you. It was principally remarkable I think for the wide agreement, from all political parties, that membership of the Community was a desirable objective. And there can be no question that the Government in its present approach to the Six enjoys a very wide measure of support, both Parliamentary and in the country at large. A recent study by a Confederation of British Industry Committee is firmly in favour of British entry into the Community. The reports of public opinion polls on this subject have shown a heavy majority in favour of membership of the Community, provided of course that this could be brought about without impairing the essential interests to which I have referred.

7. The second development was the meeting of EFTA Heads of Government which took place at my invitation at the beginning of December. At that meeting all the EFTA countries welcomed the move as an important step along the road to determining the prospects for a solution to the question of economic integration in which they could all participate in an appropriate manner. And we agreed again that we would keep in the closest consultation with each other on the development of our relations with the Community and of any discussions with the members of the Community. We are of course not empowered to speak on behalf of our EFTA partners.
8. Before going on to the questions which I should like to deal with during the course of our talk today, I think I should make clear again our position towards the Treaty of Rome. I think it is right for me to mention this first for it is the foundation stone. It is sometimes suggested that Britain is not prepared to accept the Treaty, or that we should wish to negotiate such revisions to it as fundamentally to alter its nature. I do not think I can do better than to state again the words with which I described our attitude to the Treaty in Parliament in November. I then said that we take the view that the Treaty of Rome is not in itself or necessarily an impediment; it need not be an obstacle if our problems can be dealt with satisfactorily, whether through adaptations of the arrangements made under the Treaty or in any other acceptable manner. I summarised this important point by saying that we would be prepared to accept the Treaty of Rome subject to the necessary adjustments consequent upon the accession of a new member, and provided that we receive satisfaction on the points of difficulties we see.

9. Now, in order to provide a factual basis for our talks, it may be helpful if I mention briefly at this opening stage what we believe to be the major points of difficulty, either for us or the Six. Listed briefly they are the problems arising from the common agricultural policy as it has emerged over the last few years; Commonwealth questions; problems related to freedom of capital movements; and problems of regional policy. This is not of course to say that there would not be other questions that would fall to be covered in any negotiation. Such questions might include some agricultural questions not directly arising out of the common agricultural policy and the timetable by which we should expect to adopt the common external tariff and abolish internal tariffs within the expanded Community. I do not think we need to go in any detail into this sort of question today. They and others like them can be dealt with satisfactorily at a later stage.

10. I think therefore, if you agree, that the main questions to which we should devote our attention are those arising directly out of the common agricultural policy, from the Community's provisions and directives on freedom of capital movements, some principal Commonwealth issues including New Zealand, and the effects on our regional policy of being members of the Community. I shall be prepared to expand on these questions during the course of our discussion; and of course I shall be happy to learn what you think of the possibilities of overcoming the difficulties we see. I shall also be interested to hear from you whether you think there are any major problems or difficulties other than those which I have mentioned, which you think we should discuss today.
11. Perhaps before I finish this introduction, I should say a word about the timing of this move, in relation to the Kennedy Round. We might wish to look at the Kennedy Round a little more closely during the course of the day. But I wanted to say at the outset that our present initiative, and our interest in membership of the Community, does not imply in any way any reduction of interest in the Kennedy Round. We have always believed, with you, in the vital importance of making a success of the present round of negotiations. We all stand to gain from a successful outcome to them, and we all stand to lose from failure. The Kennedy Round presents the best opportunity there has been to reduce trade barriers, not only within Europe but throughout the world. We ourselves have never regarded the possibility of our joining the Community in due course as making the Kennedy Round any the less important.

12. Mr. Prime Minister, I think we are engaged at the moment in a discussion, one of a series of discussions, which could be of the most far-reaching and historical importance for the future of Europe. I do not think that we shall be asking for anything which it is impossible to negotiate. What we shall be seeking to do is to safeguard our essential interests in the same way in which the Six countries themselves did, in the course of the negotiations leading to the establishment of the Community. But if it is possible to overcome the difficulties we foresee then I think a major new opportunity opens out for us all. We shall have the potential afforded by a community of nearly 300 million people in Europe, with all that this means as regard economic development, and technological potential, and we shall thereby have taken a major step towards enabling Europe to play her full role in the world.
STATISTICS OF IMPORTED MACHINERY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

We have to decide whether to give to the Economic Development Committees for the Mechanical Engineering and Machine Tool Industries information about imports of machinery which they consider essential if they are to achieve any success in their attempts to pursue the policy of import saving to which the Government have urged them. This was discussed last week in the Ministerial Committee on Economic Development and the case for and against is given in ED(67) 1 and 2: the former memorandum describes a compromise proposal which the Economic Development Committees (EDC) regard as inadequate.

2. Broadly, it emerged from last week's discussion that the Financial Secretary and the President of the Board of Trade consider that the release of the information sought by the Committees, collected as it is under statute by Her Majesty's Customs and Excise for revenue purposes, would represent a breach of the principle of confidentiality which would be damaging to the efficient operation of Her Majesty's Customs and Excise and to the Government's collection of statistics from industry. They believe that the compromise proposal should be given a trial. On the other hand, the Minister of Technology and I consider that the importance of the EDCs' work on import substitution outweighs these disadvantages and that they should be given the information they need. This argument has, however, been overtaken by the Attorney-General's advice that Her Majesty's Customs and Excise would be ultra vires in supplying the EDCs with the information required from documents furnished by traders under the Customs and Excise Act; and that legislation would be necessary before this could be done.

3. It was suggested that we might explore the possibility of securing the necessary information from Governmental sources other than the documents obtained by Customs under statute for revenue purposes. At my request the President of the Board of Trade has since examined this in relation to the information collected from industry by his Department and his memorandum (C(67) 5) indicates that there is no solution to be found in that direction.

4. It thus appears that our only recourse, if we are to give the EDCs the information they want, is to take the necessary powers by legislation. I should like to consider with my colleagues how we should now proceed and what I should tell the Chairmen of the two Engineering EDCs who are anxious for an answer.

M.S.

Department of Economic Affairs, S.W.1.
10th January, 1967
STATISTICS OF IMPORTED MACHINERY

Memorandum by the President of the Board of Trade

At the meeting of the Economic Development Committee on 5th January, it was suggested that the information required by the Mechanical Engineering and Machine Tools Economic Development Committees (EDC) might be obtainable under the census or Board of Trade licensing procedures or from the information collected in the administration of investment grants.

The Statistics of Trade Act

2. Information of the sort which the EDCs are seeking could be obtained under the Statistics of Trade Act, 1947. The non-disclosure provisions of the Act would, however, prevent the passing on to non-Governmental bodies, including the EDCs, of information of a kind which revealed the business of particular firms. The powers under this legislation would, therefore, be of no help in the present context.

Investment grants

3. The claim forms at present used do not ask claimants to say whether the machinery is imported. The name of the manufacturer has to be given, and it would, therefore, be theoretically possible to identify imported machinery in a large number of cases. The information would not be complete, since the purchase of the machinery would not necessarily know whether the supplier had imported the goods. The extraction of the information from the 300,000 or so claims likely to be received each year would, however, be an extremely difficult operation. Further, the description of the machinery will not be uniform, and will not be classified in the systematic way required by Customs and Excise.

4. The work involved in extraction could be reduced by requiring applicants to state whether the machinery is imported. To make the information of use to the EDCs, it would also be necessary to require applicants to give the catalogue numbers or some equally useful technical identifying particulars. I do not think that we could complicate the administration of the system in this way. Industry is critical of the amount of detail already required by the claims forms, and Ministers have given the Confederation of British Industry an undertaking to keep the procedures as simple as possible.
5. There would be no statutory bar to making available to the EDCs any information collected in this way. Since, however, the information would be used for a purpose other than the purpose of the legislation under which it was collected, the opinion of the Attorney General referred to in paragraph 2 of the memorandum by the First Secretary of State (C(67) 4) would apply, and it seems to me that in passing on the information the Board of Trade would therefore be ultra vires.

6. In any event Ministers gave some very clear undertakings about non-disclosure during Committee Stage in the House of Commons, and I do not see how, in the light of these undertakings, we could make detailed information from individual claim forms available to outside bodies such as the EDCs.

Duty free licensing and import licensing

7. Statistics of imported machinery cannot be assembled from Board of Trade licensing procedures, since no licences are required for imports of machinery from non-Communist sources. Some information has been available in the past based on applications for duty remission; but not only was this facility not available for 80 per cent of machinery imports, but also directions were issued often well in advance or long after the time of import. Moreover, so long as duty was remitted, a £3,000 minimum value limit was imposed with the consequence that remission (i) did not apply to most imports of, for example, portable power tools and of pumps which were not imported as parts of a complete machine and (ii) tended by contrast to bunch into the particular fields of expensive machinery, such as that for printing and textile production. Duty remission was suspended on 30th September, 1966.

8. The legal position on making information under this heading available to the EDCs is the same as in the case of investment grants (see paragraph 5 above).

Conclusion

9. It seems clear from the above that the information supplied, or which could be supplied, to the Board of Trade or other Departments under any of the headings referred to above could not be used to supplement the information which Customs and Excise can supply under the proposed compromise solution.

10. It does seem to me that this information, which the EDCs could supplement by special enquiries addressed to users, should be of some real value for their import-saving work. I fully understand the First Secretary's wish that the Government should not appear to be frustrating the EDCs in this work. But I do not feel that we should embark on fresh legislation without a more careful assessment of the real need for it and of the effect it might have on industry's co-operation in making information available voluntarily on the understanding that this will not lead to any breach of confidence.

D. P. T. J.

Board of Trade, S. W. 1.

10th January, 1967
NOTE

The attached memorandum by the Chancellor of the Exchequer (C(67) 6) is for discussion at the meeting of the Cabinet arranged for Thursday, 12th January, at 10.00 a.m. It is being circulated only to members of the Cabinet and to the Attorney-General.

The contents of the memorandum are of a particularly secret character. Ministers will no doubt ensure that it is treated accordingly.

The memorandum should be returned, under cover, immediately after the meeting to:

The Private Secretary to the Secretary of the Cabinet,

Cabinet Office, S.W.1.

Cabinet Office, S.W.1.

11th January, 1967
CABINET

PYE

Memorandum by the Chancellor of the Exchequer

The attached paper by officials sets out a difficult issue of exchange control policy in relation to the Philips bid for Pye.

2. Of the two courses discussed in the paper, course 1 (paragraph 23) has the merit of ensuring a British solution to the Pye problem, i.e. that Thorn rather than Philips gain control of Pye. But on balance I recommend course 2 (paragraph 25) for the reasons set out in paragraph 26.

3. As regards telecommunications and instrumentation, if Philips give the required undertakings it should be possible to reorganise the industry in accordance with the Government's plans. If they do not, there would be a defensible case for refusing exchange control.

L. J. C.

Treasury Chambers, S. W. 1.

11th January, 1967
The Treasury have received application for exchange control consent for the acquisition by Philips Electronic Holdings of control of Pye of Cambridge Limited. Philips Electronic Holdings is a new United Kingdom company, a subsidiary of Philips Industries, also a United Kingdom company but wholly owned by N.V. Philips of Eindhoven, Netherlands. Exchange control consent is required because this transaction would result in the control (50 per cent of voting shares) of a United Kingdom company (Pye) passing (indirectly) to a foreign company.

2. Philips (United Kingdom) already own 5 per cent of Pye. Philips (Eindhoven) have in recent weeks been buying Pye shares in the market. In this way they have acquired some 19 per cent. So Philips already control 24 per cent of the Pye shares.

3. Thorn Electrical are also bidding for Pye. Sylvania, a wholly owned United States subsidiary of the United States General Telephone Company, have a 23 per cent shareholding in Thorn, but since this non-resident shareholding is only a minority one, Thorn do not require any exchange control consent in connection with their bid for Pye.

4. On grounds of industrial policy the Minister of Technology would prefer Thorn to be successful. If Thorn and Philips are left to fight it out by bid and counterbid, Philips will probably win, having more money behind them. The question for Ministers is what should be done about the Philips application for exchange control consent in these circumstances.

Background

5. The Pye business falls into three main activities: telecommunications (including both 'Post Office' equipment, and mobile radio) and instrumentation both of which are technologically interesting, expanding and profitable; and radio, television and domestic appliances, which have made and are making big losses. The trading results of the company for the year to 31st March, 1966, are shown at Annex A.

6. Pye's last balance sheet showed bank overdrafts and short-term debts to a total of £20.9 million, but these have since been reduced to under £20 million. The present management of Pye is able to hold the position, but will be in a serious situation if the uncertainty about the future of the company is so prolonged as to bring about a loss of confidence among their customers, especially overseas.

7. Pye have had a serious management dispute which resulted in the departure of Mr. C.O. Stanley, the founder, and his son which was ratified at a shareholders' meeting last November. Their Chairman is Mr. Duncan, who has a doctor's mandate; he is 68 and intends to retire when he has put Pye straight and in good hands.
8. Mr. Duncan had contemplated a division of the firm under which the telecommunications side would have gone to a joint company formed by Pye and the United States firm General Telephones the latter being a minority shareholder. The instrumentation side would have joined with Cambridge Instruments and George Kent, and the radio and television interests would have gone to Thorn Electrical.

9. There had also been over some long period discussions on various forms of association between Philips and Pye. Mr. C. O. Stanley had been active in this.

The Takeover Battle

10. In November Philips offered 8s. a share for half of the Pye shareholders' holdings. Thorn countered with a statement which implied an offer, never made, of 10s. 9d. a share (on the then Pye share price) for the whole of Pye shareholders' holdings. They are about to offer (and this is known publicly) the equivalent of 12s. a share, partly in loan capital or cash, and partly in unsecured convertible loan stock, containing an option for holders to convert into the equivalent of Pye equity.

11. The latest Philips offer, announced but not yet formally put to shareholders, is equivalent to 12s. a share, which values Pye at £30 million. It would take the form of the offer of two loan stocks in the new company. There would be a cash alternative to one, and the other would be saleable on the market, so that a shareholder could get cash if he wished. One of the stocks would be convertible at various dates between 1970 and 1973 into the equivalent of Pye equity, so that shareholders who wish to get back into Pye equity would be able to do so. But Philips would retain control. The whole of the £30 million would be covered from funds brought in from overseas or already held in this country by Philips and remittable overseas.

12. As a result of their recent meeting with the Minister of Technology, Philips are now considering an alternative form of offer in which the whole of the consideration would be cash brought in from overseas. There would again be provision for shareholders to repurchase later the equivalent of Pye equity, at the offer price of 12s. The Minister has suggested to Philips that if exchange control consent were granted, it might be subject to undertakings to co-operate in rationalisation plans which might involve merging parts of the Pye business in new and larger units. A cash purchase now would give Philips more flexibility for later action of this kind.

13. Either version of the offer would meet the normal technical requirements of United Kingdom exchange control. Under paragraph 11 the immediate inflow to the official reserves would be about £13 million, under paragraph 12 it would be £30 million.
COMMERCIAL

Industrial Considerations

14. On industrial policy grounds the Minister of Technology does not want to see the Pye telecommunications or instrumentation divisions become part of a foreign controlled international group. These are both fields for rationalisation within the United Kingdom. The former has just been referred to the IRC.

15. Foreign control could also lead to a diminution of exports; and Pye's export record in telecommunication is a particularly good one. And it could lead to the milking of Pye's technological skills by the foreign owner.

Discussions with the IRC and with the firms

16. Accordingly the Minister has held discussions with the Industrial Reorganisation Corporation (IRC) and with the firms to explore the likely outcome of the present takeover battle and to guide the decision on exchange control.

17. The IRC would not of course want to see Pye in the hands of a foreign buyer. They are ready to contemplate assisting the purchase of the telecommunications and instrumentation interests of Pye from a successful bidder at a fair valuation and would thus provide the cash which would be needed by a successful bidder to pay off Pye's debts.

18. Sir Jules Thorn wants the telecommunications and instrumentation side of Pye to diversify his business. He contemplates the possibility of securing General Telephones knowhow to develop the telecommunications side. But he does not insist on control and would be ready to consider mergers under the IRC aegis, except for the radio telephone side which is already of world class and which he would like to hang on to. He would expect over a period to phase out the Pye television and radio interests, since his own factories are more modern and efficient. He said he would be ready if 'encouraged' by the Government to bid above Philips expected 12s, offer. He said that he did not expect material 'encouragement' or refusal of exchange control consent to Philips. He is likely to make a bid whether encouraged or not.

19. Philips say that their main interest has been to prevent Pye falling into United States' hands. Pye buy £3½ million worth of components a year from Mullards (a Philips United Kingdom subsidiary). They are also interested in the telecommunications and instrumentation sides. They say they do not aim to have, long-term, a 100 per cent holding in Pye, hence the convertible loan stock. They would leave a Pye Board with considerable autonomy, and would not run contrary to the national interest.

20. The Minister suggested to Philips that if the Government were to decide to give exchange control permission, they might wish to have formal assurances, covering such matters as -
inclusion of the Pye telecommunications and instrumentation divisions in rationalization schemes; exchange of Directorships between the Philips and Pye Boards; safeguards against draining of technical skills; safeguards on exports.

They said they would be ready to consider giving these.

21. Mr. Duncan of Pye would prefer to see Thorn win. With one exception his Board are ready to commend a Philips bid of 12s. but he thinks they would support a Thorn bid if it were as high as a Philips one. He was confident that a value between 12s. and 13s. was fair to the shareholders.

Courses for consideration

22. There are two main courses for consideration.

23. Course 1. Refuse exchange control consent to Philips, so that Thorn win. Since at present the highest known bid is that of Philips, the suggestion is that no action be taken until Thorn make known a higher bid. At that point Philips would be informed that exchange control consent would not be forthcoming should they put in a counter-bid.

24. There is a procedural problem here. Philips are pressing for a reply to their application for exchange control consent, and in particular for a statement of any conditions which the Government might wish to attach to such a consent. Reasonably enough, they want to know these conditions before they actually put out their present offer. But the Government cannot explain to them undertakings that they would be required to give as a condition of consent, and later refuse consent if they give the undertakings.

25. Course 2. Negotiate appropriate undertakings now with Philips as a condition of exchange control consent. Then leave Philips and Thorn to fight it out, and if Philips win, give exchange control consent subject to the undertakings negotiated. Annex 3 is a draft of the undertakings proposed by the Ministry of Technology.

26. Course 1 has the advantage of assuring the success of Thorn. Unfortunately, in addition to the procedural difficulty already mentioned, it would involve considerable difficulties:

(i) The refusal of exchange control consent would be a sharp reversal of established policy, contrary to general international practice, and bound to have an adverse influence on inward investment generally into the United Kingdom. The present policy, which has been operated continuously and was reiterated publicly by the Chancellor of the Exchequer in Parliament on 12th July, 1966, is to welcome inward investment, while considering on merits cases involving the takeover of existing companies which by their size or their nature constitute a vital part of British industry.
Pye may fall in the latter category, but even so, this would be the first time that the Government would have refused exchange control consent for an important inward investment proposal. Such a refusal would be a far-reaching reversal of Government policy. It will not go unnoticed that the refusal has been directed against a Dutch company, whereas the Government has allowed similar schemes sponsored by United States companies to go ahead.

Nevertheless, the Minister of Technology is of the opinion that the case for preferring Thorn to Philips is strong enough to justify the use of exchange control to prevent Philips from succeeding.

(ii) Until now it has always been stressed that the purpose of exchange control is to protect the balance of payments; indeed it might be open to challenge in the courts if it were used for a purpose demonstrably different from this. The immediate effect of refusing the Philips offer is to deprive the reserves of a capital inflow of at least £13 million, or £30 million or more if Philips change their offer.

(iii) If Philips make public the fact that they would out-bid Thorn if they could get exchange control consent, the Government would be put in the embarrassing position of depriving the shareholders of a substantial sum of money, or of pressing Thorn to match the higher offer which they may not be willing or able to do.

(iv) The embarrassments could be increased if Philips should take advantage of the fact that they do not need exchange control consent until they buy more than 50 per cent of the Pye shares. If they wish to fight, they might organise their offer so as to get 49 per cent of the shares, and then argue about consent for the rest from this position of strength.

27. If Course 2 were adopted and Philips won, it would leave them in control of Pye radio and television. To this extent another world-famous British firm would have fallen under foreign control, at about the same time as the Rootes/Chrysler affair. On the other hand the Government would retain some freedom to pursue rationalisation in telecommunications and instrumentation. The undertakings could not be made legally watertight, but if Philips went back on them, it would be justifiable to use the Government's purchasing power to put further pressure on them. The difficulties in paragraph 25 would be avoided.

28. If Philips were to decline to give the undertakings, provided that the undertakings are evidently reasonable, that would be a much more defensible reason for refusing exchange control consent than the blank refusal of Course 1.
TRADING RESULTS OF PYE, OF CAMBRIDGE FOR THE YEAR TO 31st MARCH, 1966

The trading results for the year to 31st March, 1966 (before taxation and minority interests) and the capital employed (excluding good will) on that date are sub-divided according to the principal activities of the Group.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Profit (Losses) £1,000s</th>
<th>Turnover £1,000s</th>
<th>Capital employed £1,000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>1,610</td>
<td>16,000</td>
<td>17,696</td>
</tr>
<tr>
<td>Controls and instrumentation</td>
<td>1,497</td>
<td>9,745</td>
<td>9,745</td>
</tr>
<tr>
<td>Radio and television</td>
<td>(2,480)</td>
<td>19,961</td>
<td>19,961</td>
</tr>
<tr>
<td>Domestic appliances</td>
<td>(274)</td>
<td>4,000</td>
<td>1,792</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>848</td>
<td>6,496</td>
<td></td>
</tr>
<tr>
<td>Unidare Limited</td>
<td>226</td>
<td>4,246</td>
<td></td>
</tr>
<tr>
<td>Parent and other companies</td>
<td>(206)</td>
<td></td>
<td>280</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>1,221</strong></td>
<td><strong>73,000</strong></td>
<td><strong>60,216</strong></td>
</tr>
<tr>
<td><strong>Trade investments</strong></td>
<td><strong>481</strong></td>
<td></td>
<td><strong>3,945</strong></td>
</tr>
<tr>
<td><strong>Long-term loans</strong></td>
<td>(562)</td>
<td>(8,754)</td>
<td>(8,754)</td>
</tr>
<tr>
<td><strong>Overdraft and short-term loans</strong></td>
<td>(1,551)</td>
<td>(20,878)</td>
<td>(20,878)</td>
</tr>
<tr>
<td><strong>(411)</strong></td>
<td><strong>73,000</strong></td>
<td><strong>34,529</strong></td>
<td></td>
</tr>
</tbody>
</table>

UNDERTAKINGS TO BE GIVEN BY N.V. PHILIPS AS A CONDITION OF EXCHANGE CONTROL CONSENT

The Company will not initiate any action to impair either the Home or overseas operations or the management and direction of Pye as a British Company in its relations with the Government, labour its British shareholders and the public.

2. The Company undertakes to maintain a majority of British directors on the Board of Pye.

3. The Company will seek to develop the resources of the Pye Group of Companies and to expand production and exports from the United Kingdom factories of the Philips Group. It will aim to achieve a progressive increase in the export of Pye products without restriction to all practicable markets and to make available to Pye the Philips' international organisation for this purpose.

4. The Company will nominate a director of British nationality to the Board of Directors of the Netherlands parent Company and to the Board of any other company controlled by the parent Company having powers over the affairs of the Philips United Kingdom subsidiary Companies and the Companies outside the United Kingdom controlled by the United Kingdom subsidiaries.

5. The Company will co-operate fully with Her Majesty's Government or their agents in promoting policies to reorganise the structure of industries of which Companies in the Pye Group form part, and in particular will -

(a) give full co-operation to the Industrial Reorganisation Corporation in the present enquiry into the structure of the Telecommunications Industry in the knowledge that this may lead to proposals for rationalisation, including the complete separation of Pye Telecommunications and its merging into a British controlled telecommunications group;

(b) co-operate to bring about the rationalisation of the Instrument Industry (or any part of it) which may be proposed by the Industrial Reorganisation Corporation or by other parties approved by the Government, including, should it be proposed, the complete separation of Pye Instruments and its merging into a British controlled instruments group.

6. The Company will nominate to the Board of Philips Electronics Holdings Limited a representative of the Minister of Technology, who will hold office until the Minister is satisfied that the rationalisation of the Pye Companies is completed.

7. The Company will not transfer significant technical information from any part of the Pye Group of Companies to any other part of the Philips Organisation, except under such conditions as would be considered fair and reasonable commercially.
The Cabinet invited me on 20th December (CC(66) 67th Conclusions, Minute 7(3)) to circulate a memorandum describing a range of schemes involving an increase of family allowances associated with a reduction of income tax allowances ("give and take" schemes).

The nature of a give and take scheme

2. A give and take scheme such as I propose does not seek to impose on higher income families with children the cost of the improvements for lower income families, nor is its purpose to achieve a redistribution of income between these two categories. On the contrary, it is designed so that most families who pay income tax at the standard rate will be left with the same, or virtually the same, net income as before. This is done by reducing the income tax allowances for those children who qualify for family allowances ("FAM children") by an amount calculated so that the resulting extra tax paid by the ordinary standard rate taxpayer will just offset (subject to any small loss caused by rounding - see paragraph 6 below) the extra family allowances which his family receives. Families below the standard rate tax range will on balance gain from the scheme. The lower their position on the tax scale the greater their net gain, with those who remain below the taxable range gaining the full amount of the family allowances increase. The scheme thus uses the existing tax system to channel additional help to the lower income families, without the need for a separate means test of any kind. The net cost of the scheme, i.e. the net cost of the improvements for families below the standard rate range, would fall to be met out of general taxation.

Some 100,000 families with earned incomes above about £4,000 a year, or unearned incomes above about £2,300 a year, will emerge somewhat less well off than before (unless it were possible to introduce any special compensating relief) because of their lower rate of earned income relief and/or their liability to surtax. These losses will however be small in relation to their income. With the scheme for a 10s. family allowances increase as set out in Annex B, the aggregate of the amounts lost by these families would be about £1½ million a year, i.e. about 6s. a week on average. For example, a family with three children and earned income of £5,400 a year might lose on balance about 3s. a week; the corresponding point for unearned income would be about £2,400 a year. The most that could be lost would be about 16s. a week per FAM child: in the case of earned income this would apply to those with about £18,900 a year or more.
13th January, 1967

CABINET

FAMILY ENDOWMENT

Memorandum by the Minister of Social Security

The Cabinet invited me on 20th December (CC(66) 67th Conclusions, Minute 7(3)) to circulate a memorandum describing a range of schemes involving an increase of family allowances associated with a reduction of income tax allowances ("give and take" schemes).

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*Some 100,000 families with earned incomes above about £4,000 a year, or unearned incomes above about £2,300 a year, will emerge somewhat less well off than before (unless it were possible to introduce any special compensating relief) because of their lower rate of earned income relief and/or their liability to surtax. Their losses will however be small in relation to their income. With the scheme for a 10s. family allowances increase as set out in Annex B, the aggregate of the amounts lost by these families would be about £11½ million a year, i.e., about 6s. a week on average. For example, a family with three children and earned income of £5,400 a year might lose on balance about 3s. a week; the corresponding point for unearned income would be about £2,400 a year. The most that could be lost would be about 16s., a week per FAM child; in the case of earned income this would apply to those with about £18,900 a year or more.
3. It is sometimes suggested that a reduction in personal tax allowances as well as in child allowances would be appropriate, so that people with one or no children, as well as those with two or more, would contribute to the cost of the scheme. While it is not for me to say how the net cost should be met, I think this suggestion may be based on a misunderstanding of the nature of the scheme proposed. As explained above, the reduction in the tax child allowances should be seen as a convenient way of concentrating the additional help on lower income families, and not as making families with children pay for the scheme.

The family circumstances survey

4. The essential results of my Ministry’s recent survey of family circumstances are summarised at Annex A. Including some allowance for one-child families (not covered by the survey) they indicate that about 160,000 families, containing about 500,000 children, have incomes which are below the present supplementary benefit level and cannot be brought up to that level because the father is in full-time work or subject to the wage stop. These “deficient” families are generally instances of an able-bodied man, most often a manual worker, in a low-paid job; only about one in six of the fathers in “deficient” families was handicapped by ill-health. The survey’s findings show further that there are about 300,000 families with two or more children, containing about 900,000 children, where the father is in full-time work and the income exceeds the supplementary benefit level by less than £3 a week. Some 65,000 families above the supplementary benefit level would be “deficient” but for the wife’s earnings. (Apart from the wage-stopped cases, the above figures do not include families receiving or eligible for supplementary benefit or national insurance benefit)

5. The full report on the survey will not be ready for publication until late May or June, but it will not add significantly to the material already available in helping to compare the effects of alternative schemes. We are already in a position to assess the extent to which a given increase in family allowances would reduce the numbers of “deficient” families and help other low income families.

Illustrative give and take schemes

6. The tables in Annex B set out the essential features of three illustrative give and take schemes, involving increases of 7s., 10s., and 15s. a week in the present family allowances. The corresponding tax allowance reductions have been calculated to the nearest £5. With the 7s. scheme this results in the ordinary standard rate taxpayer just breaking even. With the 10s. scheme he loses 4d. a week, and with the 15s. scheme 1½d a week, per FAM child. These small losses could, if necessary, be avoided by a slightly higher family allowance increase or a slightly lower tax allowance reduction, with a corresponding increase in cost (e.g. about £6 million a year in the case of the 10s. scheme).
Reduction in the husband's take-home pay

7. It may be suggested that, even though a family's total net income may be improved or remain unchanged, difficulties may arise from what is in effect the transfer of part of that income from the husband's pay-packet to the wife's family allowances. We should however not underestimate the extent to which, nowadays, it is normal for married couples to work out their financial arrangements jointly. And where the husband is selfish or unreliable, it is likely to be all to the good that the wife should have higher family allowances to draw on and so be less dependent on what he chooses to give her.

8. Given proper public understanding of the scheme, which should be possible with suitable publicity and the help of the Trades Union Congress (TUC) and Confederation of British Industry (CBI) I do not think there need be serious problems in this direction. Certainly it should not be difficult to rebut any claims that the reduction in the husband's take-home pay justifies a wage demand; indeed, by providing an acceptable form of extra income over a considerable area of lower paid workers with families, the scheme might well help materially in limiting pay increases.

Conclusion

9. I ask my colleagues to agree now that we should have a give and take scheme to operate from April, 1968. I should then wish to discuss with the Chancellor of the Exchequer and the Minister without Portfolio both the precise level of the scheme and the programme leading up to its introduction, including consultation with the TUC and CBI and a public announcement at the appropriate time.

M. H.


1. About 2,700 families in Great Britain with two or more children falling within the family allowances definition were approached in the latter half of June and beginning of July 1966, and nine out of ten of them were interviewed and answered a comprehensive set of questions about their incomes, housing, health and other matters. The total incomes of the fathers and mothers, after deduction of income tax, National Insurance contributions and working expenses and the addition of family allowances, were compared with the amounts provided for families of the same size and type by way of national assistance scale rates and housing costs (referred to as the "assistance standard"). Later on, the same comparisons were made using supplementary benefit rates instead of national assistance scales (supplementary benefit standard or level).

2. Except where otherwise indicated, the figures given in this note relate to families with two or more children and represent the numbers which would have been found to have income deficiencies if the supplementary benefit rates had been in operation last summer, and the numbers of children in those families.

3. The material collected was examined to obtain estimates of the numbers in the four groups indicated below —

1. How many normal families* were there in the country which were living below the supplementary benefit level whose fathers could not have their incomes brought up to that level because they were in full-time employment or receiving non-contributory benefit which was wage stopped?

2. How many other normal families were there which were living below that level for short or long periods, or actually receiving assistance?

3. How many fatherless families were in this position?

4. How many families appeared to have income deficiencies because of special circumstances, e.g., because the father was away from home?

4. The first of these subjects of investigation is the one which is most relevant to this Paper. The survey, together with information from other sources about the numbers of families actually wage-stopped and a "best guess" of the number of one-child families below the supplementary benefit

* Normal families were defined as those comprising in the household a man, a woman and children.
level, indicates that about 160,000 families, containing some 500,000 children are living below the supplementary benefit level and are unable to get their income brought up to that level (a). About 70 per cent of the families have three children or less, but rather less than half the children are in such families. More detailed findings for normal families with fathers working full time are given in paras. 5-10, and a brief indication of other findings in paras. 11-14.

Normal families - fathers working full time

5. The survey results suggested that there were last summer some 70,000 families with two or more children in which the fathers were working full time but the family income - including the earnings of a wife, if working - was deficient compared with the national assistance standards then current. Because a number of families, particularly those with two children, had incomes only a little higher than that level, the number with deficiencies on the supplementary benefit standard appeared to be nearly twice as many - about 130,000 - and for a further 65,000 any interruption in a wife's power to earn would have brought the family below the supplementary benefit level. (There were nearly a million families in which wives were working.) Since needs were calculated on the basis of present housing costs rather than on the cost of adequate housing, these figures represent an assessment of the family's financial capacity to live with reasonable provision within its existing accommodation. There was evidence that large families tended to pay, on average, less rent than smaller ones, which suggests that some families make ends meet by accepting poor or overcrowded conditions.

6. Apart from the 130,000 families with income deficiencies, there were a further 300,000 with less than £5 over and above the supplementary benefit standard, divided as follows -

| Less than 20s. above standard | 75,000 |
| 20s. but less than 40s. above standard | 90,000 |
| 40s. but less than 60s. above standard | 135,000 |

7. Nearly a quarter of the families with income deficiencies on the supplementary benefit standard had net joint incomes of husband and wife amounting to £15 a week or more; over a quarter had between £12 10s. and £15 a week, and about half had less than £12 10s. For some 90,000 of these families with deficiencies the net earnings of the father were less than £12 10s.

8. About one in six of the fathers of families with income deficiencies was handicapped by ill health. About one in eight was self-employed and three-quarters were manual employees.

(a) These figures, but not others given in this note, have been adjusted downwards (by 10 per cent) to offset the understatement of income commonly found in enquiries of this type.
9. The proportion of families with deficiencies rose with the size of family. Families with two or three children accounted for about two-thirds of those with income deficiencies but for less than half of the children in such families. The proportions were as follows -

<table>
<thead>
<tr>
<th>Per cent</th>
<th>Proportion of families of that size which had income deficiencies (a)</th>
<th>Proportion of families which were of that size deficiency</th>
<th>Proportion of children in deficiency families who were in families of that size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Families with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 children</td>
<td>3</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>3 &quot;</td>
<td>3</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>4 &quot;</td>
<td>6</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>5 &quot;</td>
<td>14</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>6 or more children</td>
<td>22</td>
<td>12</td>
<td>25</td>
</tr>
</tbody>
</table>

(a) On the supplementary benefit standard

10. The average size of the deficiency below the supplementary benefit level was about 25s. a week. Probably about 55,000 families containing 175,000 children had a deficiency of 20s. a week or more, of which some 30,000 containing 110,000 children had a deficiency of 40s. or more. The effect of a given deficiency on a family's standard of living will of course vary with the size of the family. Conversely, the effort required, other things being equal, to achieve a given standard of provision will increase with the size of the family.

Families which could receive supplementary benefit

11. The circumstances of those families which already receive supplementary benefit at the full rate, or which could do so if they applied for it, are relevant to the consideration of the proper level of supplementary benefit rather than the wider issue of the proper level of family endowment, so only a brief indication of findings in this field follows.

12. The survey indicated that about a quarter of the families in which the fathers were sick or unemployed or working short hours were receiving assistance last summer, and about as many again appeared to be entitled to apply for it. The proportion which would now be entitled to receive supplementary benefit would probably be different because of the introduction since then of earnings-related benefits.

13. It appeared that at the time of the survey at least nine out of ten of the fatherless families which would otherwise have had income deficiencies were receiving national assistance. For the remainder, the amount of the
deficiency was small or the circumstances such as to cast some doubt on the validity of the findings. The great majority of the families which needed, and received, assistance were families in which the mother was divorced, or separated from her husband, or unmarried (in some cases looking after orphaned children).

No other group of families was identified as presenting a problem which was not provided for under the existing arrangements.

Estimates based on survey results

15. The data from the Ministry's survey have been used in ANNEX B to assess the effectiveness of different schemes in meeting the income deficiencies of the 160,000 families. This material is the best available and the full report, when ready, will add little which is relevant for this purpose. However, the estimates must nevertheless be regarded as liable to a margin of error: this is because (a) the sample was small and, therefore, some of the figures - for example, those for families with two children - are subject to considerable sampling error, (b) it was not practicable to verify the statements of earnings, and (c) the survey could not be designed, in advance, to suit all the schemes now under consideration. For these reasons the figures based on the survey should be taken as giving broad indications and not precise evaluations of the effectiveness of the schemes.

Current and future trends

16. The families of men with deficient incomes who were in employment at the time of the survey but are now unemployed and wage-stopped were, and remain, within the estimate of 160,000 families with income deficiencies. The wages freeze will have prevented any reduction in this number since last summer, but the thaw for low-paid workers may effect some reduction in the coming months. Any increases in housing costs will have the opposite effect except to the extent that local authorities extend their arrangements for rent rebates.

17. At any point of time the number of families with income deficiencies depends on the general level of earnings among low-paid workers as compared with the level of supplementary benefit, including rent. As earnings rise, the number of deficient families tends to fall until the scale rates are next increased, when they rise sharply and then begin to fall off again.
<table>
<thead>
<tr>
<th>Weekly FAM increase for each child</th>
<th>Gross annual increase in FAM expenditure</th>
<th>Net annual increase in benefit expenditure (1)</th>
<th>Reduction in tax allowance per FAM child</th>
<th>Annual increase in tax revenues</th>
<th>Net cost of scheme in first year</th>
<th>Net cost of scheme subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/-</td>
<td>£12bn.</td>
<td>£112m.</td>
<td>£30</td>
<td>£34m.</td>
<td>£359m.</td>
<td>£22</td>
</tr>
<tr>
<td>10/-</td>
<td>£178m.</td>
<td>£159m.</td>
<td>£45</td>
<td>£727m.</td>
<td>£548m.</td>
<td>£35</td>
</tr>
<tr>
<td>15/-</td>
<td>£266m.</td>
<td>£237m.</td>
<td>£65</td>
<td>£92m.</td>
<td>£77m.</td>
<td>£46</td>
</tr>
</tbody>
</table>

(1) i.e., gross increase in FAM expenditure less consequential savings on national insurance and (2) allowing for loss of some of the extra revenue in the first year, owing to the delay in the estimated for Great Britain.

Examples of approximate range of weekly earnings over which a married couple with children may be expected to be.

<table>
<thead>
<tr>
<th>FAM increase</th>
<th>Present supplementary benefit level¹</th>
<th>Earnings level below which full FAM increase gained</th>
<th>Earnings level at which extra tax just balances FAM increase</th>
<th>Present supplementary benefit level³</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/-</td>
<td>£12/6s. + rent</td>
<td>£13/5s.</td>
<td>£21/4s</td>
<td>£11/4s. + rent</td>
</tr>
<tr>
<td>10/-</td>
<td>£178m.</td>
<td>£21/15s.</td>
<td>£21/11s</td>
<td>£21/13s</td>
</tr>
<tr>
<td>15/-</td>
<td>£266m.</td>
<td>£21/11s</td>
<td>£21/13s</td>
<td>£21/13s</td>
</tr>
</tbody>
</table>

Assuming the child(ren) under 11 to be 5 or over.

**NOTE:** The above tables are all based on current (i.e., 1966/67) figures, for both family allowances some factors will have changed. Assuming the relevant income tax provisions remain unaltered, the increase in the extra revenue from the reduction in the tax child allowances and so reduces children is expected to be about 5 per cent more in 1968/69 than in 1966/67. The percentage predictable, since the numbers in 1968/69 will depend on the relative movements in real scale rates and rents.
### Illustrative "give and take"

(Figures are for United Kingdom unless otherwise stated)

<table>
<thead>
<tr>
<th>Weekly FAM increase for each FAM child</th>
<th>Gross annual increase in FAM expenditure</th>
<th>Net annual increase in benefit expenditure (1)</th>
<th>Reduction in tax allocation per FAM child</th>
<th>Annual increase in tax revenue</th>
<th>Net cost of scheme in first year (2)</th>
<th>Net cost of scheme in subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/-</td>
<td>£12m.</td>
<td>£12m.</td>
<td>£30</td>
<td>£3m.</td>
<td>£19m.</td>
<td>£12m.</td>
</tr>
<tr>
<td>10/-</td>
<td>£176m.</td>
<td>£159m.</td>
<td>£45</td>
<td>£127m.</td>
<td>£33m.</td>
<td>£23m.</td>
</tr>
<tr>
<td>15/-</td>
<td>£266m.</td>
<td>£237m.</td>
<td>£65</td>
<td>£192m.</td>
<td>£70m.</td>
<td>£24m.</td>
</tr>
</tbody>
</table>

(1) i.e. gross increase in FAM expenditure less consequential savings on national insurance and income tax.

(2) Allowing for loss of some of the extra revenue in the first year, owing to the delay in the implementation of the scheme.

### Examples of approximate range of weekly earnings over which a married couple with two children, one under 11, one 11-15, can gain an extra tax allowance

<table>
<thead>
<tr>
<th>FAM increase</th>
<th>Present supplementary benefit level</th>
<th>Earnings level below which full FAM increase gained</th>
<th>Earnings level at which extra tax just balances FAM increase</th>
<th>Present supplementary benefit level</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/-</td>
<td>£3/16s. + rent</td>
<td>£13/5s.</td>
<td>£21/14s</td>
<td>£11/4s + rent</td>
</tr>
<tr>
<td>10/-</td>
<td>£3/16s. + rent</td>
<td>£12/15s.</td>
<td>£21/11s</td>
<td>£11/4s + rent</td>
</tr>
<tr>
<td>15/-</td>
<td>£3/16s. + rent</td>
<td>£12/15s.</td>
<td>£21/13s</td>
<td>£11/4s + rent</td>
</tr>
</tbody>
</table>

Assuming the child(ren) under 11 to be 5 or over.

### NOTE:

The above tables are all based on current (i.e. 1966/67) figures, for both family allowance and extra tax provisions. Assuming the relevant income tax provisions remain unaltered, the expected increase in the extra revenue from the reduction in tax child allowances and so reduce the cost of the scheme is expected to be about 5 per cent more in 1968/69 than in 1966/67. The figures are based on current income tax provisions, since the numbers in 1968/69 will depend on the relative movements meanwhile.
"Give and take" schemes

(Kingdom unless otherwise stated)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net cost of scheme in subsequent years</th>
<th>Weekly loss per FAM child for ordinary standard rate taxpayer</th>
<th>Approximate number of families with some gain on balance</th>
<th>Approximate number of families gaining an extra tax, 1/2d. a week or more per FAM child</th>
<th>Percentages lifted out of &quot;deficient&quot; area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>£20m.</td>
<td>Negligible</td>
<td>2½m.</td>
<td>1½m.</td>
<td>44%</td>
</tr>
<tr>
<td>1969</td>
<td>£22m.</td>
<td>4d.</td>
<td>2m.</td>
<td>1½m.</td>
<td>57%</td>
</tr>
<tr>
<td>1970</td>
<td>£25m.</td>
<td>1½d.</td>
<td>2½m.</td>
<td>1½m.</td>
<td>66%</td>
</tr>
</tbody>
</table>

Insurance and supplementary benefits. Delay in the collection of tax.

In a married couple with 2, 3 or 4 children have some gain on balance.

<table>
<thead>
<tr>
<th>3 children</th>
<th>4 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>two under 11, one 11-15</td>
<td>two under 1, two 11-15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Present supplementary benefit level</th>
<th>Earnings level below which full FAM increase gained</th>
<th>Earnings level at which extra tax just balances FAM increase</th>
<th>Present supplementary benefit level</th>
<th>Earnings level below which full FAM increase gained</th>
<th>Earnings level at which extra tax just balances FAM increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>£11/10s. + rent</td>
<td>£11/10s.</td>
<td>£23/19s.</td>
<td>£12/19s. + rent</td>
<td>£12/19s.</td>
<td>£26/19s.</td>
</tr>
<tr>
<td>£15/9s.</td>
<td>£15/9s.</td>
<td>£25/19s.</td>
<td>£16/9s.</td>
<td>£16/9s.</td>
<td>£26/9s.</td>
</tr>
<tr>
<td>£14/19s.</td>
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<td>£17/19s.</td>
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</table>

Family allowances and income tax. For a scheme beginning in 1968/69, if remain unaltered, whatever rise takes place in earnings levels will lead to reduce the net cost; on the other side, the number of FAMs. The percentages lifted out of the "deficient" area are still less. Meanwhile in the levels of earnings, the supplementary benefit...
POSSIBLE INCREASES IN FAMILY ALLOWANCES FOR LARGER FAMILIES IN 1967-68

Memorandum by the Minister of Social Security

At their meeting of 20th December, 1966 (CC(66) 67th Conclusions, Minute 7) the Cabinet invited me to circulate a memorandum on possible increases in family allowances for larger families, to operate in 1967-68, including particulars of their cost and their effect on families paying the proposed higher charges for school meals and welfare milk. The Chancellor of the Exchequer has indicated (C(66) 158, paragraph 14) his willingness to support a means-tested scheme of family endowment costing about £10 million in 1967-68, and I have assumed that this represents the approximate level of expenditure available for an interim increase in family allowances in that year. It remains my view that an interim increase in family allowances for larger families would not be politically viable unless the Government announced at the same time the intention to introduce a 'give and take' scheme to operate in 1968, and this paper has been written on the assumption that this view is accepted by my colleagues.

Possible Timetables

2. The possible dates in 1967-68 from which increases could operate are:

(a) From the end of October, that is, concurrently with the general uprating of national insurance and supplementary benefits approved for that month. This would call for an announcement not later than the end of June, and legislation to be passed by the end of July. (It would of course be possible to make a general declaration of intention well before the Bill was published if this were thought desirable). The necessary legislation would be incorporated in the Bill providing for the uprating of national insurance and other benefits, and the adjustment of national insurance dependency rates and supplementary benefits downward to take account of the increase in family allowances, and upwards as part of the general uprating, could be carried out as a single operation.
From some time between the beginning of July and mid-September this would entail separate legislation. On the assumption that an announcement would not be made before the Budget, legislation would need to be completed between the Budget and the end of May, if the increases were to operate from the earliest possible date, the beginning of July. Legislation would have to be completed in any event by mid-June, even if the appointed day were deferred to a date in August or September, because at least the greater part of the work on a separate family allowances uprating should be completed before work on the general uprating of national insurance and supplementary benefits begins. The uprating is effected by over-stamping the orders in the books from the date on which it is decided the increase will operate. To impose an apparently artificial delay upon payment of the increase beyond July might give rise to criticism.

A difficulty with a separate family allowances increase is that it involves a downrating of national insurance dependency and supplementary benefits (for families receiving the higher family allowances), followed by an increase in those benefits at the end of October at the general uprating: the nearer to the general uprating the increase in family allowances is made effective, the less supportable this double adjustment of benefits will appear. For this reason an effective date for a separate operation later than mid-September seems out of the question. It would also be desirable that the date from which increased family allowances were payable should not be so close to early September, the date proposed for higher charges for school meals and welfare milk, that the increased allowances were generally regarded as a quid pro quo: as, if they were so regarded, it would be difficult to subsume them into any general increase of family allowances under a 'give and take' scheme introduced in 1968. Moreover, an increase in family allowances taking effect earlier than the general uprating of other benefits would give no advantage to people in receipt of national insurance dependency or supplementary benefits, since these would be reduced by the amount of the family allowances increase: if, however, family allowances were increased concurrently with the general uprating, such people would be better off by the amount of the increase in the other benefits.

Possible Scope and Amount of Increase

3. To benefit larger families, an increase in family allowances could be paid either for third and subsequent or fourth and subsequent children. If there was to be a general increase of family allowances in April 1968 as part of a 'give and take' scheme, any interim increase for larger families in 1967–68 should be limited to a maximum of 5s., so as not to compromise the amount of the later increase. Moreover, an increase of more than 5s. for fourth and subsequent children might be thought to produce too wide a gap between families with less than four children and those with four or more.
4. The cost of alternative schemes in 1967-68, after allowing for the downward adjustment of national insurance dependency and supplementary benefits, would be:

(a) **Appointed day 31st October**

- 4s. for third and subsequent children: £5 million
- 5s. for fourth and subsequent children: £5 million

(b) **Appointed day 4th July**

- 2s. for third and subsequent children: £9 million
- 3s. for third and subsequent children: £13 ½ million
- 5s. for fourth and subsequent children: £9 million

(c) **Appointed day 8th August (mid-point between 4th July and mid-September)**

- 2s. for third and subsequent children: £8 million
- 3s. for third and subsequent children: £12 million
- 5s. for fourth and subsequent children: £7 ½ million

5. An increase in family allowances for third and subsequent children would go to about 24 per cent of the total number of all families (including one-child families); and an increase for fourth and subsequent children to about 9 per cent of all families. The corresponding figures for family allowance families, that is, families with two or more children, are about 40 per cent and 15 per cent respectively. An increase of 4s. for third and subsequent children would bring up to or above the supplementary benefit level about 12 per cent of the families (with 20 per cent of the children) which at present cannot reach it; an increase of 5s. for fourth and subsequent children would bring up to or above that level about 6 per cent of such families (with 11 per cent of the children).

**Effect on families paying higher charges for school meals and welfare milk**

6. The combined effect upon families of various sizes of higher charges for school meals and welfare milk and increases in family allowances for larger families is set out in the Table attached.

**Conclusion**

7. I invite my colleagues to consider whether family allowances for larger families should be increased as an interim measure in 1967-68. As mentioned in the first paragraph above, I do not think that an increase in family allowances which we could afford would be politically possible unless its announcement were linked with an announcement of a 'give and take' scheme to operate in 1968. I suggest that the best of the alternatives set out in paragraph 4 above is to give 4s. increase for third and subsequent children, concurrently with the uprating of national insurance supplementary benefits in October, 1967. This would both avoid the difficulties which would arise if there were an earlier and separate increase in family allowances, and make it possible to give a reasonable amount to a sizeable proportion of the families receiving allowances.

M.H.

**Ministry of Social Security, W.C.2.**

13th January, 1967

---

SECRET
**Maximum loss/gain to families ranging from all children at school to all children under school age arising from higher charges for school meals and welfare milk, and increased family allowances**

**Total loss or gain over period from date of introduction to 31st March 1968**

<table>
<thead>
<tr>
<th>Increase</th>
<th>Children Included</th>
<th>Operative Date</th>
<th>3 child family</th>
<th>4 child family</th>
<th>5 child family</th>
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<tr>
<td>(£)</td>
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<td></td>
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<tr>
<td>2/-</td>
<td>3rd and subsequent</td>
<td>4.7.67</td>
<td>-£5 9s. 6d.</td>
<td>-£1 7s. 0d.</td>
<td>-£1 14s. 0d.</td>
</tr>
<tr>
<td>3/-</td>
<td>3rd and subsequent</td>
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<td>+ 12s. 0d.</td>
<td>- 16s. 0d.</td>
</tr>
<tr>
<td>5/-</td>
<td>4th and subsequent</td>
<td>4.7.67</td>
<td>-£9 7s. 6d.</td>
<td>-£2 15s. 0d.</td>
<td>+£2 15s. 0d.</td>
</tr>
<tr>
<td>2/-</td>
<td>3rd and subsequent</td>
<td>8.8.67</td>
<td>-£5 19s. 6d.</td>
<td>-£2 17s. 0d.</td>
<td>+£5 14s. 0d.</td>
</tr>
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<td>3/-</td>
<td>3rd and subsequent</td>
<td>8.8.67</td>
<td>-£4 5s. 6d.</td>
<td>-£2 6s. 0d.</td>
<td>+£3 4s. 0d.</td>
</tr>
<tr>
<td>5/-</td>
<td>4th and subsequent</td>
<td>8.8.67</td>
<td>-£9 7s. 6d.</td>
<td>+£5 5s. 0d.</td>
<td>+£1 0s. 0d.</td>
</tr>
<tr>
<td>4/-</td>
<td>3rd and subsequent</td>
<td>31.10.67</td>
<td>-£4 19s. 6d.</td>
<td>-£7 0s. 0d.</td>
<td>-£4 15s. 0d.</td>
</tr>
<tr>
<td>5/-</td>
<td>4th and subsequent</td>
<td>31.10.67</td>
<td>-£9 7s. 6d.</td>
<td>-£5 5s. 0d.</td>
<td>-£7 0s. 0d.</td>
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</table>

**Notes:**

1. An increase in the cost of school meals of 6d. and of welfare milk of 2s. a pint has been assumed to take effect from 4.9.67. Five weeks have been allowed for school holidays, during which time it is assumed that no school meals are taken.

2. Because the proposed increase in school meal charges is greater per week than the proposed increase in welfare milk charges families with children of school age taking school meals lose more than families with children below school age.

3. All one and two-child families would of course lose by the higher charges for school meals and welfare milk, but would not receive increased family allowances. The range of loss to 31.3.68 would be -

   - 1 child Family: £3 2s. 6d. to £3 15s. 0d.
   - 2 child Family: £6 5s. 0d. to £9 10s. 0d.

4. It has been assumed that full charges for school meals and welfare milk are paid.
18th January, 1967

CABINET

FAMILY ENDOWMENT, CHILD POVERTY AND THE PLOWDEN COUNCIL REPORT

Memorandum by the Secretary of State for Education and Science

At their meeting on 20th December, (CC(66) 67th Conclusions, Minute 7), the Cabinet agreed, in their discussion of family endowment and child poverty, that it would be desirable to take into account any recommendations which the Plowden Council might make bearing on this subject.

2. The Council's Report has now been published. It is a very thorough survey of the whole field of primary education and makes a number of substantial recommendations which I shall no doubt want to bring before my colleagues in due course.

3. But the recommendations to which the Report itself gives highest priority concern "deprived" children in under-privileged areas. The Council see the present situation as a vicious circle. The school in the "run down" area finds it difficult to attract good teachers; the premises are often dingy and inadequate; home environment is painfully limited; and the children's parents give them no encouragement. Yet the Council are obviously right in believing that these children require more care than others if their educational potential is to be realised. They therefore recommend a policy of "positive discrimination" for what they call these "educational priority areas".

4. These recommendations have already attracted much public attention and sympathy and I am sure the Government cannot appear to turn a deaf ear to them - especially as the preceding Newsom Report from the Central Advisory Council made a very similar case, about which little has been done, for the under-privileged children at secondary schools.

5. The immediate relevance of the recommendations is to our discussion of family support, since there is obviously a high correlation between family poverty and social deprivation in the education sense. Indeed the Plowden Council see the handicaps as both financial and educational; and their own suggestions for identifying "educational priority areas" include amongst the criteria a preponderance of large families and of families receiving benefits such as free school meals.
6. I therefore propose that, as part of our attack on child poverty, we should accept the Plowden judgment that schools of this kind need special help. One immediate possibility, to which the Plowden Council attach special importance, is an increased allocation of minor works (those costing less than £20,000 each) specifically directed to remedying the worst physical deficiencies; they propose an additional £2 million a year for five years. Their other main financial recommendation is that an additional distribution of Exchequer grant to local authorities should be made in favour of the educational priority areas. I recognise that this is not possible before 1969 without major changes in the law and I therefore recommend that we should increase the building proposal made above to £4 million a year in England and Wales. I can ensure administratively that the investment is wholly applied to socially deprived schools or areas. Though £4 million a year (starts) beginning in 1967-68 is a small sum in national terms, judiciously applied it could have a marked effect, over the five-year period proposed by Plowden, in rehabilitating poorly housed primary schools in these areas. (Details of the expenditure involved are given in the Annex.) No doubt there is a corresponding case in some parts of Scotland.

7. There are three other main Plowden recommendations for help to these deprived areas:

(i) The payment of differential salaries to attract more teachers to them. This is a matter for the Burnham Committee, and I shall want to discuss the Government's attitude separately with my colleagues.

(ii) A change in the quota arrangements for the distribution of teachers. I have just announced quotas for January 1968 which will assist this problem, but I shall want to revise them next year and I shall see that something more is done for the deprived areas.

(iii) An easement of the general prohibition on new nursery schools and classes to enable some to be established quickly in the areas of greatest need. This is distinct from the general Plowden recommendation that in the long run nursery education should be made available on a voluntary basis throughout the country: action on this is a matter for the '70s, not the '60s. But the need for more nursery schools in deprived areas is a special problem. An early start may well depend on whether we can staff additional nursery schools with a much smaller proportion of qualified teachers than the existing schools enjoy. The National Union of Teachers have come out publicly against this, but I am studying it urgently.

Conclusion

8. I invite my colleagues:

(i) To note the position on differential salaries, the quota and nursery schools (paragraph 7).

(ii) To endorse my proposal for an additional £4 million a year for five years for improvements to school buildings (paragraph 6).

C. A. R. C.

Department of Education and Science, W.1.

17th January, 1967
Expenditure resulting from additional minor works starts of £4 million a year for five years 1967-68 to 1971-72.

<table>
<thead>
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<th>£ million</th>
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<td>0.6 (sites)</td>
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YEAR |
--- |
--- | --- | --- | --- | --- | --- | --- |
0.6 (sites) | 3.8 | 5.0 | 5.0 | 5.0 | 4.4 | 1.2 |
MEMORANDUM BY THE MINISTER OF AVIATION

When in July last the Cabinet considered the Concord project (C (66) 39th Conclusions, Item 4), my predecessor suggested (C (66) 116) that we should plan a programme of tests to help establish the likely reaction of the public to sonic bangs such as may be expected when Concord and other supersonic transports (SSTs) come into service. I now seek approval for a programme of such tests and the preparation of the legislation which the Attorney-General advises is desirable before we embark on the tests.

Cause and nature of sonic bangs

2. The familiar noise from jet aircraft derives from the engines and is a nuisance only in and around airports but with sonic bangs the reverse applies. Within about 100 miles of take-off or landing the speed of the SST will be too low to cause a bang. When the aircraft reaches supersonic speed it produces a bang and continues to do so for as long as it is flying supersonically. The bang thus sweeps across the countryside over which the aircraft is flying. The size of the aircraft and the height at which it is intended to operate are the only design features which can have any major effect on the intensity of the bang.

Effects of sonic bang and the results of earlier tests

3. Much is known about the effects of sonic bang from theoretical studies, the incidental experience gained from flying military aircraft supersonically, and from tests directed specifically to the problem. We know that intensities far greater than those expected from normal operations by SSTs have to be reached before damage to well-constructed buildings definitely attributable to sonic bangs occurs. There is no real evidence that sonic bangs of the intensities expected are harmful to the health of people or animals. The main reason for anxiety about sonic bangs is that some people would find them so disturbing and alarming that they would consider them intolerable.

4. Much work has already been done on the problem of sonic bangs—most notably in America where there were extensive tests
over Oklahoma City in 1964, but also in France and the United Kingdom. This work is summarised in the Appendix to this paper. There has been considerable interchange of information between the three countries. In all three countries, experts believe that further tests are required if their Governments are to be able to express with confidence views on the nature and extent of the limitations which Governments around the world may find it necessary to impose if the sonic bang nuisance is to be kept within tolerable bounds. Even if there were no Concord, we would still eventually have to decide our attitude to overflights of United Kingdom territory by foreign SSTs and to restrictions by foreign Governments on overflights of their territory by SSTs operated by British airlines. If these were the only considerations, I would still think it desirable although not vital to have major tests of our own. But our participation in Concord makes it in my view essential for us to carry out such tests. I do not see how we could continue politically to defend our inaction in this matter, with the first flight of Concord planned for the spring of 1968. We must be able to show the world, and public opinion at home, that as one of the progenitors of SSTs we are taking this matter seriously.

French proposals

5. In August 1966 the French Government set up an interdepartmental committee to prepare a programme of possible tests to determine public tolerance to sonic bangs and to consider the implications of carrying out such a programme. The Committee is expected to produce shortly a report:

(a) setting out the costs of the programme;

(b) assessing the risks to persons and property, the effects in the field of public health and employment, and the social and legal aspects of the programme;

(c) defining the steps to be taken for the necessary preservation of historic monuments;

(d) proposing possible areas for the tests;

(e) describing the organisation of a public relations campaign directed towards those involved;

(f) defining the possible contribution of the British, as partners in the Concord project.

Despite the rather tentative tone of the above, we know that the French have already given much thought to the points mentioned, as indeed have our own officials. We may expect the French to come up with a positive programme. Although we can make no assumptions about its nature before the report appears it is likely that intensive studies of the effects of regular overland supersonic flying by military aircraft (which is permitted in France) would precede a large scale test. Within the next few weeks we must expect them, for the purposes of their report, to ask our own intentions. British and French officials have collaborated closely in this matter hitherto but, as regards the actual tests, there does not seem to be much scope for economy by division of labour, and the main
objective of further collaboration would be to ensure that the results could be readily compared. The combined evidence of separate British and French tests will be much greater than that of a purely national test and will enable the two countries to work together in dealing with others on the questions arising from the sonic bangs made by civil supersonic aircraft—American and Russian, as well as Concord.

Proposals for British tests

6. Officials have worked out a tentative programme for tests in Britain, taking into account the points under consideration by the French interdepartmental committee. The proposed programme has been discussed with Departments having a special interest such as the Ministry of Public Building and Works (Ancient Monuments), and the Ministry of Agriculture, Fisheries and Food (Animal Health), etc. The Board of Trade believe that the results of the tests will be a considerable help to them in working out what regulations should be imposed on the overflying of supersonic aircraft.

7. The central feature of the tests would be a programme of supersonic flights during the day by RAF Lightnings to produce bangs of predetermined frequencies and intensities over specific areas over a period of several months. At first there would be about one bang a day at an intensity not likely to cause any reasonable complaint, and from there we would proceed gradually over a period of six to nine months to about five bangs a day simulating, as closely as possible, bangs to be heard from Concord. (It will be appreciated that one type of aircraft cannot give an exact representation of bangs from a different type of aircraft.) The total number of bangs would be of the order of 450.

8. It would be desirable to enact legislation barring any legal proceedings in respect of test flights and providing statutory compensation for any loss or damage caused by noise from the aircraft (see paragraph 12 below). In the Bill it would presumably be necessary to define the area over which the tests will be carried out and this is likely to give rise to political controversy. Unfortunately the choice of suitable areas is very limited: to go outside these would add to the costs of the flying programme and make it difficult to integrate it with RAF training. For these reasons, the area would probably have to be in the North of England. The Ministry of Defence have indicated that Lightnings could be available at any time from the beginning of 1967, given a few months' notice.

9. The public relations aspects are crucially important and will require very careful study. Press and public should be kept as fully informed as possible, but exact details will have to be decided upon in the light of the precise nature of the programme. Normally there would be no specific warning of an individual bang.

10. There would be a systematic social survey by the Central Office of Information of the reactions of the people exposed to the bangs, together with an analysis of any complaints. This would be a very important part of the exercise.
11. Throughout the tests there would be scientific measurements of the bangs actually produced, pre-planned scientific experiments relating to the physical effects of the bangs (for example, on their transmission into buildings and reflection from the ground) and investigations of all reports of happenings attributed to the bangs.

12. The timing of the tests is affected by the desirability of legislation. The Attorney-General has advised that it would be undesirable for the Crown, without legislation, to initiate tests on a large scale which would inevitably result in claims of damage to property and be a nuisance in law. Since one of the aims of the tests is to discover the limits of acceptability, we should be foolish to plan them on the basis of stopping far short of the possibility of causing any damage or legal nuisance. It is therefore desirable that Parliamentary Counsel should be instructed to draft a short Bill which would:

(a) give the Minister power to authorise by Order, subject to negative resolution procedure (it may however be necessary to concede affirmative resolution procedure), flights for testing effects on the ground of flying at supersonic speeds, such flights to be made over a specified period or periods and over specified areas of the United Kingdom (excluding Northern Ireland);

(b) bar any legal proceedings (subject to (c) below) in respect of any such flights, in so far as they are based on noise from the aircraft or on the height at which the aircraft fly; and

(c) to provide statutory compensation for any injury, loss or damage caused to any person or property by noise from the aircraft.

13. It will be necessary to set up a staff to direct the preparation, execution, and evaluation of the tests—a task which would take about 18 months in all—but some of the staff effort required would be provided by existing units of organisation in the Departments involved.

Costs

14. The cost to the Ministry of Aviation of RAF flying (on an extra cost basis), instrumentation and investigation of any damage claims, is estimated at £225,000, excluding any allowance for intramural staff effort. Compensation payments are more difficult to estimate; the best assessment is well within £100,000.

Timing

15. It is desirable that the legislation described in paragraph 12 above should come into force before May of this year. Unless the tests have started by May, weather conditions could make it difficult to complete a test programme in 1967. The first Concord prototype is due to fly in the spring of 1968. I think we should be open to criticism if we had not made substantial progress with tests by then. It is impracticable to wait for the Concord prototype and to use this for
sonic bang tests: it will be fully engaged in development flying, the requirements of which could not be matched with those of a sonic bang test programme.

16. The other critical factor in the timing is the preparatory work necessary to carry out the social survey referred to in paragraph 10 above. The Central Office of Information have advised that in order to make the necessary arrangements they will need authority for the survey three months before the first bang, i.e., the beginning of February.

17. I would have preferred colleagues to consider my sonic bang proposals at the same time as the report of the Anglo-French Committee which has been reviewing the economic and commercial prospects of the Concord. This report has not yet been formally signed but an advance copy which is unlikely to be changed is available (C(67) 11). My Department is examining this report as a matter of urgency but it will be some two to three weeks before I am able to make a considered report to colleagues. A decision on the sonic bang test proposals however cannot for the reasons explained above await our consideration of the report of the Concord Economic Prospects Committee. Nor can it be deferred until my Department has studied in detail the report, which should be available shortly, of the French Inter-Departmental Committee on sonic bang tests. We will however be able to draw on the information in this report before our own tests begin.

Recommendations

18. I accordingly seek the agreement of the Cabinet that:

(a) Parliamentary Counsel should be instructed to draft the legislation described in paragraph 12 with the aim of bringing it into force before May; and

(b) the Central Office of Information should be authorised to prepare the survey referred to in paragraph 10 above.

J. T. S.

Ministry of Aviation, S.W.1,

APPENDIX

EXPERIMENTAL WORK ALREADY CARRIED OUT ON THE EFFECTS OF SONIC BANGS

1. Oklahoma City Study

The most comprehensive tests so far have been carried out by the Federal Aviation Agency in the Oklahoma City area between 3rd February and 30th July, 1964. During that time 1,253 sonic bangs were made, starting at a very low intensity and increasing to
a level described as representative of civil supersonic aircraft in normal flight. Some results which emerged were:

(a) A complaints centre dealt with 15,000 complaints including a number from people who complained more than once, i.e., 1,253 bangs heard each time by some 600,000 people brought in about 80 complaints a day.

(b) There was no damage to test houses.

(c) A social survey was made. This showed that annoyance had increased by the end of the experiment but as both frequency and intensity of bangs also increased by the end of the test period it was not possible to evaluate this evidence.

(d) There were no complaints from doctors or those in charge of animals.

2. White Sands Programme

Following the Oklahoma City study, further tests on buildings were carried out at White Sands, New Mexico, from November 1964 to February 1965. The object was to find out how intense bangs had to be to cause damage. Seven specially constructed houses and nine existing buildings were subjected to some 1,500 bangs of up to 10 times the intensity expected from the Concord in normal flight. The pressure necessary to cause damage to sound structures amounted to four to five times the intensity likely to be produced by Concord.

All those on duty at the test site were given daily audiometric tests and periodic physical examinations. There was no evidence of damage to hearing or adverse physiological effects.

3. Work in France

Studies of reactions to sonic bangs have been carried out in connection with military overland supersonic flying, which is permitted in France subject to altitude restrictions. In October–November 1965, a sample public opinion survey was carried out in two areas with experience of sonic bangs from military aircraft. An important conclusion was that dislike of sonic bangs is less among those best informed about them.

4. Work in the United Kingdom

Small-scale tests covering various aspects of the effects of sonic bangs have been carried out in this country. In general, the findings of these smaller experiments, and from analyses of response to test flying of military aircraft, are in accordance with the larger scale American experience.

Ministry of Aviation establishments have conducted field tests with simulated sonic bangs. The longest of these, lasting 14 weeks, gave slight evidence that annoyance decreased as people became used to bangs.

Demonstrations of sonic bangs have been held at Aberporth on several occasions between 1961 and 1963, and at Upwood (Exercise Westminster) in 1965. There was some evidence of damage to
strained structures at Exercise Westminster, but the exercise did not give rise to any strong objection from the subjects, nor were any significant animal reactions reported by M. of A. F. and F. observers.

Measurements of sonic bangs indoors as well as out of doors were taken in Lyme Regis during operational Lightning flights in April and May 1963.

Laboratory studies of reactions to sonic bangs have been carried out by the Medical Research Council Applied Psychology Unit, the Institute of Sound and Vibration at Southampton and by the National Physical Laboratory. These have tended to concentrate on identifying the annoying features of bangs.

The Building Research Station has a programme of experiments designed to fill the remaining gap in our knowledge of the effects of bangs on structures, namely the effect on plate glass windows.

5. **Summary**

It is clear that sound buildings should not be damaged by Concord-type sonic bangs, although strained materials may fail earlier than they would otherwise have done.

There is no evidence of adverse effects on the health of human beings or animals.

Experience in the three countries has shown that a proportion of the population will object to sonic bangs. We do not yet know the relation between this proportion and the intensity or frequency of bangs or their continuation over a long period.
CABINET

COMMERCIAL PROSPECTS OF THE CONCORD

Note by the Minister of Aviation

In July last year, the Cabinet agreed (CC(66) 39th Conclusion, Minute 4) that we should set up, with the French, a Committee to consider the commercial prospects of the Concord. The Committee has taken longer than expected to complete this study and its report has not yet been signed formally. But an advance copy of the report, which is unlikely to be changed, is annexed.

2. In brief the report confirms in general the assessment which was before the Cabinet in July; that we are unlikely to get much return on our development expenditure but that there could be a significant benefit to the balance of payments; that the Concord remains a gamble, which will have the best chance of success if it is pressed forward vigorously. The report rightly makes the point that we cannot rule out the possibility of further cost increases.

3. I shall submit my comments on this report to the Cabinet as soon as possible together with an up-dated review of the project's cost estimates. My officials are pressing on with this work as a matter of urgency but it is unlikely that I will be able to put forward my considered views before the beginning of March. I am therefore circulating the annexed report for information only at this stage and as background to consideration of my proposals for a programme of sonic bang tests.

J. T. S.

Ministry of Aviation, S. W. 1.

23rd January, 1967
# REPORT OF THE CONCORD ECONOMIC PROSPECTS COMMITTEE

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<td>American and Russian competition.</td>
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1. We were appointed as the result of an exchange of notes between the British and French Governments in August and September 1966, and required to "assess the economic and commercial prospects of the Concord project." A list of the members of our Committee is at Annex A.

2. We have held six meetings. We have supplemented studies already done by experts that bear on the economic and commercial prospects of Concord with fresh information aimed at establishing both the areas in which errors of estimation are most likely and the likely margins of these errors. In addition to the information which we have had from officials, we have received information from the manufacturers of Concord and from Air France and E.0.A Co.; this is summarised in Annex B. We have thus estimated the probable size of the potential market for Concord and the limits within which it should lie. We have then considered the extent to which sales may match the potential market and the return on investment (including research and development).

The likelihood of technical success within the planned timescale.

3. Although Concord is intended to achieve the biggest single leap forward ever made in airliner operating speed, it is being built by advanced but well-proven manufacturing techniques and mainly of conventional materials. While its design embodies many novel features, they are not revolutionary. These factors encourage us to believe that those responsible have a reasonable chance of achieving what they plan to achieve in terms of performance and timescale. But in such a field there must also be risks of unexpected difficulties and delays.

American and Russian competition.

4. Our American competitors, on the other hand, have made a later start and are setting themselves more difficult objectives (see Annex C). Although American capabilities must not be underrated, we think it rather more likely than not that the Americans will eventually be obliged either to aim at an even later date than at present planned for the introduction of their aircraft or to aim at lower standards of performance for the aircraft when first introduced than those hitherto contemplated. Recent information regarding both the Boeing and Lockheed proposals indicates that the aircraft proposed will be unable in certain conditions to take off with full payload, will have operating costs higher than those previously envisaged, and have a shorter range than Concord. It also appears that airport noise presents greater problems than for Concord. Nevertheless, the airlines which have participated in the evaluation of these proposals believe that the designs now offered will be improved. In any case, the U.S. S.S.T. programme will undoubtedly bear on the prospects of Concord at many points.

5. From what is known of the Russian S.S.T. (the Tupolev 144) it appears to be very similar indeed in conception to Concord. But despite their impressive achievements in other areas of aerospace technology, the Russians have hitherto been relatively ineffective competitors in the field of civil airliners. While therefore we have little hard information on which to base a judgement, we have the impression that the Russians would have to make an exceptional technical
technical and commercial effort to render their S.S.T. a serious competitor with Concord.

**Sums advanced for development.**

6. The estimates of the officials concerned with the development of Concord indicate that it will cost (at January 1966 prices) about £370 M ($1000MF) up to the standard of initial certification of airworthiness (planned for 1971), plus a further £50 M ($1100MF) to achieve full performance with stage 1 engines (planned for 1973).

To this total of £420 M ($1100MF), the officials have added a global contingency of £50 M ($700MF), making a grand total of £470 M ($1170MF).

Of this total, about £240 M ($600MF) has been contractually committed.

We have noted that these estimates, even without the global contingency, are in excess of the contractors' estimates. Nevertheless, on the basis of the estimates themselves, some 70% of the development work remains to be done, so that there is still room for a considerable margin of error in estimating total cost. Previous estimates in many countries relating to large technical projects - aeronautical and otherwise - have often proved to have been too low despite the best efforts of those concerned. Although one must be careful in making deductions from military experience, it is noteworthy that a study by the U.S. Department of Defence indicated that the ratio of actual costs to originally estimated costs for twenty major weapon systems averaged 3.2 to 1, whilst the ratio between the actual time to completion and the originally estimated time averaged 1.36 to 1.

The estimates for Concord have, however, already escalated from an original figure of £135 M ($1875MF). Nevertheless, although we consider the estimate of £500 M ($7000MF) to be the best available, we must draw attention to the possibility that even now it may be too low and that an increase of, say, 10 to 20% may not be out of the question. We also draw attention to the fact that any substantial increase in costs above those estimated implies also a failure to achieve the estimated timetable for development, and that if this were to occur without there being a corresponding setback to the U.S. S.S.T. the prospects of Concord would be thereby diminished.

The manufacturers have not yet agreed to accept incentive contracts in the form proposed to them. A commitment by the manufacturers in this matter would be likely to diminish our doubts on the validity of the estimates. It would moreover have the advantage of reducing the risks of the estimates being exceeded.

**Sums advanced for production.**

7. It makes no sense to develop Concord unless it is to be produced for sale in quantity to the world's airlines. In addition to the £500 M ($7000MF) required for development, further large sums will have to be found for production, before receipts from sales begin to rise faster than expenditure on production. It is likely that a substantial proportion of these sums will have either to be provided by the two governments or covered by guarantees from them against loss. Moreover, a large part of this investment will have to be incurred in advance of firm orders from airlines. It is estimated that this net investment by the two countries in production (the difference between total investment in production and receipts from sales) will reach a maximum of £150-220 M ($2000-3000MF) in the period from 1971 to 1973.

**Recovery of sums advanced for production.**

8. The risks of a loss on production alone are by no means negligible. The experts estimate that, with no levy for research and development, the average unit cost of production for a run of 100 aircraft...
aircraft at a rate of 3 a month will be about £6.5 M (9.9M) per aircraft, but this contains a considerable margin of uncertainty and it is as likely - probably more likely - to be too low rather than too high. A more serious ground for anxiety is lest the number of aircraft over which the costs have to be averaged (i.e. the number of aircraft assumed to be sold) be misjudged. In the event of a failure to sell aircraft in the numbers envisaged when the production was planned, the losses could, on certain assumptions defined in Annex D, rise to £100-130 M (14.00-18.00M). 

9. Another risk is that of a severe technical setback at the time that large sums have been committed to production. A disaster comparable to the Comet disaster could face the two countries with a loss of a sum even greater than the net investment in production of £150-220 M (2000-3000M) quoted in paragraph 7 above. In such an event, there would be inescapable commitments beyond the money actually paid on production and receipts would obviously be affected so that the total loss on production might be as much as 50% higher than the £150-220 M (2000-3000M) quoted. We have no reason to believe that such a disaster is at all likely, but think it right to point out the magnitude of the sums at risk if it were to occur.

10. Taking everything into account, the most crucial factor in the assessment is the number of aircraft likely to be sold. Although this obviously depends partly on the price at which they are offered, we think it useful to consider first what the demand is likely to be at prices which are little more than those required to cover the costs of production. (We consider in paragraph 27 how elastic demand might be in response to higher prices intended to bring in a better return on the investment).

Factors affecting the demand for Concord.

11. The demand for Concord will be affected by a large number of factors, many of which are interesting variables. Some of them cannot be assessed at all accurately for several years, and some are more a matter for political, sociological or psychological judgement than for technical or economic evaluation. There have been many studies of the possible demand for S.S.T.s in general and for various types of S.S.T. in particular. The results of the most noteworthy are summarised in Annex E. None of them, however, can be better than the assumptions on which they are based, which in turn are dependent on fallible human judgements. Within the limits of the time and resources available to us, we have attempted to cover the ground again. Our views on the effect of the more important factors are given in the following paragraphs.

Operating costs.

12. Concord will cost an airline more to operate per seat-mile than subsonic jet airliners. We think its cost per seat-mile will be some 30% higher than those of the current generation of long-range jets of which the Boeing 707 may be taken as the exemplar, and some 40% higher than those of the Boeing 747 (the so-called 'jumbo-jet') which is expected to come into service at about the same time as Concord. This means that allowing for the fact that Concord will carry less freight, its operating cost per seat-mile will be about 40% above that of the average subsonic aircraft in service at the same time. The background to this assessment is given in Annex F. It will be seen from Annex B that the seat-mile costs produced by B.A.C. and Sud Aviation are somewhat more favourable to Concord than ours, and those of Air France similar to ours. Supporters of the U.S. S.S.T. have claimed that it will achieve operating costs similar to those of subsonic aircraft. However, having regard to the poor
performance offered by the latest Boeing and Lockheed S.S.T. proposals, and having regard to the studies summarised in Annex C, it seems unlikely that either the Boeing or the Lockheed design could achieve such operating costs by 1975 which has hitherto been given as the date for their introduction. Indeed, on the basis of present knowledge, there is reason to doubt whether any S.S.T. will ever have operating costs as low as the best of subsonic aircraft. The U.S. S.S.T. thus does not appear to be such a formidable competitor as it was at once thought to be, and the chance of maintaining a fare differential between S.S.T.s and subsonic aircraft (see paragraph 14 below) now appears better than was once expected.

13. Given that Concord will have higher costs per seat-mile than subsonic aircraft, then if airlines are to buy it they must be convinced that they can offset this disadvantage either by filling a higher proportion of its seats, or by charging a higher fare for each seat, or by a combination of both.

Fares.

14. Fares are normally agreed multilaterally by the airlines which meet periodically under the aegis of the International Air Transport Association (I.A.T.A.). We are advised that the long-term trend towards fare reductions in real terms is likely to continue, and that, by the time Concord is coming into service, fares may be at least 10% lower than they are now. In the early years pressure among airlines for higher fares to be charged for S.S.T.s may be expected to come at least as much from those who wish to preserve their subsonic aircraft from the loss of passengers to the S.S.T.s, as from those who wish to ensure that the S.S.T.s can be operated profitably. The resolution of the various conflicting interests cannot be expected to be achieved in the form of an I.A.T.A. agreement before September, 1970. The indications are that a fare differential of about 15% will prove to be generally acceptable, and it is possible that if the whole of the accommodation offered by the S.S.T.s were to be treated as a special "speed class" (instead of as a mixture of first and tourist class, as with present-day aircraft), then a differential over the subsonic tourist fare of 20-25% might prove acceptable. If the U.S. S.S.T.s were later to achieve operating costs very close to those of subsonic aircraft, then there would be pressure for a reduction or even for the abolition of the fare differential. But as we have indicated in paragraph 12, this may not happen for a long time, if at all.

Load factors.

15. The proportion of seats filled, or 'load factor' is obviously an interacting variable with the fares charged. But we think that Concord should, particularly in its early years when relatively few are in service and it has no American S.S.T. competitor, be able to operate with a high load factor. Speed is the only major attraction over other forms of transport which air travel offers, and if speed were the only variable most passengers would probably choose to travel by the fastest available aircraft.* When compared with a subsonic aircraft, studies have been made of the value which users of surface transport and medium range air transport place on savings in time. Their simple extrapolation would lead to the conclusion that passengers would not be willing to pay the surcharge envisaged for this aircraft. But such an extrapolation would not take into account factors peculiar to Concord, such as the attraction of novelty and the fact that, by the time it comes into service, incomes will be considerably higher. It seems, therefore, that it would be in the interests of the manufacturers and the airlines to give further consideration to this matter.
aircraft, Concord saves over three hours on a transatlantic crossing, i.e. it cuts the total journey time by about a half. (It may be noted that although the American S.S.T. is planned to fly at about Mach 2.7 compared with Concord's Mach 2.2 this would save only a further 20 minutes or so on a transatlantic journey). It has been suggested also that the layout of Concord (four seats abreast with a centre aisle) may have a higher passenger appeal than the layout of the larger subsonic jets or of the large American S.S.T. Furthermore, an aircraft carrying about 150 passengers (Concord) tends to make for more flexible scheduling than one carrying two to four times that number. A large proportion of Concord traffic will be business traffic which does not vary much throughout the year. For these various reasons we think the claims that Concord will achieve a high load factor are well-founded. We believe it could well be over 70% in its early years, and will average about 65% over a ten year life, as compared with about 52.5% for subsonic aircraft. As more S.S.T.s come into service, it may fall away later, but this tendency may be partly offset by Concord being transferred to routes of lower traffic density where its smaller size would be an advantage.

Engine noise and sonic bang.

16. The operation of Concord, like that of existing jet airliners, will give rise to the familiar problems of engine noise on and around airports. It is being designed to keep within the noise levels at present tolerated by most airport authorities, but there are grounds for anxiety in that new regulations are contemplated which Concord (along with the U.S. S.S.T.s and the jumbo-jets) might have difficulty in meeting. It is therefore important that current studies of ways of reducing the noise of Concord's engines should be pursued. It is not certain that the introduction of an improved silencer will be entirely adequate: if it is not, then there is a danger that costly restrictions will be imposed on the operation of the aircraft.

17. While engine noise is a familiar problem common to subsonic airliners and to S.S.T.s, with the sonic bang problem we are on much less familiar ground, and one which is peculiar to the supersonic aircraft. There can be no doubt that completely unrestricted operation over land by S.S.T.s in regular airline service would create a nuisance which few communities would tolerate, so that some restriction is inevitable. The problem is to judge how much restriction there is likely to be, and what will be its effect.

18. We have attempted an assessment of the effects of various degrees of sonic bang restrictions, and the results are included in Annex F. We conclude that if supersonic flight were permitted only over the sea and any associated subsonic stages over land were short, then the traffic for which Concord might compete would be only some 55-60% of what it would be if there were no restrictions. If supersonic flight were permitted over sparsely-populated areas and coupled with longer subsonic stages where necessary, then the traffic for which Concord might compete would be about 75% of what it would be if there were no restrictions. This latter value of 75% may be considered to reflect the most realistic case, which is that described below as "partial sonic bang restriction". It may be noted that orders from American airlines, mostly for operation on international routes, are of great importance to the success of Concord (see paragraph 23) and that, however objective the U.S. authorities may seek to be, an element of national self-interest will inevitably intrude into their attitude towards the operation of Concord from U.S. airports or over U.S. territory. On the one hand, they may see Concord as a useful forerunner for their own S.S.T.; on the other, they may be tempted to take a long while to make up their minds.
about restrictions on its use so as to reduce the advantages of its lead in time over the U.S. aircraft.

Traffic growth.

19. Broadly, our assessment indicates that traffic on routes suitable for Concord will be about \( \frac{3}{2} \) times its 1964 level in 1975, and about \( \frac{5}{2} \) times this level in 1980. The background to this assessment is in Annex F.

Estimate of the demand for Concord.

20. We have attempted to assess the effect of all the above factors on the potential market for Concord and on the numbers that might be sold. The detailed calculations are set out in Annex F. Our central estimate of the potential market up to 1975, on the assumption that there will be partial sonic bang restrictions (see paragraph 18 above), is as follows.

**Central Estimate of the Potential Market for Concord, 1975.**

<table>
<thead>
<tr>
<th>Operators</th>
<th>North American</th>
<th>Other Operators</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Atlantic and Pacific</td>
<td>45</td>
<td>53</td>
<td>98</td>
</tr>
<tr>
<td>Other Routes</td>
<td>20</td>
<td>44</td>
<td>64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
<td><strong>97</strong></td>
<td><strong>162</strong></td>
</tr>
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</table>

21. Even if Concord is available by the date, with the performance, and at the price now envisaged, it is not likely that this potential market of 162 aircraft will be matched by actual sales. Airlines will be cautious in committing themselves; for the following reasons:

(a) The prospect that within a few years the larger U.S. S.S.T. will become available, possibly with lower costs per seat-mile.

(b) Consequential doubts about the prospects of retaining the advantages of the surcharge and load factor over the whole life of the aircraft and hence of making a satisfactory return on the heavy investment involved.

(c) Pressures of various kinds may be exerted by the U.S. Government and private U.S. interests to protect the market for the U.S. S.S.T.

(d) Doubts about the amount of engine noise and sonic bang which the authorities in various countries will tolerate.

22. Some of the airlines' possible reason for caution in buying Concord would be removed if the threat of competition from the U.S. S.S.T. became less serious - i.e., if its date of entry into service

(1) The estimate of the potential market is based on the assumption that Concord will carry all the traffic for which it is suited.
were set back or its performance or cost were seen to be considerably worse than they are planned to be now. Conversely, any delay in the Concord that led to a reduction in its lead time over the U.S. S.S.T. would reduce the market for Concord. In our detailed calculations, we have not taken either of these eventualities into account.

23. In the light of the foregoing considerations, we would suggest that a reasonable central estimate of sales up to 1975 would be about 130 Concords as compared with a potential market of 162. This assumes that about 50 would be purchased by American operators, which indicates the importance of the American market for the success of Concord.

24. However, this figure of 130 Concords by 1975 is the centre of a wide range, even on the specific assumptions which we have taken. We have tried to analyse the uncertainties in each of our estimates and to work out the resultant uncertainty in the total on the assumption that the errors are independent of one another. This has led to a possible range of from 100 to 220 Concords for the potential market up to 1975 and of from 80 to 180 Concords for sales up to 1975. We wish to emphasize that these are mathematical calculations giving the 50% chance that the actual figure will be within these limits. In practice, as some of the variables may be related, and as success breeds success and failure failure, there is perhaps a higher chance that the figure will be either relatively small or relatively large than that it will be a figure somewhere near the middle of the range. This last consideration, coupled with the breadth of uncertainty, indicates that the project is a gamble.

25. Predictions of the market for S.S.T.s in the period 1976-1980 (on similar assumptions to those used for the estimates given in paragraph 20 above including a surcharge of 15%) suggest a demand for 80 aircraft of Concord size, or about 30 U.S. S.S.T.s, on which basis a U.S. S.S.T. would hardly be viable in this period. This estimate also is highly uncertain and has a wide range of possible error. Moreover, in view of the competition from the U.S. S.S.T., the proportion that will actually be Concords is even more uncertain, as this will depend on the relative performance and economics of the two aircraft, taking account of any developments there may be to Concord. Thus after 1975 (and to a lesser extent before) the sales of Concord will be crucially dependent upon the nature and timing of the competition from the U.S. S.S.T.

26. The traffic and market estimates (see Annex F) indicate that by the late 1970s, given the large size of aircraft which will then be available, it would be most difficult to accommodate profitably all the types of long-haul aircraft at present under development or consideration - Concord, the U.S. S.S.T., the Boeing 747 and possibly the Lockheed C5A and other jumbo-jets. This suggests that a highly competitive situation may exist and that one or more of the types of aircraft will have to drop out or will be a commercial failure. It is likely that this situation will induce U.S. firms to define an S.S.T. for which the fare surcharge would be low or non-existent, and in this event the market for such an S.S.T. would be much greater.

Elasticity of demand for Concord.

27. The capital cost of Concords accounts for about one-third of the total operating costs per seat-mile. It is therefore tempting to conclude that the demand from the airlines for the aircraft will be relatively inelastic and that provided that Concord is reasonably successful it should be possible to exploit that success forcefully by adding to the cost of producing it a substantial levy towards the recovery.
recovery of the costs of development. But we think this would be a
false conclusion. Experience shows that aircraft manufacturers have
to quote keen prices in order to sell their products, and we do not
think it reasonable to assume that Concord can be made to bear much
more than the sliding scale of 4% to 10% levy which is at present
envisioned. This view is reinforced by the arguments in paragraphs
18 to 21 above. For similar reasons we think it important to keep
production costs down. On the other hand we think that if Concord
is relatively unsuccessful technically and proves unattractive to
operators, demand would prove extremely inelastic to reductions in
costs even to well below the costs of production. A matter which the
two Governments will need to consider eventually is whether they
should aim wholeheartedly at maximising the return on their investment
(which might involve selling a smaller number of aircraft at a high
price) or move some way towards a policy of maximising the number sold,
even at some reduction in the total return on the investment. Firm
decisions on this point cannot be reached until the shape of the
demand curve can be more accurately assessed, and this will not be
for some years.

Return on total sums advanced.

26. As a broad illustration of the problem of recovery of development
expenditure, it may be noted that if 150 Concords were sold at a basic
price of £6.5M (900MF) each needed to recover production expenditure,
then the levy on top of this basic price would have to be about £2 M
(27.5MF) per aircraft (about 4% of the value of sales of aircraft and could be made to bear half of the recovery through a somewhat higher rate of levy). If the levy were required to recover the £500 M (7000MF) spent on
development were to be recovered. (This calculation is on the
assumption that sales of spare parts would eventually amount to about 95%
of the value of sales of aircraft and could be made to bear half of the recovery through a somewhat higher rate of levy). If the levy were required to recover the £500 M (7000MF) plus interest on this investment over the long period involved, then it would have to be
about twice as high - say £AM (55MB) per aircraft. We think it
inconceivable that the market could bear a levy of this magnitude.

27. On the basis of our central estimate of sales of 130 Concords by
1975, and a levy starting at 4% and rising to 10% (the formula so
far adopted by the officials responsible for the project) the levy
including that on spare parts would produce about £130M (1800MF). This
may be set against development costs estimated at £500 M (7000MF),
or about double that amount if allowance is made for interest on the
outlay over the decade or so which elapses before recoveries are made.
However, the financial assessment of the project, though essential, is
not the only aspect relevant to an economic judgement on it. Two
other major considerations are its effect on the aircraft industries
of the two countries and on their balances of payments.

30. Work on Concord at present sustains the equivalent of about
13,000 full-time jobs in each country: this represents about 4% of
total employment in the British aircraft industry (250,000) and about
10% of the French aircraft industry (100,000). In full production
at a rate of 3 a month in the 1970s it would sustain about 30,000 jobs
in each country (about 15% of the present strength of the British
industry and about 30% of the French). It is the only long-haul
civil project which is in prospect for the industries of the two
countries that affords an alternative to complete dependence on
America. Failure to complete the Concord project would be bound to
react adversely on progress in advanced aircraft technology and on the
retention of the design teams. It is nevertheless desirable that the
employment of these scarce and valuable resources in the aircraft
industries should provide direct and indirect benefits broadly
commensurate with their value.
It is also necessary to take into account the fact that sales of the aircraft will either earn foreign exchange (in the case of third country buyers) or save foreign exchange (in the case of B.O.A.C. and Air France who would otherwise have to purchase from abroad). The extent of the benefit to the balance of payments will, of course, depend on the numbers, and price, of Concorde actually sold. Assuming a production cost of about 65.5M (500MF) each for 130 aircraft, plus spares in due course to about 85% of the value of the aircraft, then sales might bring in about 1.580M (22,000MF) to which may be added 130M (1000MF) for levy (see paragraph 29), making a total of about 1.710M (23,500MF). The import content of this production might amount to about 5% to 10%. In assessing the weight to be given to this benefit it should be borne in mind that large resources will have been invested in the project, including some 550M (7000MF) of public funds on development of which the major part is unlikely to be recouped; and that these resources, if used for other purposes, might have had some export-earning or import-saving potential. In addition, a substantial proportion of the foreign exchange earnings from overseas sales may well be delayed until the late 1970s because of the provision of export credit.

Summary and Conclusions.

Although the best possible estimates have been made of development costs and large contingencies included, there is a risk, inevitable with such a technically advanced project, that Concord may not be completed on time (in service in 1971) or within the estimated development expenditure 550M (7000MF).

In addition to the development expenditure, some 150-220M (2000-3000MF), probably covered in great part by aid from the State, will have to be invested in production. This investment is exposed to substantial risks, and even more might be lost if there were a major technical setback.

The expected costs, performance, and date of introduction of the U.S. supersonic transport (U.S. S.S.T.) are of crucial importance in the assessment of the commercial prospects of Concord. If the U.S. S.S.T. programme achieves its present objectives (including entry into service in 1974/75) it may not only capture the greater part of the total S.S.T. market after 1975, but also affect the sales of Concord before that date. Present evidence suggests that the date and performance objectives of the U.S. S.S.T. will not both be met, but it would be optimistic to assume that the Americans will not be able to overcome at least some of the difficulties now foreseen.

If Concord enters service later than now planned, the gap before the U.S. S.S.T. comes into service may be shortened and the market for Concord thus reduced.

We do not consider Russian competition to be a likely threat, because of their poor commercial performance in selling aircraft.

Engine noise in and around airports is still a cause for concern, as it may be difficult to reduce it to the level required by future noise regulations, thus limiting Concord's use. The development programme designed to reduce the noise is important and should be pursued vigorously.

Much more important, the sonic bang will restrict the market. We have estimated that restriction of supersonic flight to sparsely-populated territory (the most likely restriction) would reduce the market to about 75% of what it might be if there were no sonic bang restrictions.

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restrictions at all. A complete ban on supersonic flight over land would reduce the market to 55%-60%.

39. Concord's operating cost per seat-mile is estimated to be about 40% more than that of the average subsonic jet which will be operating at the same time. It should be possible to offset this by a fare surcharge of about 15% and a higher load factor (proportion of seats filled) averaging 65% over Concord's life (compared with 52.5% for the subsonic jets).

40. Our own central estimate of the sales of Concord is 130 up to 1975 (of which about 50 would be purchased by North American operators). But our calculations show a probable range of 80 to 160 (i.e., only a 50% chance that actual sales will be within this range). This means that any assessment made today is merely an assessment of probabilities and that the project is of necessity a gamble, depending not only on our ability to develop a technically satisfactory aircraft, but also on factors beyond our control.

41. The total market for S.S.T.s between 1976 and 1980 might be equivalent to about 80 Concords, but the number of Concords sold will depend on the relative economics of Concord and the U.S. S.S.T. It would not be safe to rely on a large volume of sales of Concord in this period.

42. Important decisions will need to be made soon regarding the monthly rate of production and the time by which this rate is to be achieved. A balance has to be struck between starting too early (which would entail costly modifications to the aircraft during or after production in the light of experience gained in development) and delaying the start (which would entail a higher monthly rate concentrated over a shorter period if the market were still to be caught, and which would be expensive). We feel, however, that whatever the precise timing, production should be on a scale adequate to meet the expected market by 1975.

43. It will be necessary in due course for the two Governments to decide on the policy to be adopted with regard to the levy. This will depend on whether they wish to maximise the financial return on their investment, or rather to maximise the number of aircraft sold.

44. In financial terms, the prospect of any positive return on the total investment in development and production appears remote, and a large loss likely. It is doubtful whether more than, say, one third of the 2500 M (£700MF) in development costs can be recovered, without allowing for any interest on this sum. The public money to be invested in production will also be at risk.

45. However some weight should be put on the fact that, whereas most of the expenditure is in British or French currencies, the earnings will mostly be in foreign exchange (though often after a delay, because of the need to allow credit to some customer airlines). These foreign exchange earnings or savings might amount to some £1,700M (23,500MF).

46. The future load which Concord will place on the British and French aircraft industry represents about 15% and about 30% respectively of their present strength. It is the only remaining long-haul airliner project in Europe and its future is important for the maintenance of European progress in advanced aircraft technology.

47. Given the market uncertainty and taking into account the
magnitude of the gamble, Concord will have the best chance of technical success and substantial sales if the project is pressed forward vigorously and is seen to have the full backing of both Governments.

(J. A. JUDES)  
Joint Chairmen of the Committee

(J. SAINT-GEBOURS)

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Mr. I.P. BANCROFT,
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Ministere de l'Equipment.

Monsieur F. CAZAL,
Ministere de l'Economie et des Finances.
CONCORD ECONOMIC PROSPECTS COMMITTEE – ANNEX B

Summary of information received from the manufacturers of Concord and from Air France and BOAC

1. In Britain and France the principal companies (1) concerned with the project have been consulted. The consultation was informal, since no specific questions were addressed to them. They were invited to make known their point of view regarding those economic aspects of the project which appeared important to them.

2. In response to this invitation, B.A.C. and Sud Aviation provided two joint reports, entitled "The penetration of Concord in the world market" and "Evaluation of Concord economics". Bristol Siddeley wrote a letter to the British Chairman of the Committee. Air France submitted a report to the French Chairman, entitled "Note on the economic and commercial prospects of Concord". B.O.A.C. expressed their point of view orally to British members of the Committee.

3. In both countries, the written submissions were supplemented by oral commentaries in the course of meetings organised for this purpose. The committee are greatly obliged to the companies for having responded so completely at such short notice.

4. The replies related to the total operating costs of Concord as compared with the subsonic Boeing 707 and Boeing 747 aircraft, to the 'penetration' of Concord, to load factors and sonic bang restrictions, and to certain particular problems raised by the manufacturers and the airlines.

The comparative operating costs of Concord and subsonic aircraft

5. The table below gives the total operating costs of Concord, as a ratio to those of the Boeing 707 and the Boeing 747 for equal load factors and for a stage-length of 4,000 km., as they have been estimated by the various bodies concerned.

<table>
<thead>
<tr>
<th>As compared with</th>
<th>Air France</th>
<th>B.O.A.C. (1)</th>
<th>B.A.C/Sud</th>
<th>Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 707</td>
<td>1.25</td>
<td>1.36</td>
<td>1.19</td>
<td>1.30</td>
</tr>
<tr>
<td>Boeing 747</td>
<td>1.47</td>
<td>1.53</td>
<td>-</td>
<td>1.40</td>
</tr>
</tbody>
</table>

(1) B.O.A.C. compared only the direct operating costs; the comparison of total operating costs has been derived from this by the Ministry of Aviation.

6. In order to proceed from the above figures to the relative position of Concord and the average subsonic aircraft of 1975, it is necessary also to take account of the following.

(1) Manufacturers: B.A.C. and Sud Aviation, who were asked to establish contact with Bristol Siddeley and S.N.E.C.M.A.

Airlines: B.O.A.C. and Air France.
The Boeing 707 and the Boeing 747 can carry both freight and mail in their holds, while for Concord it seems that only the transport of mail will be possible. B.O.A.C. and Air France are in agreement with the official experts in estimating that the additional revenues from freight for the subsonic aircraft, if treated as a reduction in costs, result in an increase of 0.05 on each of the figures quoted in the table above.

The composition of the subsonic fleets in 1975, which will be a mixture of Boeing 707's and Boeing 747's or equivalent aircraft. Neither the manufacturers nor the airlines have put a figure on this factor. The official experts think that the ratio of total operating costs of Concord to those of the average subsonic aircraft of 1975 will be 0.04 less than the figures quoted in the above table for the comparison with the Boeing 747.

The combined effects of the subsonic aircraft's additional revenue from freight and of the composition of the subsonic fleets in 1975 thus approximately cancel each other out.

The table in paragraph 5 calls for the following comments.

(a) Air France's estimate of the comparison with the Boeing 707 appears to be more optimistic than that of the Committee. The difference arises from the fact that Air France's calculations make use of data on Concord performance, weight and selling price which were in use before the last revision by officials. The Committee have used for these elements the current official assumptions, which are more pessimistic. In fact, on the same basic assumptions, Air France's calculations would be slightly more pessimistic than those of the Committee.

(b) The Boeing 747 will make possible a reduction in total operating costs per seat/km. as compared with the Boeing 707. This reduction is estimated at 15% by Air France, 10% by B.O.A.C. and 14% by officials. These differences result mainly from different appreciations as to the number of seats which can be installed in the Boeing 747 with a comfort equivalent to the Boeing 707 with 172 seats. (The selling price of the Boeing 747 seems to be at the moment at a stage of fairly rapid escalation).

The reasons for the considerable gap between the manufacturers' figures (1.19 as compared with existing subsonic aircraft for a 4,000 km. stage-length in an all-tourist configuration and even 1.16 for a possible mixed configuration including 10% of first-class seats) and those of B.O.A.C. and Air France and the official experts are as follows.

(a) Differences in basic assumptions about Concord's performance, weight, and selling price. On these points the officials are more pessimistic than the manufacturers. (The selling price estimated by the officials is $17,400 each for a run of 130 aircraft, compared with the manufacturers' figure of $16,000.)

(b) A certain number of modifications proposed by the manufacturers regarding the assumptions used by the official working Party on Concord Operating Economics (document TASC 249):

- an increase in the basic price of the Boeing 707,
- the application of Customs duties (14%) to aircraft of American origin,
- a slight reduction in the price of fuel,
The manufacturers also point out that all the estimates of the American manufacturers regarding the absolute levels of Concord operating costs are more optimistic than those of the officials. (But it is probable that the same is true as regards the subsonic aircraft. Figures quoted in the manufacturers submissions and relating to United Airlines confirm this point of view).

The penetration of Concord

The estimates relating to the penetration of Concord on the assumption that there is a fare differential also differ considerably.

According to the manufacturers, 90\% of passengers would be willing to pay a fare supplement of 10\% and 50\% supplement of 25\%. The manufacturers also rely on the estimates of Pan American (40\% of the traffic for a 25\% fare differential) and of American Airlines (65\% of the traffic for a 15\% fare differential).

Finally, it will be recalled that the official experts have estimated that Concord will take 45\% of the traffic with a fare differential of 15\%.

Load factors

Air France thinks that when it first comes into operation Concord's load factor could be high, but that it would then level out to about 60\% against an average load factor of 57.5\% for the whole of the long-range fleet (Concord included).

The manufacturers expect a minimum improvement of 7 points in Concord's load factor as compared with competing subsonic aircraft, and estimate that if Concord were to be operated without a fare differential, its load factor could reach 75\%.

The official experts have estimated at 65\% the average load factor of Concord over its life (taking account of the very high load factors of the early years) and at 52.5\% the average load factor of the subsonic fleet in 1975.

Sonic bang restrictions

As regards sonic bang restrictions, the manufacturers count on a penetration of at least 75\% of the market by Concord, even in the case of complete prohibition of sonic bangs over land.

The official experts have adopted coefficients of 75\% in the case of partial restrictions and of 55-60\% in the case of complete prohibition of sonic bangs over land.
Particular problems raised by the manufacturers and the airlines


At the relatively low levels of penetration which they have envisaged, Air France believe that the operation of Concord will pose particular problems for them. As a result it may be that the actual penetration achieved in 1975 will be even lower.

(a) It would be difficult to establish a timetable for Concord which would be satisfactory on routes with a low density of traffic. In fact, since Concord would not be able to obtain more than 20-25% of the traffic, the services corresponding to this potential could only represent a few frequencies out of the total.

(b) The small seating capacity of Concord would pose a problem of utilization of traffic rights on routes where the number of flights permitted to Air France is limited.

(c) More generally, Air France's route networks, which are long and not very dense, would be less well adapted to the use of Concord than those of B.O.A.C. or even more those of the American airlines. For purposes of illustration, Air France indicates that if it wished to limit its risks to those which Pan American are taking, it ought not to put into service a Concord fleet exceeding one third of Pan American's Concord fleet.

20. Profitability of the investment for the Airlines

The manufacturers say that, on their assumptions which have been described in the preceding paragraphs, Concord will have a profitability for the airlines, of the same order as that of subsonic aircraft.

21. Air France consider that on their own assumptions each Concord they operate will cost them a deficit of about £725,000 (10MF) a year. B.O.A.C. have not yet taken up a position in this matter.

22. Problem of spare engines (Observations by Bristol Siddeley)

The Olympus 593 engine is a new engine. For this reason, during the early years of Concord the time between overhauls will be relatively low, though it will increase progressively. Consequently, the number of spare engines necessary for each aircraft will be high at the beginning but will decrease progressively. The means of financing these spare engines needs to be studied. The manufacturers hope that it will be provided by the operators by means of a sell-and-buy back scheme rather than by themselves. This system would have the disadvantage that it would necessitate additional financing of the order of £60M (900MF) for 100 aircraft. So as to facilitate the realisation of this hope, the manufacturers ask whether the development levy on the engines could be reduced, at least in the earlier years.
1. The Federal Aviation Agency's research and development programme leading to the construction of a civil supersonic transport aircraft has reached the point where selection of the best project is to be made (phase II). The rival companies are Lockheed and Boeing (as prime contractors and as builders of the airframe), and General Electric and Pratt & Whitney (who would provide the engines). The choice of prime contractor and engine firm is intended to be made in the coming weeks.

2. Phase III (construction of two prototypes and 100 hrs. flight testing) would then start. The first flight is forecast for June 1970.

3. Phase IV, which covers flight testing up to certification would last three years. The Federal Aviation Agency have announced that the aircraft will be put into service towards the middle of 1974.

4. Development costs, as at present estimated, seem to be 2 to 2.5 times those of the Concord programme. The Federal Government would bear the major portion.

Views of B.O.A.C. and Air France.

5. At the request of the Federal Aviation Agency some 30 airlines have recently participated in a detailed evaluation of the proposed American supersonic aircraft. The comments which follow are based on the results of this evaluation by B.O.A.C. and Air France.

6. B.O.A.C. and Air France consider that the Lockheed and Boeing projects, as at present defined, are not satisfactory. The main criticisms relate to range, which will not permit North Atlantic operation with a full payload, and to noise, which is excessive.

7. The technical solution adopted for the Boeing aircraft (variable geometry wing) should in the long run offer the best possibilities for further improvement and seems adapted to the market conditions of the years 1980 and beyond. There are however risks that the development of the aircraft may be long and difficult.

8. On the other hand the simplicity of the Lockheed project promises better regularity and safety in operation, especially if the Federal Government continues to aim at 1974-1975 as the in-service date.

9. In either case the required increase in range and the reduction of noise will involve further study and therefore additional delays.

10. B.O.A.C. have calculated direct operating costs of these American projects as compared with those of the Boeing 707 and Boeing 747. In making these estimates B.O.A.C. have made their own allowances for increase of structure weight and operating weight empty and for a take-off weight permitting sufficient additional fuel to give the two projects adequate range. From the resulting direct operating costs British Officials have deduced approximate total operating costs and operating cost ratios for the North Atlantic for the various aircraft as follows (on the basis of B.O.A.C.'s calculations).
<table>
<thead>
<tr>
<th></th>
<th>ratio to Concord</th>
<th>ratio to 707</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 2707</td>
<td>0.89</td>
<td>1.20</td>
</tr>
<tr>
<td>Lockheed L 2000</td>
<td>0.74</td>
<td>1.27</td>
</tr>
<tr>
<td>Concord</td>
<td>1.00</td>
<td>1.35</td>
</tr>
<tr>
<td>Boeing 707 320 B</td>
<td>0.74</td>
<td>1.00</td>
</tr>
<tr>
<td>Boeing 747</td>
<td>0.66</td>
<td>0.90</td>
</tr>
</tbody>
</table>

11. It may be seen from this table that the total operating costs of the Lockheed and Boeing S.S.T. aircraft are not more than about 5% to 10% below those of the Concord. Taking account of the different states of development of the Concord on the one hand and the American projects on the other it is probable that the real gains are less than indicated by these figures.

12. Air France are more optimistic as regards the total operating costs which the American projects might achieve, and think it possible that an optimised aircraft might achieve total costs of the same order as those of the Boeing 707. Nevertheless, Air France allow in their estimates for increases in take-off weight of the order of 20 to 25%.

13. Neither of the two American projects meet airport noise requirements envisaged for 1970 and after. The Boeing project comes closest, but exceeds requirements by some 10 PNdB. Both projects seem, in their present state, to be 5 to 10 PNdB noisier than Concord (lateral noise).

Studies by British and French officials.

14. From information available on the proposals of the two American firms, the Royal Aircraft Establishment and the Service Technique Aeronautique have both studied the Lockheed project. The Royal Aircraft Establishment's experts think that at the weights which will be necessary to carry a full payload of passengers from Paris to New York the operating costs of the Lockheed 2000 will be only slightly less than those of the Concord. The experts of the Service Technique Aeronautique estimate by the same methods which lead to a Concord take-off weight of 376,000 lb., Paris-New York, that the take-off weight of the Lockheed 2000 will be above 600,000 lb. (which is considerably higher than American estimates).

Conclusions.

15. The American projects, as at present proposed, will not permit the carriage of a full payload Paris-New York or London-New York with the assumption of level of fuel reserves and runway length which has been adopted for the Concord.

16. The studies made by Government Establishments and information supplied by B.O.A.C. suggest that the Lockheed project, after take-off weight increases to give a satisfactory range with full payload, would have total operating costs per seat kilometre not more than 5% below those of the Concord. In the same conditions, the corresponding figure for the Boeing project would be of the order of 10%.

17. Take-off noise (lateral noise) of the American projects is considerably greater than that of the Concord and markedly exceeds the noise limits envisaged for the 1970s.
Risks of loss on production.

1. This Annex is intended to indicate the losses which might be incurred in the event of aircraft not being sold. The following assumptions have been used.
   - A production run of 130 aircraft has been decided upon and the average selling price fixed on this basis.
   - The unit cost of production between 50 and 200 aircraft would decrease in accordance with a 90% learning curve (Wright's law).
   - One year before delivery of the 50th (or of the 100th) aircraft, it is decided to stop production at this number, all of which are sold.

2. In the above conditions the losses may be estimated as follows.
   - £100-130 M (1,400-1,800 MF) for a stoppage at the 50th aircraft
   - £80-110 M (1,100-1,500 MF) “ “ “ ” 100th aircraft.

3. If the decision to stop came abruptly at the moment of delivery of the 50th aircraft (or of the 100th aircraft), the losses could be much heavier and could reach twice the sums indicated in paragraph 2. Such a decision would also have other grave consequences associated with the abrupt decrease in the aircraft industry's workload. These consequences have not been examined in depth.

4. On the other hand, if the decision to stop came more than a year before the delivery of the 50th aircraft (or of the 100th aircraft) the losses would be reduced as much as the stoppage could be made more gradual. In the case of a gradual stoppage as possible at the 100th aircraft, the losses could be as low as about £30 M (420 MF).
Estimates of the market for S.S.T.s by Boeing, Lockheed, and Ministry of Aviation, with brief comments on some other forecasts

1. Recent estimates by Boeing and Lockheed of the market for their S.S.T.s and other long-haul aircraft are compared in this Annex with an estimate by the Ministry of Aviation of the possible distribution of aircraft types in the long-haul market. Brief notes on some other forecasts are also included. A list of references appears at the end of this Annex, and is followed by four graphs (Figs. 1 to 4), to which references are made in the text.

Traffic growth forecasts

2. Fig. 1 compares forecasts made by Boeing and Lockheed of world passenger traffic (excluding East Europe, U.S.S.R. and China) with the I.C.A.O. most probable forecast (Ref. 1), and a forecast made by the M.O.A. Market Research Group, of which the long-haul element (≥ 2,300 km) is based on the mean of the upper and lower values of growth rates used in assessing the market for Concorde. The Boeing forecast is given in Ref. 2 and includes both scheduled and non-scheduled traffic. Two Lockheed forecasts are shown, both believed to apply to scheduled passenger traffic only. The lower is the earlier one from Ref. 3, the upper a more recent forecast attributed to Lockheed executive Carl Kotchian and quoted by Interavia (Ref. 4). The M.O.A. forecast, made before those of the U.S. firms were studied, comes broadly mid-way between the later Lockheed one and that of Boeing. The overall spread in the forecasts is large (the ratio of the highest to the lowest is about 2:1 approximately in the period 1975-1985).

Aircraft productivities

3. In building up a picture of the contribution by various long-haul aircraft to the forecast of world passenger-km by the M.O.A. in the period up to 1980, the aircraft productivities with mixed-class configuration have been used. These are:

- Concord: 0.44 x 10^9 pass-km/aircraft-year
- U.S. S.S.T.: 1.270 x 10^9
- B747: 0.67 x 10^9

4. To set against the traffic forecasts by the U.S. manufacturers, rather lower productivities have been used which are believed to correspond more closely with those implied by the estimated market numbers given by the U.S. firms.

The M.O.A. view (Fig. 2)

5. It is extremely difficult to forecast the market for the Concord beyond 1975. At about this time a U.S. S.S.T. may be expected to enter service, and its effect on Concord sales will depend to a large extent on its operating economics vis-a-vis Concord, while on some lower density routes the relative seat capacities of the two aircraft may well be a major consideration affecting sales.

6. It is estimated (see Appendix I to Annex F) that about 150 Concorde could be utilized on long-haul routes (above 2,300 km) by 1975, assuming a 15% fare surcharge and partial boom restriction, leaving the rest of the long-haul market to be served by the equivalent of about 260 B747s. Assuming that these aircraft are still in service in 1980, traffic growth between 1975 and 1980 would require additional capacity corresponding to about 165 B747s or
250 Concords or 90 U.S. S.S.T.s: however with the same 15% fare surcharge and partial sonic boom restriction as in 1975, the distribution of traffic between supersonic and subsonic aircraft would require about 80 Concord (or 30 U.S. S.S.T.) and 110 B747 for this additional capacity.

7. Also shown on Fig. 2 is a possible build-up of the contribution of (mainly) short-haul aeroplanes of different capacities to the total traffic potential estimated for 1980. Similar build-ups are shown on Figs. 3 and 4.

The Boeing view (Fig. 3)

8. Fig. 3 shows the world market picture as given by Boeing. The total traffic forecast is again that given in Ref. 2 which also indicates how this total is made up according to the longest sector in a route. Totals for all routes with no sector longer than 1,100 km and 1,850 km respectively have also been indicated.

9. Sales predictions for the Boeing 747 passenger version have been given (see Ref. 5) as 307 by 1975 and a further 100 by 1980.

10. Market predictions for the Boeing S.S.T. have been less precise. A report in the American magazine Aviation Week (Ref. 6) quoted a Boeing forecast of 700-1,800 by 1990, the range representing pessimistic and optimistic limits. Since Boeing have not committed themselves to a 'most probable' forecast, a total of 900 S.S.T.s has been chosen as probably representing the firm's conservative view.

11. From Fig. 3 it can be seen that although after 1980 Boeing have left less than half the world passenger traffic to be carried by aircraft other than their S.S.T. and the 747, this still represents a large number of aircraft. However, assuming that the S.S.T. and 747 are confined to long-haul routes, what is left for other aircraft after 1980 is all on sectors less than 1,800 km. It is perhaps significant that the Boeing 727-200 and 737 can operate sectors up to about 1,800 km and that current long-range aircraft typified by the B707 will probably all be retired by 1980.

The Lockheed view (Fig. 4)

12. Fig. 4 presents this firm's view of the S.S.T. market as it appears from a recent pronouncement by the Executive Vice-President of Lockheed, reported in Interavia (Ref. 4). This said that if air traffic doubles between 1975 and 1977 and doubles again between 1975 and 1985, the world market for supersonic transports by 1985 would comprise 907 U.S. S.S.T.s and 'approximately' 316 Concords, the two aircraft being complementary. The figure shows that these numbers relate to a situation in 1985 where all air travel is by one or other of these aircraft - which is clearly ludicrous.

Other views of the S.S.T. markets

(1) U.S. Department of Defense

13. No numbers are quoted in this report but the conclusion is reached that in competition with the 'growth' subsonic jets only, at a 50% fare differential, Concord would be chosen by 33% of the long-haul traffic (500-4,000 statute miles) with no boom restriction and by 10% with flights restricted to over-water and over sparsely populated land areas only.

(ii) BAC/Sud

14. In expressing their views to the Concord Economic Prospects Committee, BAC/Sud did not estimate the numbers of Concords likely to be
sold, but merely attempted to explain those factors which can affect the
degree of penetration of the total long-haul market by Concord. A BAC/Sud
market report in December 1965 estimated the market for Concord in 1975 at
about 300 aircraft, assuming no competition from a U.S. S.S.T. up to that date
but with some allowance for the effect of a surcharge of 25% and of sonic boom
restriction.

(iii) Stanford Research Institute

15. A report produced in 1953 on "An Economic Analysis of the Supersonic
Transport" estimated a market potential for a 140 seat, Mach 2, S.S.T. at
364 aircraft by 1973, assuming a 10-15% fare surcharge, but no sonic boom
restriction. With a U.S. Mach 2 aircraft available within two years of
Concord, it was estimated that the latter would take 64% (233 aircraft) of the
market if the U.S. S.S.T. was medium range and 34% (124 aircraft) if the U.S.
aircraft had long range capability. A total prohibition of flying over
inhabited land masses would reduce these estimates by about 40%.

Conclusion

16. Boeing market claims for the B747 and S.S.T. relate to an optimistic
traffic growth forecast and the presumption that these aircraft will take over
all medium and long-haul routes as the current 170 seat long-haul aircraft are
retired. It is doubtful if their market claims make any allowance for sales
by BAC/Sud, Douglas or Lockheed. Recent forecasts by Lockheed on the market
for their S.S.T. and Concordas are based on a modest traffic growth rate, but
imply that all routes will be operated by these aircraft by 1980, regardless
of stage length or traffic density.

17. It is thought that the distribution of aircraft in the various range
brackets, shown on Fig. 2, represents a more plausible picture of the
situation, and indicates the relatively limited market that may be available

LIST OF REPORTS, ARTICLES, ETC. REFERRED TO IN THE ABOVE TEXT

Ref. 1 A review of the economic situation of air transport
ICAO Circular 73-AT/10 June, 1965
Ref. 2 International Air Traffic forecast
Boeing Company Report TSR 1093 January, 1966
Ref. 3 Lockheed 'Horizons' (House magazine) Autumn, 1965
Ref. 4 Interavia Air Letter No. 6112, Page 3 21 October, 1966
Ref. 5 'Flight' 13 October, 1966
Ref. 6 Aviation Week and Space Technology 15 August, 1966

LIST OF GRAPHS ATTACHED TO THIS ANNEX

Fig. 1 World passenger traffic forecasts
Fig. 2 The world market according to M.O.A.
Fig. 3 The world market according to Boeing
Fig. 4 The world market according to Lockheed
FIG. 1: WORLD PASSENGER TRAFFIC FORECASTS
Fig 2 of Annex E

Note 1: B747 productivity $0.47 \times 10^9$ p. km/yr.
Concorde $0.19 \times 10^9$
U.S. C.E.T. $1.27 \times 10^9$

2. Partial boom restriction and mean of high and low traffic growths assumed.

Traffic on routes with max. sector (dotted lines).

- > 6000 km.
- 2300-6000 km.
- 1100-2300 km.
- < 1100 km.

NB: Other AC possibilities.


2. The world market according to M.O.A.
FIG. 3 - PANEL E

THE WORLD MARKET ACCORDING TO BOEING
FIG 4. THE WORLD MARKET ACCORDING TO LOCKHEED.
Numerical estimation of Concord potential market up to 1975.

Introduction - method of estimation

1. The method is conveniently described in three stages, each being explained in greater detail in the appropriate section of this Annex.

Stage 1. Estimates have been made of the seat-km. operating costs of Concord, and of Boeing 707 and 747 as representative of the subsonic aircraft in airline service in the 1970s. From these figures and an assumed mix of 707 and 747 types, the ratio of operating cost of Concord to an "average 1975 subsonic aircraft" has been calculated. For Concord profitability to equal that of subsonic aircraft, revenue per seat-km. must be in the same ratio; estimation of the probable relative load factors of Concord and subsonic aircraft leads to the fare differential necessary to achieve this.

Stage 2. Estimates have been made of the present Western World traffic on routes suitable for Concord, and of the growth likely to occur by 1975 and 1980. Correction factors to this traffic have been deduced for sonic boom route restrictions and for the fraction of passengers expected to be willing to pay a higher fare for the shorter Concord journey time.

Stage 3. The potential Concord market is calculated from the predicted traffic with the correction factors applied and the productivity of Concord. The uncertainty in this market estimate is assessed by considering the uncertainties in the calculations made in Stages 1 and 2, and the possible effect of the SST is looked at.

Stage 1 - estimation of operating costs and fare differential

2. Calculations have followed the method previously used by the Anglo-French Working Group on Concord Operating Economics. The main assumptions were:

<table>
<thead>
<tr>
<th>Concord</th>
<th>707-320B</th>
<th>747</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic price</td>
<td>$18.26M (100 aircraft)</td>
<td>$7M</td>
</tr>
<tr>
<td>Number of seats (34&quot; pitch)</td>
<td>130</td>
<td>172</td>
</tr>
<tr>
<td>Annual utilisation (hr.)</td>
<td>3,350</td>
<td>3,750</td>
</tr>
<tr>
<td>Take-off weight (lb.)</td>
<td>375,000</td>
<td>325,000</td>
</tr>
<tr>
<td>Amortisation period (yr.)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Interest rate %</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

To the Concord price was added a levy on a sliding scale from 4% on the first 50 aircraft to 10% for aircraft after the 100th: 10% levy was added to the price of initial spares.

3. The resulting total operating costs, in cents per seat-km. are:

<table>
<thead>
<tr>
<th>Stage length, km.</th>
<th>2,000</th>
<th>4,000</th>
<th>6,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concord (Prod 100)</td>
<td>2.724</td>
<td>2.226</td>
<td>2.087</td>
</tr>
<tr>
<td>Concord (Prod 130)</td>
<td>2.699</td>
<td>2.207</td>
<td>2.067</td>
</tr>
<tr>
<td>Boeing 707-320B</td>
<td>1.921</td>
<td>1.704</td>
<td>1.637</td>
</tr>
<tr>
<td>Boeing 747</td>
<td>1.751</td>
<td>1.577</td>
<td>1.545</td>
</tr>
</tbody>
</table>
For a 4,000 km. stage length (a typical average value for long haul airlines) the ratios of Concord to 707 seat-kilometre costs are:

<table>
<thead>
<tr>
<th>Number of Concorids</th>
<th>100</th>
<th>130</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio to 707</td>
<td>1.31</td>
<td>1.29</td>
</tr>
<tr>
<td>Ratio to 747</td>
<td>1.41</td>
<td>1.39</td>
</tr>
</tbody>
</table>

4. It is estimated that in 1975 about 40% of long haul traffic will be carried by 747s, about 35% by developed DC-8s (with intermediate operating costs) and 25% by 707, DC-8 and VC.10. The weighted average operating cost of 1975 subsonic aircraft would be about 4% greater than that of the 747, so that the ratio of Concord to average subsonic aircraft operating cost per seat km. will be 4% less than the figure for B747 in paragraph 3.

5. The subsonic aircraft will have capacity for both freight and mail, but Concord for mail only. Taking into account trends in traffic and rates, it is estimated that the net revenue advantage to subsonic aircraft will be equivalent to a reduction in relative subsonic operating costs of 5%, so that the ratio of Concord to average subsonic aircraft operating cost per seat km. is effectively 5% greater than the figure for the B747 in paragraph 3.

6. Combining the results of paras. 4 and 5, the ratio of Concord to "average 1975 subsonic" operating costs will be 1% greater than the Concord/747 ratios shown in para. 3. These ratios have been evaluated in 1966 costs, but - as ratios - are assumed to remain unchanged by 1975. They represent the ratios of revenue per seat-kilometre needed to give Concord the same profitability (1) in operation as contemporary subsonic aircraft.

7. The necessary increase of some 4% in revenue per seat-km., compared with subsonic aircraft, must be achieved by a higher load factor or a higher fare or some combination of these. Higher load factor alone is not likely to suffice. Subsonic load factors of about 52% have been estimated as an average for long-haul routes. The required Concord load factor would thus approach 75% and, although without a fare differential a high percentage of passengers would no doubt choose to fly in Concord, practical considerations such as traffic peaks and booking problems will impose a ceiling on average load factors. Taking into account payload limitations in the first two years with Stage 0 engines, it is estimated that over a ten-year operating life Concorids put into service up to 1975 will start with load factors of about 70%, may then rise slightly, but will fall to 55-60% at the end of the period, and will have an average of about 65%. With this load factor the required fare differential would be about 15%. The difference of about 4% in revenue per seat-km. thus derives from an advantage of about 12.5 points in the load factor (representing an advantage of about 24%) associated with a fare differential of 15%.

Stage 2 - factors affecting Concord traffic

8. A 1964 traffic datum of $55 \times 10^9$ passenger-kilometres per year is assumed on routes suitable for Concord operation. In this figure routes having a maximum sector over 6,000 km. (Concord range with full payload) are excluded, as are routes with a maximum sector less than 2,350 km. (since Concord operating costs rise rapidly at short ranges).

9. On traffic growth, a detailed study has been made of the contribution to past trends of such factors as population growth, changes in fares and real income, and changes in aircraft speed, and an extrapolation to 1975 and 1980 has been made for the type of route suitable for Concord. (Fuller details of the

*(1) 'Same profitability' allows for a 6% return on investment and a percentage on turnover which is equal for the two aircraft.*
of the method are given in Appendix I to this Annex.) ICAO estimates of traffic growth do not apply directly to such routes, but figures deduced from ICAO Circular 75-62/10 give a growth rate to 1975 higher by 2% per annum as their most probable value. These two studies have been taken as lower and upper limits, i.e.

<table>
<thead>
<tr>
<th>Growth factor by 1975 (compared with 1964)</th>
<th>Mean rate to 1975</th>
<th>Growth factor by 1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper limit</td>
<td>3.9</td>
<td>13% p.a.</td>
</tr>
<tr>
<td>Lower limit</td>
<td>3.2</td>
<td>11% p.a.</td>
</tr>
</tbody>
</table>

10. The effect of a fare differential will be to split the passenger traffic between subsonic and supersonic aircraft. Studies of the percentage of passengers who would choose the supersonic aircraft as a function of the fare differential have been made by various bodies, including aircraft manufacturers and airlines, Stanford Research Institute, ITA, Wheatcroft, and the US Department of Defense. There are large differences in their answers, and we have selected as the most rational approach the D.O.D. method in which the "passenger preference function" is related to the percentage differences in fares and journey times, and to coefficients expressing the relative importance of time saving and fare saving. (Fuller details of the method are given in Appendix 2.) With suitable weighting for the different time saving over different stage lengths, the 15% fare differential of para. 7 leads to a preference for Concord by 42% of the passenger traffic.

11. In the absence of any numerical criteria for an acceptable sonic boom level, an assessment has been made on two assumptions (a) that supersonic flight is permissible only over the sea and that any associated subsonic stages over land are very short, and (b) a partial restriction which permits supersonic flight over sparsely populated areas, coupled with longer subsonic legs where necessary. An analysis covering routes in various parts of the world leads to the conclusion that the full restriction of (a) would reduce Concord traffic to 55-60% of its unrestricted value, and the partial restriction of (b) to 75%. This latter value is considered to be the more realistic case. (Fuller details are given in Appendix I.)

Stage 3: potential market for Concord

12. The product of the traffic datum of para. 8, the average traffic growth of para. 9, the passenger preference factor of para. 10 and the (partial) sonic boom factor of para. 11, gives a 1975 potential Concord traffic of 55 x 10⁹ times 3.55 times 0.48 times 0.75, or 70.3 x 10⁸ passenger-kilometres per year: with a Concord productivity on an average 4,000 km. stage of 0.437 x 10⁹ passenger-kilometres per year at 65% load factor, the 1975 potential market is 160 aircraft.

13. This estimate is subject to uncertainty since there is a degree of uncertainty associated with each stage of the calculation. The following estimates have been made of these component uncertainties and of the total uncertainty in the market estimate. They are expressed as standard deviations, about a mean, although this can be only a rough approximation.
The total effect of these on the estimate of the potential market is a probable error of 36%, i.e. there is an even chance that the 1975 potential market lies between 100 and 220 aircraft.

Concord traffic base has been defined initially by taking 1964 traffic on all routes with maximum stages between about 2,300 km. and 6,000 km. In this 1964 Concord traffic base the average maximum stage length, weighted by traffic is 4,100 km and the total traffic amounts to $55 \times 10^8$ passenger-kilometres, of which about 55% applies to sectors between 4,000 km and 6,000 km. North Atlantic and Pacific operations account for about 40% of the base traffic (see Table 1).

Traffic growth

2. Two cases have been considered, a mean growth rate for all routes and a separate growth rate for the longer-haul routes typified by the Atlantic and Pacific. The total annual traffic in each case is assumed to vary from year to year according to the following relationship:

$$T = \text{constant} \times \frac{P \cdot V \cdot I^\beta \cdot \phi(Y)}{F^\gamma}$$

where

- $P$ = total population in the countries linked by the sector,
- $V$ = journey speed (defined as distance/block time + 2 hours)
- $I$ = average real income as measured by gross domestic product per capita, at constant factor cost, for the countries linked by the sector.
- $F$ = average fare relative to other retail prices.
- $\phi(Y)$ = a function of year $Y$ and is a residual growth curve for the sector, i.e., it represents the growth which would occur even if there were no changes in population, speed, incomes or fares.
- $\alpha$, $\beta$, $\gamma$, are elasticity coefficients.

3. It is assumed that future traffic growth will depend essentially on the characteristics of the subsonic fleets and that Concord will capture a proportion of this as given by the market-splitting function (see below). We have taken the following values as the basis of a conservative estimate of traffic growth:
Overall mean

<table>
<thead>
<tr>
<th></th>
<th>1965-75</th>
<th>1975-80</th>
<th>1964-75</th>
<th>1975-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth</td>
<td>14% increase</td>
<td>6% increase</td>
<td>14% increase</td>
<td>6% increase</td>
</tr>
<tr>
<td>(1% per annum)</td>
<td></td>
<td></td>
<td>(1% per annum)</td>
<td></td>
</tr>
<tr>
<td>Subsonic journey speed</td>
<td>4% increase</td>
<td>no change</td>
<td>6% increase</td>
<td>no change</td>
</tr>
<tr>
<td>Real income growth rate</td>
<td>3% increase</td>
<td>16% increase</td>
<td>36% increase</td>
<td>16% increase</td>
</tr>
<tr>
<td>(2% per annum)</td>
<td></td>
<td></td>
<td>(3% per annum)</td>
<td></td>
</tr>
<tr>
<td>Subsonic fares relative to mean retail prices</td>
<td>30% fall</td>
<td>55% fall</td>
<td>32% fall</td>
<td>5% fall</td>
</tr>
<tr>
<td>(2% per annum)</td>
<td></td>
<td></td>
<td>(2% per annum)</td>
<td></td>
</tr>
<tr>
<td>$a$ (lower estimate)</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>$\beta$ and $\gamma$ (lower estimate)</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>$\phi(Y)$ (lower estimate)</td>
<td>no change</td>
<td>1964-80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


4. The above values lead to traffic growth ratios for 1975-1964 and 1980-1964 of 3.2 and 4.5 as a mean for all routes, corresponding to an annual average growth rate of about 11% between 1964 and 1975 and 7% between 1975 and 1980. For stages over 4,600 km., the 1975/1964 and 1980/1964 ratios are 3.4 and 4.8 respectively, corresponding to an average annual growth rate of about 12% for 1964-1975 and 7% again for 1975-1980.

5. As the basis for a more optimistic growth rate, the values in the above table have again been used, with the exception that the value of $\alpha$ has been increased to 0.6 and the value of $\beta$ and $\gamma$ increased to 1.5. Alternatively, the higher growth rates so obtained may be thought of as implying the retention of the same value of elasticity coefficients as used for the conservative estimate, but with an allowance for residual traffic growth other than that due to changes in population, speed, incomes and fares (the $\phi(Y)$ function). The traffic growth ratios for 1975/1964 and 1980/1964, with these latter assumptions are about 3.9 and 6.3 for all routes and 4.2 and 6.7 for stages over 4,600 km. These correspond to average annual growth rates for 1964-1975 of about 13% for all routes and about 14% for stages over 4,600 km., while for 1975-1980 the average growth rate is about 5% in both cases. These higher growth rates may be interpreted as representing ICAO's assessment of the most probable traffic growth rates over respectively long - haul routes generally and for routes typified by the North Atlantic.

6. In assessing market numbers, the mean of the upper and lower values of traffic growth rates, as detailed above, has been assumed in the absence of any strong reason for supporting either the upper or lower values (see Table 2).

Effect of surcharge on the proportion of traffic available to Concord.

7. With a ratio of Concord/subsonic aircraft costs of 1.42 and a ratio of Concord/subsonic load factors of 65%/52%, it follows that the fare surcharge required on Concord will be $1.42 \times \frac{52}{65} = 1.15$ or 15% surcharge. With the market splitting functions suggested in the U.S. Dept. of Defense paper on 'The Limited Market for Concord' (fare/time saving preference ratio of 1/3) and assuming time saving is based on journey time, then the mean time saving over...
all routes for Concord c.f. subsonic aircraft is estimated to be 33%, and 40% for stages over 4,600 kms. These lead to penetration factors of 46% as an average for all routes and 55% for routes over 4,600 km (see Table 2). A note on the derivation of the D.O.D. formula is given at Appendix I.

Effect of sonic boom restrictions

6. The traffic available to Concord after the effect of a 15% fare surcharge has been taken into account, has been further modified to allow for the effect of possible prohibition of supersonic flying over land due to the nuisance caused by sonic bangs. Two cases have been postulated. One, a full restriction resulting in supersonic flying taking place on ever-water routes only, or when such flights are coupled with very short stages over land it is presumed that these are performed at subsonic speed. Such restrictions would be unlikely to have any effect on Pacific or Europe to South America routes, only a small effect on Atlantic and North to South America routes, but might eliminate all other routes with the possible exception of a small element of Europe to Africa operations. The overall effect of this would be to reduce the traffic estimated as available to Concord without sonic bang effects by a factor of about 0.55-0.60.

The second case is a partial restriction, taking a less pessimistic view of the economic effect of flying longer subsonic legs and of the possibility of flying supersonically over sparsely-populated land areas. Europe-Peru East and Europe-Australia routes would then be completely unrestricted, Europe-Africa half restricted, and a small element (15-20%) of U.S. and Canadian domestic traffic might also become suitable for Concord. The overall factor with this partial restriction is estimated to be 0.75 (see Table 2).

Market numbers

9. The final market numbers, assuming a growth rate midway between the upper and lower values given in paras. 4 and 5 above, and after taking into account the effect of a fare surcharge of 15% and either partial or full sonic boom restrictions, are 162 and 118 aircraft respectively in 1975. Estimates of Concord market number in 1980 would be much less reliable, in part due to the uncertainties surrounding the US. SST, and they are therefore omitted.
### Table 1

1964 world scheduled passenger-kilometres by area and longest stage-distance

<table>
<thead>
<tr>
<th>Kilometres</th>
<th>0-999</th>
<th>1,000-1,999</th>
<th>2,000-2,999</th>
<th>3,000-3,999</th>
<th>4,000-4,999</th>
<th>5,000-5,999</th>
<th>6,000-6,999</th>
<th>7,000-7,999</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naut. Miles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>INTERCONTINENTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE-FAR EAST</td>
<td>1.5</td>
<td>1.8</td>
<td>1.8</td>
<td>0.8</td>
<td>0.2</td>
<td>0.3</td>
<td>4.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>non N.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE-FAR EAST</td>
<td>0.5</td>
<td>1.8</td>
<td>1.6</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>4.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE-MID.EAST</td>
<td>1.8</td>
<td>1.6</td>
<td>0.8</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>4.0</td>
<td></td>
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</tr>
<tr>
<td>non N.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE-MID.EAST</td>
<td>0.5</td>
<td>1.6</td>
<td>0.8</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>3.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N.A.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE-AUSTRALIA</td>
<td>1.0</td>
<td>2.2</td>
<td>0.4</td>
<td>1.0</td>
<td>1.5</td>
<td>1.0</td>
<td>7.7</td>
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<tr>
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</tr>
<tr>
<td>EUROPE-AFRICA</td>
<td>1.0</td>
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<td>0.4</td>
<td>1.0</td>
<td>1.5</td>
<td>1.0</td>
<td>7.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>non N.A.</td>
<td></td>
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</tr>
<tr>
<td>EUROPE-N.AMERICA</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
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<td></td>
</tr>
<tr>
<td>non N.A.</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>EUROPE-M.I.</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
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</tr>
<tr>
<td>non N.A.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANS-PACIFIC</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>non N.A.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>19.7</td>
<td>20.2</td>
<td>7.2</td>
<td>5.5</td>
<td>5.3</td>
<td>9.1</td>
<td>3.6</td>
<td>1.3</td>
<td>1.4</td>
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<tr>
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<td>3.8</td>
<td>22.9</td>
<td>12.4</td>
<td>7.3</td>
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<td>5.4</td>
<td>5.4</td>
<td>1.0</td>
<td>0.9</td>
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<tr>
<td>GRAND TOTAL</td>
<td>23.5</td>
<td>43.1</td>
<td>19.6</td>
<td>12.8</td>
<td>12.3</td>
<td>14.5</td>
<td>14.0</td>
<td>2.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**Notes**
Notes to Table 1

1. N.A. denotes North American operator.

2. The grand total of $171 \times 10^9$ passenger-kilometres corresponds to the published I.C.A.O. figure for world airlines (I.C.A.O. member States).

3. The totals for Australasia, Canada and U.S. (excluding Puerto Rico and Hawaii) are published I.C.A.O. figures.

4. The total for Europe corresponds to the published E.A.R.B. figure for Intra-European and Domestic operations + 10% for non-EARB operators.

5. The total for Europe-N. America corresponds to the published I.A.T.A. figure of $3.069 \times 10^9$ passengers and the assumption of an average journey length of 6,000 kms. (3,250 naut. miles).

6. Other totals, and the distribution of traffic by longest stage distance for each route considered, are based on the distribution of August 1964, seat-kilometres given in the B.A.C./Sud Concord market report of December 1965, adjusted by load factor and summer/average traffic ratios appropriate to each area considered, to determine annual passenger-kilometres performed in 1964.
Table 2: Assessment of Traffic Available to Concord in 1975 (mean traffic growth rate)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><em>North American</em> (Passengers Excluded)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe-Par</td>
<td>2300-6600</td>
<td>3.2</td>
<td>3.40</td>
<td>10.9</td>
<td>0.028</td>
<td>4.7</td>
<td>1.0</td>
<td>0</td>
<td>4.7</td>
</tr>
<tr>
<td>Europe-Mid East</td>
<td>1600-6600</td>
<td>0.3</td>
<td>3.82</td>
<td>4.1</td>
<td>0.55</td>
<td>0.6</td>
<td>1.0</td>
<td>0</td>
<td>0.6</td>
</tr>
<tr>
<td>Europe-Africa</td>
<td>2300-6600</td>
<td>2.7</td>
<td>3.40</td>
<td>9.2</td>
<td>0.282</td>
<td>3.9</td>
<td>0.5</td>
<td>0.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Europe</td>
<td>1600-6600</td>
<td>1.3</td>
<td>3.40</td>
<td>3.7</td>
<td>0.282</td>
<td>1.6</td>
<td>0</td>
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<tr>
<td>N. America</td>
<td>2300-6600</td>
<td>2.7</td>
<td>3.40</td>
<td>9.2</td>
<td>0.282</td>
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<td>0.5</td>
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<td>3.82</td>
<td>7.6</td>
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<td>2300-6600</td>
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<td>5.8</td>
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<td>1.0</td>
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<td><em>Atlantic</em></td>
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<tr>
<td><em>Atlantic &amp; Pacific</em></td>
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**Confidential**

Appendix 1 to Annex F (Cont'd)
<table>
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N.B. The above traffic forecast for 1975 is based on a mean growth rate (see text, pages 4-6). Upper and lower forecast values are obtained by varying these values by ± 10%.
APPENDIX 1 TO ANNEX F (Continued)

TABLE 3
POTENTIAL MARKET FOR CONCOR IN 1975

CENTRAL ESTIMATE. (PARTIAL SUPERSONIC BOOM LIMITATION)

<table>
<thead>
<tr>
<th>Operators Routes</th>
<th>North American</th>
<th>Other Operators</th>
<th>TOTAL</th>
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</thead>
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<tr>
<td>North Atlantic and Pacific</td>
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<td>53</td>
<td>98</td>
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<tr>
<td>Other routes</td>
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<td>64</td>
</tr>
<tr>
<td>Total</td>
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<td>97</td>
<td>162</td>
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LOWER LIMIT. (COMPLETE SUPERSONIC BOOM LIMITATION)

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<th>Operators Routes</th>
<th>North American</th>
<th>Other Operators</th>
<th>TOTAL</th>
</tr>
</thead>
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<tr>
<td>North Atlantic and Pacific</td>
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<td>Other routes</td>
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<tr>
<td>Total</td>
<td>52</td>
<td>66</td>
<td>118</td>
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Notes:
1. Surcharge 15%.
2. Productivity $0.44 \times 10^9$ Pass.km /yr/aircraft.
3. Mean traffic growth rate.
TABLE 3
POTENTIAL MARKET FOR CONCORD IN 1975

CENTRAL ESTIMATE. (PARTIAL SUPERSONIC BOOM LIMITATION)

<table>
<thead>
<tr>
<th>Operators Routes</th>
<th>North American</th>
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<th>Operators Routes</th>
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</tr>
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</table>

Notes:
1. Surcharge 15%.
2. Productivity $0.44 \times 10^3$ Pass.km/yr/aircraft.
3. Mean traffic growth rate.
Derivation of the DOD Formula for Supersonic/Subsonic Modal Split.

1. Air traffic, especially on long-haul routes, has been growing at a much higher rate (18% per annum average over the last ten years) than surface traffic (typically 5-6% per annum). This capture by air transport of an increasing share of world traffic must be due to three factors:

   (a) air journey speeds have been increasing relative to surface speeds (except on certain short-haul routes),

   (b) air fare rates have been falling relative to surface travel costs and other retail prices, and

   (c) the habit of air travel is still spreading.

2. The effect of speed and fare changes on past trends in the level of air traffic on a particular route may be analysed by assuming that

   \[ \text{traffic } T \text{ varies as } \frac{V^a}{F^b} \]

   where \( V \) is the ratio of air to surface journey speed and \( F \) is the ratio of mean air fare per passenger kilometre to other prices. Then the increase in traffic \( T \) resulting from a small increase \( \delta V \) in speed ratio and a small decrease \( \delta F \) in fare index is

   \[ \frac{6T}{T} = a \frac{\delta V}{V} + b \frac{\delta F}{F} \]

3. Consider the case where one aircraft is operated on a route at, say, Concord fare index \( F_2 \) and subsonic journey speed ratio \( V_1 \). If the speed ratio were increased to that appropriate for Concord, \( V_2 \), keeping fare etc. constant, there would be an increase in traffic \( AT_T \) due to the speed-conscious element of the travelling public.

   \[ \frac{AT_T}{T} = a \frac{(V_2 - V_1)}{V} \]

   Where \( \bar{V}, \bar{T} \) are mean values between the original and new traffic and speeds respectively. If, however, speed were kept constant and fare ratio decreased to the subsonic value \( F_1 \), there would be an increase in traffic \( AT_F \) due to the fare-conscious element of the public.

   \[ \frac{AT_F}{T} = b \frac{(F_2 - F_1)}{F} \]

   The DOD hypothesis is that if both options are available simultaneously, the split in traffic between the two modes will be in the ratio of these two increments,

   \[ \frac{\text{supersonic traffic}}{\text{subsonic traffic}} = \frac{a (V_2 - V_1)/\bar{V}}{b (F_2 - F_1)/\bar{F}} \]

4. A value for \( a \) in the range of 1.4-1.8 is fairly well substantiated by past traffic trends generally. The value for \( b \) cannot be determined so closely; the growth of traffic on North Atlantic and Pacific routes is consistent with \( a + b \approx 0.5 \). The D.O.D. paper quoting the modal split formula claimed that the ratio could be justified by trends in U.S. domestic traffic.

5. For Concord market estimates, the Ministry of Aviation have taken \( V = 1.5 \) as journey speed (i.e. with an allowance of two hours for origin-airport and airport-destination travelling in all cases) and have used weighted means for \( V \) and \( F \).
CABINET

THE KENNEDY ROUND

Memorandum by the President of the Board of Trade

The Prime Minister asked me to circulate a short paper on what we have all been trying to achieve in the Kennedy Round, together with my views on what is likely to be realisable.

Kennedy Round Objectives

2. The objectives agreed by the Ministers of the Contracting Parties in 1963-64 were, "as a working hypothesis", tariff reductions of 50 per cent across the board, with a bare minimum of exceptions. The negotiations were also to cover non-tariff barriers to trade and were to provide for "acceptable conditions of access to world markets and furtherance of a significant expansion of world trade for agricultural products". Every effort was to be made to reduce barriers to exports of the developing countries. Agreement on the "working Hypothesis" was linked with the solution of the other problems in the negotiations and with the achievement of reciprocity.

Britain's Objectives

3. Britain's main concern has been to secure significant tariff reductions in the markets of the European Economic Community (EEC), United States of America and Japan, in that order; and the reduction of non-tariff barriers mainly in the United States of America.

4. It will pay us to get the best result we can from the Kennedy Round whether or not we join the EEC in the near future. If we do not join, a successful Kennedy Round will be of very great importance to us in reducing the discrimination against our exports to the Six which results from the absence of tariffs on their internal trade and in lessening the economic division of Europe. If, on the other hand, we enter the EEC there will still be considerable advantages in the reduction of tariffs and non-tariff barriers to our exports to the United States, Japan and other countries. If our industries are strong enough to face complete free trade with Europe in the event of our joining the EEC any reductions in our tariffs made in the Kennedy Round should cause them little trouble.

Prospect for Industrial Products

5. We can expect the bargains to be struck at the lowest common denominator of offers, for each participant will presumably adjust his offers to match the advantages he expects from the negotiations as a whole.
6. The Six negotiate as one, but France and Italy are less interested in the Kennedy Round than Germany and Benelux. French and Italian industries, traditionally highly protected, have recently seen considerable reductions in their tariffs, particularly against their Common Market partners, and also against other countries. Many of them feel that they have had just about as much trade liberalisation as they can take for the present, though they would perhaps not be averse to a modest exchange of concessions designed to increase their trade with the European Free Trade Association (EFTA). The General is prejudiced against the Kennedy Round because it was part of the Atlantic Grand Design.

Prospects for Agricultural Products

7. The United States regard it as politically essential to achieve a worthwhile settlement in agriculture and particularly on cereals. Agricultural products form a quarter of United States exports.

8. An international cereals agreement might be of value to the United Kingdom if it;

(a) secured a reasonable level of prices for our imports of wheat and coarse grains; and

(b) enabled us to replace our present bilateral cereals agreements with our principal suppliers by arrangements which would allow us to exploit more fully the expansion of domestic cereals production as a means of import saving.

Maximum prices at a reasonable level would safeguard the consumer and our balance of payments and minimum prices enable us to limit the exchequer cost of deficiency payments to our farmers.

9. The proposals under discussion provide for minimum and maximum prices for cereals higher than the present international wheat agreement prices; a self-sufficiency ratio to be prescribed for each producing and consuming country with penalties to be paid in money or in kind for production in excess of this ratio; and possibly some contributions to a world food aid scheme. As the price of an agreement we shall have to agree to somewhat higher maximum and minimum prices and possibly to contribute to the food aid programme. Whether or not we can accept an agreement will depend very largely on the extent to which the self-sufficiency ratio that we can engotiate will give us freedom to expand domestic production and reduce imports. The ideas of the exporters (the United States, Canada, Australia and Argentina) are at present a long way from our own and it is too soon to predict the outcome with any confidence.

10. It is unlikely that any significant arrangements will be agreed for other major agricultural products for which groups have been set up (meat, dairy products). For the rest, we can expect a limited number of tariff bargains which should help our exports of manufactured foodstuffs though reducing some of the preferences we give the Commonwealth.
Timing

11. The United States Trade Expansion Act of 1962, which provides the United States Administration with its negotiating authority, expires on 30th June, 1967. It is most unlikely that the United States Government would want or could obtain an extension to enable negotiations to continue. This means that the final bargain must be struck at latest in April or May.

12. Tariff concessions agreed in the Kennedy Round will probably begin to be implemented in 1968, but it is likely to be four or five years before they are all implemented in full.

Balance of advantage

13. It is impossible at the present stage of these complicated multilateral negotiations to foresee how the balance over all may turn out from our point of view. It is clear that we shall have to withdraw substantially from our initial offers and there are whole sectors in the industrial field where, if adequate reciprocity is not forthcoming in the same sector, no deal will be possible. I believe the odds at present are against significant tariff reductions being made in iron and steel, motor vehicles, cotton and wool textiles and probably chemicals, aluminium and pulp and paper. There is nevertheless a reasonable prospect that many other tariffs will be substantially reduced, mainly on some engineering and consumer goods. As regards non-tariff barriers, it is by no means certain that we shall get worthwhile concessions from the Americans. On the two most important - their method of assessing duty on whisky imported in bottle and on certain chemicals - a change in practice would need fresh legislation by Congress. American action on these items will have an important bearing on our readiness to maintain some of our offers. Whether or not a cereals agreement will be acceptable to us as part of the overall settlement is likely to depend not only on the terms of the agreement itself but also on the balance of advantage in other sectors of the negotiations and on whether the Americans make it an absolute condition of any settlement at all.

14. We shall have to make the best judgment we can when we have pushed the negotiating process as far as it will go and the time comes, probably in April, to strike a balance. The Kennedy Round will fall a long way short of fulfilling the high hopes of 1962. But if it succeeds at all I think that it will probably achieve considerably more than its predecessor, the Dillon Round, which resulted in the reduction of our tariffs by about 20 per cent on about half our dutiable industrial imports from the United States of America and the EEC in return for comparable concessions to us.

D.P.T.J.

Board of Trade, S.W.1.
30th January, 1967
CABINET

THE FUTURE OF PRICES AND INCOMES POLICY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

In December, 1964, Government, management and unions agreed in the Statement of Intent to co-operate in keeping under review the general movement of prices and money incomes and to examine particular movements in the light of the national interest. This recognition that prices and incomes should be the subject of policy, and not just left to work themselves out, was part of a wider economic policy designed to promote efficiency and growth.

2. In the event, the movement of prices, and still more that of wages, showed that intent was not being translated into reality with sufficient speed. Had the economic climate been more favourable the nation might have had time enough to carry into effect a voluntary link-up of productivity, prices and incomes. The climate was not favourable; economic growth was not sufficiently speedy; and in July, 1966, the nation was obliged to embark on a new chapter of prices and incomes policy, involving harsh restraint and backed by statutory powers.

3. The powers under Part IV of the Prices and Incomes Act, 1966, (which enable the Government to give temporary directives on pay and prices) lapse in August, 1967; those under Part II (which give statutory backing to the early warning system and enable the Government to hold up pay and price increases pending investigation by the National Board for Prices and Incomes (NBPI)), have not yet been brought into force. When we take into account wage increases caused by the delayed implementation of existing agreements, those-permissible under the 'severe restraint' criteria and new agreements likely to be reached for the second half of 1967, we must expect a rise in the index of hourly wage rates of at least 6 per cent over the whole of 1967. This will affect prices; and the rigorous holding back of price increases since - and even before - July, 1966, will add to the pressure on prices after mid-1967. Nor can we expect that economic growth will proceed at the rate which was hoped for when the Statement of Intent was drafted; further, reflationary measures designed to promote growth are likely to increase the pressure for rises in money incomes and prices. It is therefore necessary that, after mid-1967, policy on prices and incomes shall be more speedily successful than in the past in relating both to productivity. We shall, at that time, be out of the emergency - indeed makeshift - chapter of prices and incomes policy in which we have lived since July, 1966; we shall be able, and ought, to present that policy in a more hopeful light and as part of a policy of growth; but it must be a hopefulness which does not outrun reality. We have had considerable success.
so far with the standstill. But there may be dangers ahead as the
tensions of the severe restraint period develop. We should not delude
ourselves that during 1967-68 we will be successful in reaching all our
objectives. The prices and incomes policy can still offer us a good
deal but only if it is buttressed by our other economic policies.

Objectives

4. The immediate object of policy is to give the maximum possible
stability to the general level of prices. This is necessary, in the first
place, to prevent the threat to the balance of payments which drives us
back on to "stop-go" policies. It is also necessary to prevent the social
evils of inflation. Rapidly rising prices give a relative advantage to
those who receive profits and those wage and salary earners whose
bargaining power is strongest; those whose bargaining power is weaker
fare worse, and pensioners worst of all. In the end, growth - and, with
it, everyone's absolute position - is threatened. Relative positions are
altered in a manner that is inconsistent both with justice and with economic
needs; for, in the short or medium term, the strongest bargainers are
not necessarily those whom it is most desirable to encourage. Among
the results of "free-for-all" are the imbalance in the pay of skilled and
unskilled workers and the low rewards obtained by some of those doing
the most essential work.

5. A further object of policy, therefore, is to see that, as real
wealth increases, it is shared in a manner which brings the relative
positions of different groups more in line both with justice and with economic
need.

6. In the presentation of policy there is much to be said for
mentioning prices, and the reasons for seeking price stability, first.
This gives a social and economic purpose to the policy and makes it
appear as more than the series of refusals to wage and salary demands
which it has, inevitably, appeared to be since July, 1966.

Prices

7. It may be said that complete stability of the price-level is
unattainable, that a gradual increase of prices is a concomitant of
growth; and that provided our price-level does not rise more than that
of our competitors, we are all right. Kahn and Berrill* argue that we
should accept, implicitly when we fix a 'norm' for wages, a probable
2 per cent annual rise in the cost of living: this, in my view, would be
dangerous. Such an acceptance, even though implicit, would damage
confidence abroad. Further, policy will never be 100 per cent
successful and the event will always be somewhat more inflationary than
the intent; we shall always get less stability than we aim at. Without,
therefore, taking up the theoretically untenable position that absolute
stability is essential, we should declare the maximum possible
stability as our aim.

* PI(67) 9, Section III
8. The view so far presented to me by the Confederation of British Industry (CBI) is that this aim can be achieved by a simple return to the voluntary system as it was before July, 1966. They contend that between December, 1964 and July, 1966 the movement of prices was much less than that of wages; and that, in so far as it fell short of what was desirable, this was the fault of the Government, through its taxation policies and its overheating of the economy. They claim that if the Government will avoid these errors, competition and the persuasive influence of the CBI on its members, will look after prices.

I find this view inadequate for the following reasons:

(i) Competition, even with the gradual breakdown of resale price maintenance, and other measures in the restrictive practices field, is far from complete.

(ii) Consumers are less well-organised than producers and it is difficult to prevent price-rises unless they are subjected to organised examination and challenge.

(iii) Stability – or near-stability – of the price level requires that some prices should be reduced to reflect falling costs. Competition alone is a slow agent in producing this result.

(iv) The argument that the Government must refrain from overheating the economy is dangerously near to the argument that the way to prevent inflation is "stop-go". How low a level of unemployment constitutes "overheating" is a debatable question.

(v) The persuasive powers of the CBI are limited.

(vi) It might be argued that these objections can be met if industry faithfully co-operates with "early warning" and recognises the need for occasional references to the NBPI – as they did in the 1965-66 period. However, the extended early warning arrangements since July, 1966, and the knowledge that statutory powers exist, have been powerful influences in securing stability.

(vii) Because of the considerations mentioned in paragraph 3, more determination will be needed in future than was shown before July, 1966.

9. I believe, therefore, that future policy must include a proper degree of notification of prices, and surveillance of them (including the scope for price reductions) by the relevant Departments (Board of Trade, Ministry of Agriculture, etc.); and that there must be readiness to refer appropriate cases to the NBPI. It must be made clear to the public that this cannot mean a complete control of all prices, or such a system as prevailed during the war. It would be for the Government to decide which issues were so important as to justify representations to the industry, and, if necessary, reference to the NBPI concentrating on those prices which are of economic significance including those manufactures of importance in the cost of living. If, with the passage of time, the CBI becomes increasingly able and willing to exert its own influence on its members, this will be all to the good; and it would be for the Government to encourage such a development.
10. The NBPI, when examining any case referred to it, would of course consider, along with other relevant facts, the level of profits in the firm or industry, and this implies a check on profits. Apart from this, however, I do not believe that one should seek to check profits as such. Indeed, if some firms are able to earn high profits while maintaining a satisfactory record on prices, this is something to be encouraged. The extent to which profits are distributed in dividends is, I believe, something best dealt with by taxation policy as explained in paragraphs 16 and 17 of Cmnd. 2639.

11. There remains the question whether statutory powers should form a permanent part of prices policy. If notification and surveillance are maintained voluntarily, there would seem to be no case for bringing Part II of the Prices and Incomes Act into force, though it would be wise to keep it on the Statute Book. Bringing it into force would be unpopular with the CBI and the Trades Union Congress (TUC) if the powers were applied to pay.

12. Part II, however, contains powers for delay only. The critical question is whether powers should be taken - however rarely used - to restrain prices and to require reductions. There are already such powers, as part of monopolies legislation, over firms producing one-third or more of the total output of a given product; but they have not yet been used. Basically, what is involved here is a judgment on whether a voluntary system, worked with greater zeal than before July, 1966, and drawing on the experience of notification and surveillance since then, can achieve sufficient stability, and whether the influence of the CBI will grow to meet the needs of the situation, when there is not, even in the background, any possibility of the use of statutory powers. Judgment has to be based on limited experience; my own view is that some kind of last resort powers will be needed. This question is, however, inevitably linked with that of powers over incomes. Powers over incomes without powers over prices would be unjust and politically impossible; powers over prices without powers over incomes could well have such a depressing effect on legitimate profits - or expectation of profits - as to damage the growth on which, in the end, all policy depends. I therefore return to this question in paragraphs 29-32.

13. So far as prices and incomes policy is concerned, there would seem to be no reason for treating publicly owned industry different from that which is privately owned. To subsidise public industries - or cause them to starve their own growth - in order to maintain price stability would promote neither their health nor that of the economy. The pressure we have had to exert on them in recent months is only evidence of the emergency character of the present chapter of policy.

Rents

14. A similar consideration applies to council rents. The extent to which they should be subsidised, from rates or taxes, is a matter of social policy; it would be wrong to get ourselves into a position where the subsidy had to be increased in order to remedy other defects in the working of prices and incomes policy. More efficient and therefore cheaper building would, of course, help to restrain rents; and there is no reason why the efficiency of public house-building should not be as appropriate a subject for comment and scrutiny as the efficiency of any other branch of production.
15. Private rents are already subject to control, and the periodic review of the working of the Rent Act of 1965 should be part of the operation of prices and incomes policy.

Professional Fees

16. These can usually be dealt with most effectively by regarding them as a form of price. For example, we are about to refer solicitors' remuneration to the NBPI.

Incomes

17. Policy towards incomes involves two essential ideas which have come to be known by the names "norm" and "criteria" though both these names have, in the emergency period, collected unhappy associations. However, even if we avoid the names, we cannot avoid the concepts they represent.

18. The first idea is that if we are to form any opinion on any particular wage or salary settlement we must have a view as to the extent to which, over a given period, the total incomes bill of the country should increase. If this increase is stated as a percentage of the present incomes bill, it is a "norm" of so much per cent. This is, in fact, an average; and if some people get more than the norm others must get less. The difficulty has been that few negotiators will feel that they have done their duty by those they represent if they secure less than the norm, so that the whole policy can be wrecked through the treatment of the norm as the minimum.

The "Norm"

19. An alternative method of presentation would be the statement by the Government, not of a percentage norm, but of a "national dividend" - i.e. a money estimate of the total growth of wealth, which when that required for investment, and public expenditure, was subtracted, would show how much was available for incomes. The sub-division of this dividend, however, into the shares for each industry and profession would, to my mind, present difficulties at least as great as those involved in arguments over the norm.

20. A realistic norm must be based on reasonable expectation of the growth of real wealth. These expectations, at present, would not support an optimistic norm; but a pessimistic one might cause such dismay as to forfeit all hope of support for the policy. Indeed, the TUC have announced their intention of making - after consultation with management and Government about the whole economic situation - their own annual pronouncement as to what the norm for wages and salaries should be. They reject the view that the percentage increase in the incomes of their members should be no more than the percentage increase in total real incomes. They are therefore arguing that the proportion of all incomes which goes to wages and salaries should increase at the expense of the proportion that goes to profits or to unearned incomes. This is, in effect, to ask for a progressive change in the structure of society. This is referred to, later, in paragraph 33.
21. Meanwhile, however, we must notice that the rate and extent of such a change is conditioned by the fact that we live in a mixed economy and that the nation could not commit itself to making such a change by prescribed proportions each year.

22. We must also notice that what can be said about norms in the immediate future is affected by the considerations mentioned in paragraph 3.

23. In this complex situation I believe our right course is on the following lines:

(i) For the 12 months following 30th June, 1967 we must make it clear that no-one can expect an increase through the mere passage of time - i.e. that increases must be justified by reference not to a norm but to criteria. The first change from "severe restraint" would be to keep a "nil norm" but return to the more generous criteria of before 20th July, 1966.

(ii) As permanent policy the Government should hold periodically the kind of consultations about the whole economic situation which are envisaged in the TUC's memorandum, though we must bear in mind the need to bring into consultation the main interests not directly represented by the TUC and CBI. Every effort would be made to get an agreed "norm" but, in view of the TUC's approach to the problem, we must recognise that this may well not be achieved. The Government's estimate of the norm should therefore incline towards prudence; so that if in the event what was achieved was a compromise between the Government's norm and that of the TUC, nonetheless the policy would have been sufficiently successful.

The "Criteria" 

24. The second essential idea is "criteria" - i.e. reasons why some groups should fare better than others. After much consideration I do not believe we can greatly improve on those which were recognised before July, 1966 (in Cmnd. 2639), but I would make the following comments on them:

(i) Productivity - i.e. the relation of income increases to increases in productivity directly contributed by employees should be certain, assessable and achieved with little delay. The application of these principles must be one of the subjects of that continuous consultation between Government, CBI, TUC and NBPI which is in any case essential to the working of prices and incomes policy as a whole.

(ii) Comparability. Despite the word's dreaded association with inflation I see no other principle than fair comparison which can ensure a reasonable chance for those (particularly public servants) whose "productivity" is not readily measurable.
(iii) The special claim of those whose exceptionally low pay is injurious both to them and to the community.

(iv) The need, in certain cases, to increase or prevent a decline in manpower.

25. The last two are particularly difficult of application; but the exclusion of them (which has been suggested to me) would, I think, produce an unacceptable policy. We have, throughout, to perform a balancing act between realism and prudence on the one hand and the need to win some measure of support on the other. Whatever is said, therefore, about norm or criteria must not be so presented as to suggest that the Government has produced a rule-book in which the answer to all wage-negotiations can be found. For the longer term, it has to be considered whether the norm should be stated annually, or for, say, a two-year period with the prospect of variation, up or down, in the second year in the light of experience in the first.

Application

26. Whatever is decided about norm and criteria - or whatever name is given to these concepts - particular wage negotiations whether at national or plant level have got to be examined in the light of them; so far, the policy has concentrated on national negotiations. For this purpose, advance notification is needed of claims - as it is of prices, and the same considerations apply here as were mentioned in paragraphs 9-11.

27. It will also be necessary for the Government to keep itself informed of the progress of negotiations, and to be recognised as having the right to express a view as to the consistency of any proposals with the general tenor of incomes policy. I do not believe that we should try to make it a rule that the Government should be formally represented at negotiations since this would provoke resentment and be self-defeating. In practice, the required result will have to be achieved by various types of consultation, more or less informal, in accordance with the traditions of the industry. Such consultation is necessary since it would be in the highest degree provocative if the Government waited in silence till negotiations were concluded and then pronounced the result unacceptable.

28. The Government must clearly make as much use as possible of the voluntary efforts of TUC and CBI to exercise influence on their own members. Both these bodies take the view that the whole task of fitting particular claims to the general tenor of policy can be left to them. If it could, it would be best left to them; and the time may come when it can. I do not believe that time has arrived; and the Government must therefore interest itself in wage negotiations with the best mixture of firmness and tact which it can contrive.

Powers

29. We are now brought again to the question, for incomes as for prices, of last resort statutory powers. I have considered whether this could be dealt with by activating Part II and increasing the maximum delaying power therein from four to six or nine months. But, if this is done, should such a measure prohibit the retrospective payment of wages when permission is finally given for an agreement to be implemented? If it did not, it would be of little help; if it did, then, although it might be part II in appearance, it would be something very different in substance. We should run the risk of estranging the TUC without getting the backing of public opinion which might be won by greater frankness.
30. The question then remains; does the Government, before Part IV lapses, equip itself with powers, in the last resort, to make certain orders about prices and wages? The CBI's views on prices were stated in paragraph 8. The TUC is opposed to any such power over wages. Their view is that if the Government approaches the whole problem in a reasonable and not over-legalistic manner; that if it invokes and relies upon the genuine desire of the TUC to make a voluntary policy work, then there is a good chance of success; that if success is not achieved at first the Government can deal with the situation by damping down the economy; and that given time, the nation would learn the wisdom of making a voluntary policy work. They say, in effect, "Do not assume that voluntary policy will fail; do not make its failure more likely by the provocative introduction of statutory powers; at the worst, if it fails at first, stop-go is not as bad as compulsion, even if there are failures and further experience of stop-go, in time people will learn".

31. Against this I set the following considerations:

(i) We have not all that time to play with. Another stop-go will produce such depression - economic and spiritual - that it will be impossible to pick up the pieces of policy thereafter.

(ii) Although the TUC, officially, is bound to protest against statutory powers, public opinion is such that they will not provoke widespread resentment.

(iii) A Government which had to resort again to stop-go because it could not restrain a limited number of un-public-spirited people would in effect be saying to many workers

"We are obliged to subject you to unemployment and depress your bargaining power because other workers - better-off than you - refuse to have regard to the public interest and we have to let them get away with it."

32. On balance, therefore, and despite the risks involved I believe the weight of argument is for last resort powers over prices and wages, including the power to phase the implementation of pay and price increases. They might need to be safeguarded, for example, as follows:

(i) The power to use them should be in a Part of the Act subject to annual renewal.

(ii) They should not be used unless an independent body (NBPI?) had stated that this use would be justified.

(iii) Their use should be preceded by consultation and opportunity to make representations.

The nature of these powers will require full consideration by Ministers which will have to take into account the difficulties of enforcement of which I am very conscious.
Wider Considerations

33. I mentioned in paragraph 19 the TUC's view that prices and incomes policy should be an instrument for social change. I agree with this to the extent of saying that if it is to be just or acceptable it must be accompanied by measures which promote such change. I have in mind the following:

(i) We should seek to halt the move towards very large incomes which has appeared in recent years.

(ii) We should - as we are doing through Capital Gains Tax and the Land Commission - seek to prevent the accumulation of wealth by means which do not add to production. Restraint by those who do produce (whether rich or poor, employees or management) is not consistent with gains by those who do not.

(iii) We should give particular attention, in the social services, to the needs of the poorest - it is here, rather than inside incomes policy itself, that we can best help the "lowest-paid".

(iv) We should emphasise the importance of increased educational opportunity - and increased opportunity to acquire industrial skills - in promoting a distribution of incomes that is both more efficient and more just. If we have more people with skill and professional knowledge and fewer people who have to be drudges because they have not acquired the skill for anything else, we shall move at the same time towards a healthier economy and a more equal society.

(v) We should strive to remove the remaining prejudice against the employment of women. In the main, women are among the low-paid because the supply of their labour is squeezed into too few occupations.

I am aware that this is all long-term. But I believe that we must make it clear that we are moving in this direction if we are to make incomes policy acceptable. At the same time we must emphasise what is being and will be done to increase production. Incomes policy which shares increasing wealth is more acceptable than one which always tries to re-carve the same sized cake.

Immediate Steps

34. The Government will need, in the spring, to make its intentions firm and clear. I have, before then, to conduct further consultations; but, particularly in view of the TUC's Conference of Executives on 2nd March, I shall have to give them a clearer indication of the Government's thinking than I have done so far; and I must do this in the next week or two. I suggest that I should speak on these lines:

(i) Remind those concerned of the Statement of Intent, and say that there must be a prices and incomes policy, more firmly pursued than before July, 1966.
(ii) State the objectives of this policy as stated in paragraphs 4-6.

(iii) That, while recognising the need for consultation, the Government must state its view of what can be afforded - and that this means stating "norm" and "criteria".

(iv) That for the period immediately after 30th June, 1967, all increases must be justified and regard must be had to which workers have, and which have not, obtained increases in the twelve months ended 30th June, 1967.

(v) That subsequent judgments on the norm must be governed by reasonable expectations of growth.

(vi) Criteria to be stated tentatively as in paragraphs 24 and 25; they are clearly matters for discussion.

(vii) On powers, to say that Part IV will lapse; that Part II will remain on the Statute Book, but that I am not at present minded to bring it into force. As to the taking of new powers, I would explain that the Government has not yet taken a final decision but that the decision will be influenced by the ability of the TUC and CBI to convince us that by their own efforts they can deal with the "selfish minority". (I do not think they can; but, at this stage, they must be faced with the task.)

(viii) That the Government sees prices and incomes policy in the wider context described in paragraph 53.

35. As a precaution, we should now consider the form and terms of further legislation and its place in the timetable. It would need to be in force before Part IV lapses on 11th August.

M.S.

Department of Economic Affairs, S.W.1.

31st January, 1967
The attached paper C(67) 14 should be substituted for the one now in your possession, which should be returned to Mr. V. C. Budgen, Room 140, Cabinet Office.

Cabinet Office, S.W.1.
1st February, 1967
THE FUTURE OF PRICES AND INCOMES POLICY

Memorandum by the Minister of Labour

In his paper (C(67) 13), the First Secretary of State proposes, in speaking to the Trades Union Congress (TUC), to say (paragraph 34 (vii)) that the Government has not yet taken a final decision as to the taking of new powers but that the decision will be influenced by the ability of the TUC and the Confederation of British Industries (CBI) to convince us that by their own efforts they can deal with the "selfish minority". He goes on to say that he does not think they can, and in that event he envisaged (paragraph 35) that legislation giving new powers in place of Part IV of the Prices and Incomes Act will be needed by August.

2. I think there would be serious objections to taking new powers in place of Part IV.

3. It is, I think, generally recognised that we must have the support or at least the acquiescence of the TUC and the CBI in the next phase of the prices and incomes policy, if it is to succeed. The TUC have already made it clear that they will not support a policy backed (even in the last resort) by legal powers of the kind in Part IV. My own contacts with members of the TUC's General Council and with individual trade unions leave me in no doubt that they are at the present time very much in earnest about this.

4. Since 20th July the policy has been remarkably successful. In my view this is due to the support the standstill has had from the TUC and the CBI and, though there is not the same measure of agreement about the severe restraint period, in practice they are still largely co-operating. If we lose that co-operation in the next phase the policy cannot, in my view, survive.

5. The First Secretary of State envisages that if the TUC and CBI cannot convince us in detailed discussion that they can handle the "selfish minority", legislation giving new powers would be introduced, presumably this Spring. I myself think that the fair test would be to see how in practice a voluntary policy actually works after the severe restraint period. This means letting Part IV lapse without taking new powers in its place.
6. Unless we give a voluntary policy a fair test in practice, we shall have against us, in the trade union movement, not only the unions hostile to the policy but even the moderate unions, on whom we have been able to rely hitherto. And if they too become hostile, all the legal powers in the world will not help us to preserve the policy. The most that in my view we could get moderate opinion to accept is activation of Part II, possibly with some extension of the period of delay.

7. I do not dissent from the view of the First Secretary of State that the CBI and TUC are unlikely to be able to make a voluntary policy work. But we have to give them the chance. The question is one of timing. If we do so, and the policy does fail, we shall be on very strong ground in seeking wider powers later on. We shall almost certainly need to legislate after the Royal Commission has reported - perhaps in the 1968-69 Session - and wider powers to support an incomes policy could conveniently, if need be, form part of that legislation.

8. It is very important that we should be clear where we stand on this and make our position clear also to the TUC, before they hold their Conference of Executives on 2nd March. It could greatly prejudice the outcome if that Conference took place in any uncertainty about the Government's future course of action.

R.J.G.

Ministry of Labour, S.W.1.

1st February, 1967
CABINET

DEFENCE ESTIMATES 1967: DRAFT WHITE PAPER

Note by the Secretary of State for Defence

I circulate the Draft White Paper on Defence Estimates for 1967, as revised by the Defence and Oversea Policy Committee, for consideration by the Cabinet on Friday, 3rd February.

D. W. H.

Ministry of Defence, S. W. 1.

2nd February, 1967
CHAPTER I
POLICY AND PLANNING

Defence Estimates 1967/68

The defence estimates for 1967-68 provide for an expenditure of £2205m. at level pay and prices - i.e. after allowing for pay and price increases last year of £78m. - they represent a decrease of £45m. on the estimates for 1966-67 (£2172m).

The defence review set a financial target of £2,000m. at 1964 prices to be reached in 1969-70.

On the basis of 1964 prices, the defence estimates for 1966-67 are the equivalent of £1972m. and those for 1967-68 the equivalent of £1927m.

The defence estimates for 1966-67 were 6.6% of the GNP: in 1967-68 this proportion will be about 6.5%.
CHAPTER I

POLICY AND PLANNING

Defence Estimates 1967/68

THE DEFENCE ESTIMATES FOR 1967-68 PROVIDE FOR AN EXPENDITURE OF £2205m. AT LEVEL PAY AND PRICES - I.E. AFTER ALLOWING FOR PAY AND PRICE INCREASES LAST YEAR OF £78m. - THEY REPRESENT A DECREASE OF £45m. ON THE ESTIMATES FOR 1966-67 (£2172m).


THE DEFENCE ESTIMATES FOR 1966-67 WERE 6.6% OF THE GNP: IN 1967-68 THIS PROPORTION WILL BE ABOUT 6.5%.
INTRODUCTION

Control of the Defence Budget

1. The main purpose of the Defence Review was to bring defence expenditure into balance with the nation's resources. The planned estimates for 1969-70 were cut by £400m or 16%, bringing them down to the 1964 level of £2000m at constant prices. The estimates for 1967-8 will be £72m below; those for 1966-7 were £25m below; the out-turn for 1965-6 was £23m below. Over these three years, the Government has saved £750m on the programme it inherited.

Relief of over-stretch

2. The second major aim of the Defence Review was to reduce the overstretch of our forces. This is now being achieved. In 1966, the number of men in the Army sent abroad on emergency tours was one-third less than in 1965. By 1st April 1968, we plan that about 25,000 men and 6,000 Service families will have been brought back to the United Kingdom from outside Europe. Further relaxations of overstretch will follow from the redeployment of our forces.

Reductions in overseas expenditure

3. A third aim of the Defence Review was to cut the cost of defence in foreign exchange. By the end of 1967-8 net overseas expenditure will be running at about £75m below the estimated net expenditure in 1966-7. Details are in Annex II. This will be achieved much sooner than originally planned because, in the light of the Prime Minister's statement on 20th July 1966, we are bringing forces home up to 18 months earlier than envisaged in the Defence Review.
4. The Defence Review of 1966 was not intended to provide a definitive answer to Britain's defence problems. As we said at the time in Cmnd 2901, "We have always recognised that the defence review must be a continuing process and a permanent part of our policy-making." It is now normal practice to examine defence programmes on a 10-year basis; and this work has to reflect the developments and events both in the international situation and our own economic position.

In particular, the scale of our overseas expenditure on defence requires an unremitting watch. We are, therefore, continuing to study the scope that exists for reducing our foreign exchange expenditure throughout the world, always with a proper regard to the interests of our allies and our ability to meet our commitments. The cost of stationing our forces in Germany poses a special problem. Since last year, the difficulties of meeting the foreign exchange expenditure here have increased. NATO is essential to our security: and we must continue to make a worthwhile military contribution to the strength of the Alliance. But the foreign exchange problem has added urgency to the reappraisal of NATO strategy described in this Chapter. It has also compelled the Government to re-examine the political, economic, and military implications of our deployment outside Europe.

Two major international developments of the last 12 months have been critical for these tasks: the situation created by the French Government's withdrawal from integration in NATO; and the decision of the Indonesian Government to end its policy of confrontation against Malaysia.

Disarmament and Arms Control

4a. The Government remains committed to its policy of working towards general and complete disarmament as stated in the 1966 Defence White Paper. This is being pursued in all ways.
ways open to it, notably at the 18-Nation Disarmament Conference at Geneva, and with increasing prospects of success.

**REVISION OF NATO STRATEGY**

**Work of NATO Defence Planning Committee**

5. Ever since October 1964, the British Government has argued inside NATO that allied strategy must be designed to fit the forces which the national governments are prepared to make available. It has been apparent for many years that none of the NATO governments is prepared to pay for the forces which SACEUR would need to carry out his mission as hitherto defined. Uncertainty about the war-time role of French forces further reduces the strength which NATO can rely on. At their meeting in July 1966, the NATO Defence Ministers finally agreed to instruct their military advisers to revise NATO strategy in the light of the forces which governments would undertake to make available on a rolling five year programme, while retaining the commitment to the forward defence of the NATO area. Since then discussions have been held in the Defence Planning Committee of the North Atlantic Council, particularly about the political guidance which governments should give to their military staffs.

**Foreign Exchange Burden**

6. The disproportionate foreign exchange cost imposed on the American and British Governments by the stationing of forces in Germany has led to tripartite discussions between them and the German Government, at which the Secretary-General of NATO is represented. Owing to changes in the German Government and the inherent difficulty of the problem.
conclusions could not be reached by the time of the meeting of the North Atlantic Council in December 1966. The British Government has agreed to make no changes in the troop or supply dispositions of its forces in Germany, which would affect their combat capability, before 1st July 1967. Meanwhile, it will do its utmost to promote agreement among the Allies about the changes required in NATO strategy.

The Nature of the Threat

7. The Government believes that NATO cannot produce a strategy appropriate to the real threat facing Western Europe, unless it takes into account the political intentions as well as the military capability of the Soviet Union and the other Warsaw Pact powers. The starting point of any enquiry must, therefore, be to consider how the threat has changed since NATO was set up, and why. The Allied Governments recognise, by their actions no less than by their public statements, that tension in Europe has relaxed and that there is little danger of aggression at present. In December 1966 at the North Atlantic Council, they confirmed their intention to continue their efforts to secure "better relations with the Soviet Union and the States of Eastern Europe in the political, economic, social, scientific and cultural fields". The British Government believes that both the political and military furthering of the detente would best be achieved by mutual reduction of the forces of NATO and Warsaw Pact Powers. This measure of arms control, besides giving both sides greater security, would create a better climate in which to approach the major political problems of the European Continent and would liberate resources for the economy.
8. Whether or not this is possible in the immediate future NATO can, for many reasons, take a more confident view of Soviet intentions in 1967 than in 1949 or 1956. Soviet society has undergone important political and economic changes. China has become a factor which the Soviet Government cannot ignore. And the continuing strength of NATO has had a decisive effect.

9. Even though the NATO Governments have not attempted to provide all the forces judged necessary to fulfil SACEUR's mission, as originally defined, the Alliance has succeeded in deterring attack. It is recognised that aggression at any level will always be met by an appropriate military response. The size of NATO's conventional forces is not the only factor to be considered. Besides the overwhelming strategic nuclear forces which the United States maintains outside the NATO area, there are several thousand nuclear weapons available to the Alliance in Europe itself. It is difficult to believe that any rational government, knowing these facts, would reckon to achieve by the use of force against Western Europe any political objective whose value would be remotely commensurate with the appalling risks.

10. Even so, it is sometimes argued that NATO might have to face a large-scale attack as a result of accident or miscalculation. Yet attack by accident except at the lowest level of military force, is highly improbable. Large-scale attack by miscalculation is no more likely. It is not perhaps inconceivable that, because of some fundamental change in the world situation, the threat to Western Europe might revive. But, such a change is most unlikely to develop overnight.
Strategic Implications

11. We are discussing with our allies the possible strategic implications of this political assessment. Since political indications are likely to give some warning of potential aggression, it may be possible to consider holding some of the forces which NATO would require if war were threatened, outside the area where they would then be deployed. Improvements both in the capability of transport aircraft, and in the air-portability of much military equipment, can be expected to reduce the time required to redeploy such forces to the threatened area in a crisis. Thus one way in which Germany's allies might be able to save foreign exchange would be to reduce the level of forces they maintain on German soil in normal circumstances.

12. NATO's strategic posture must take account of the nature and duration of military operations in Europe should the deterrent fail. Unless they greatly increase their present forces, the allies could not fight a long war in Western Europe. At present, however, NATO Governments are expected to maintain stocks of ammunition and other supplies in Western Europe to cover a period of conflict in excess of what their combat forces could sustain. By bringing logistic support more into balance with the capability of combat forces, savings could be made in both resources and foreign exchange.

13. Similar considerations point to a revision of NATO's maritime strategy as well. NATO must be ready at sea, as well as on land, to demonstrate its will and its ability to respond appropriately to any act of aggression. But it is no longer realistic for the Alliance to attempt to provide maritime forces for conducting a prolonged war at sea after a strategic nuclear exchange. Deterrence must be the first purpose of NATO's naval forces too.

/Nuclear
Nuclear Weapon Planning and Consultation

14. Those members of NATO who do not possess nuclear weapons must be able to satisfy themselves that the decision on how and when the Alliance should use nuclear weapons would be taken in accordance with the interests and wishes of the Alliance as a whole. No arrangements should however be made which conflict with our policy of preventing the further spread of nuclear weapons. To associate allied nationals with the physical operation of the weapons themselves offers no solution to the problem. The problem is how Governments take the political decision on their use. In a crisis, the allied governments must be able to remain continuously in communication with one another and to reach collective decisions on the basis of accurate information as to what is happening, in accordance with principles for the employment of nuclear weapons agreed in advance.

15. By concentrating its attention on these issues, the Special Committee of Defence Ministers has made more progress on the nuclear problems of the Alliance in 12 months than in the preceding 17 years. The British Government has played a leading role in this work. At its meeting in December 1966, the Defence Planning Committee of the North Atlantic Council agreed to establish a permanent Nuclear Defence Affairs Committee and a Nuclear Planning Group as part of its normal machinery to pursue these questions further.

The next stage ....
The Government hopes that, by the end of June 1967, allied discussions on the revision of NATO strategy will have produced broad agreement on the size, composition, deployment and military role of the forces required, and on a fairer sharing of the economic burdens they impose. As the Government has made clear, means must be found of meeting the foreign exchange cost of our forces in Germany. It may, therefore, be necessary for the Government to take further steps, consistent with the prescribed NATO and WEU procedures, to relieve the United Kingdom of the foreign exchange burden which remains. Accommodation is now being prepared in Britain in case it proves necessary to reduce the level of our forces in Germany.

Meanwhile, to save foreign exchange, changes are being made in the administration and support of the British forces in Germany which do not affect their combat capability. Preparations are being made for diverting more of their consumer spending to British goods and organisations.

REDEPLOYMENT OF FORCES .....
REDEPLOYMENT OF FORCES

South East Asia after "confrontation"

18. The Governments of Malaysia and Indonesia ratified the Bangkok Agreement in August 1966 and agreed to seek 'close and friendly relations'. "Confrontation" was at an end.

19. It is still too early to make firm assumptions about the political pattern of South East Asia in the 1970s; but there is much to learn from the arduous three years' campaign against "confrontation" to which British forces made a decisive contribution. The Brigade of Gurkhas played an outstanding part throughout the campaign.

20. Some of the main features of the campaign are described in Chapter II. It was a fine example of what British forces can do outside Europe to maintain international stability. Without their contribution to the Commonwealth effort, much of South East Asia might have collapsed into disorder, perhaps inviting competitive intervention by other powers with the consequent risk of general war.

21. Despite the vast area involved, and the number and variety of the forces available to the two sides, operations throughout were under the strictest political and military control. Confrontation was never allowed to escalate above the level of local conflict. Comparatively few lives were lost.
22. The campaign, on two fronts over 1000 miles apart, was a model of inter-Service and inter-Allied cooperation. Commonwealth Naval and Air forces controlled over 3000 miles of coastline and the air space above it, while ground forces were able to dominate a thousand miles of jungle frontier in Borneo for three years against guerilla action by hostile forces, which were always superior in numbers.

23. This achievement would not have been possible if the Commonwealth troops - British, Australian and New Zealand in addition to those of Malaysia and Singapore - had not won and held the confidence of the local inhabitants, many of whom had lived until then with little or no contact with the twentieth century. The "hearts and minds" campaign was as critical to Commonwealth success in containing the conflict as the continuous jungle patrols and the system of helicopter supply. Lasting lessons have been learnt about the use of military forces to help people in their everyday lives.

24. Our aim is that Britain should not again have to undertake operations on this scale outside Europe. The purpose of our diplomacy is to foster developments which will enable the local peoples to live at peace without the presence of external forces. But the continuing presence, wherever they are welcome to those peoples, of British forces can help to create an environment in which local governments are able to establish the political and economic basis for peace and stability. There can also be no

/certainty ....
certainty - so long as threats to stability remain - that those forces will not be required to give help to friendly Governments, or to play a part in a UN peace-keeping force, as they have done in recent years.

25. We are continuing discussions with the Australian Government about the possibility of having new facilities in Australia. We are also examining what benefits we would get from a new staging airfield in the British Indian Ocean Territories. These arrangements will offer us the prospect of greater freedom of manoeuvre in our future defence planning, particularly in relation to the Far East.

26. The withdrawal of our forces from Eastern Malaysia began as soon as the Bangkok Agreement was announced. It is now almost complete. The only British forces remaining there are small parties removing or disposing of stores who will be leaving soon; a survey troop carrying out military mapping there for some months; and a few helicopters which are temporarily helping the Malaysian armed forces to supply their detachments in remoter areas.

27. The return of units to the United Kingdom began as soon as the end of "confrontation" was confirmed. These were mainly operational units of the Army and Royal Air Force, totalling about 10,000 men; most of those men will be back in this country by April. Further reductions will be made in the coming year. We are also carrying out earlier plans to reduce the Brigade of Gurkhas to a total strength of 10,000.

/Hong Kong ....
Hong Kong

28. In 1958 the Hong Kong Government's defence contribution was fixed at £1.5m. In 1964, the Hong Kong Government agreed to make an additional contribution of £6m. over six years for capital works. We have also been receiving considerable payments due in respect of military and naval lands returned to civil use. From April 1967, these arrangements will be replaced by an agreement under which the Hong Kong Government will, for four years, make payments totalling £4.525M. annually towards the stationing costs of British forces and the associated capital works expenditure. The Hong Kong Public Works Department will carry out works maintenance for the garrison. Thus the total effective contribution of the Hong Kong Government towards the cost of Britain's presence in Hong Kong will be £5M. a year. Some small reductions in our forces in Hong Kong are also being made.

Middle East . . . .
Middle East

29. In 1968 South Arabia will be independent. When independence comes, we shall withdraw all our forces. The Government is giving generous financial assistance to strengthen the South Arabian federal forces in preparation for independence. Consultations with the Federal Government and the necessary constitutional steps to bring South Arabia to independence are in hand. We look forward to the United Nations playing an increased role during the present year in helping to resolve the outstanding problems. In the meantime the three Services are carrying out their task, in particularly difficult circumstances, in accordance with their highest traditions and with conspicuous devotion to duty.

30. Political arrangements have been made and practical preparations are under way for the small increase in forces stationed in the Persian Gulf which we shall need to fulfil our remaining obligations in the area when we leave Aden.

The Mediterranean

31. The first stage of the reductions in Cyprus - the rundown at Nicosia airfield - has been completed in full consultation with the local civil authorities. We have examined the forces and facilities required in the Sovereign Base Areas. About 2,000 soldiers and airmen will be withdrawn by the end of this year. We shall still be able to discharge the various military tasks which depend upon the Cyprus bases, including support for UNFICYP.
32. There is no longer a military need to retain any substantial forces in Malta. Both the defence of that country and our own strategical requirements can be assured by a combination of limited base facilities in Malta and our rapid reinforcement capability in the United Kingdom. We have recognised, however, that Malta's economy leans heavily on our Service establishments. For this reason, we have sought throughout the consultations with the Government of Malta which began last August, to strike a balance between the rapid run-down of forces, which would have brought maximum savings in defence budgetary and overseas expenditure, and the long-term maintenance of excessive forces in Malta, which would have served the interests of the Maltese economy. In doing so, we extended the period of the run-down from two years to four. The conflict of interest however proved too sharp for the consultations to be brought to a conclusion satisfactory to both parties.

33. In Libya, the RAF staging post at Idris has been closed down, and there may be some other small reductions in our forces stationed there.

34. Following the withdrawal of the Shackletons maritime reconnaissance squadron from Gibraltar last October, the Air Headquarters there was closed. The Royal Air Force continues to operate the airfield as a staging post and the capability to reactivate it for maritime reconnaissance and other operations is being retained and exercised.
35. We intend to continue to train units of all three Services in this area.

South Africa and the South Atlantic

36. In the course of the next few months we shall withdraw the Commander-in-Chief, South Atlantic and the frigate on station in the area. The South African Government have been consulted and satisfactory arrangements have been made with them on the practical implications of these changes.

The Services in Britain

37. The pattern of deployment planned in the Defence Review will mean that a higher proportion of our forces will normally be stationed in the United Kingdom. It is important that the relationship between the Services and the community should be easy and beneficial to both.

38. It has always been one of the functions of the Armed Services to aid the civil power when asked to do so. This kind of help takes many forms already. The Services have given invaluable help in national disasters like that at Aberfan; RN and RAF ships and aircraft frequently answer calls of distress round our coasts. Service personnel and equipment are used for repairing roads, bridging and demolition; civilian patients are treated in Service hospitals; and Service communications are provided at big public occasions.

39. The Government is studying the scope for developing the peaceful use of military forces in this country.

PLANNING FOR THE FUTURE...
PLANNING FOR THE FUTURE

Combat Forces

40. The Government is concerned to settle the size and shape of the forces for the next decade in a way that will provide the maximum possible stability for the men and women who are making their career in the Services. Since Britain's contribution to NATO will have a critical influence on the composition and deployment of all three Services, final decisions on the shape and size of Britain's defence forces in the 1970s must await the outcome of the NATO discussions. It is hoped to announce further plans later this year.

41. Last year the Government took some major decisions on the equipment of our forces - with the result that plans have been made to satisfy the main equipment needs of all three Services until at least the mid-1970s. Chapters IV and VI deal with the present equipment and research and development programmes.

42. Extensive studies have been made of the possible ships and weapon systems which the Royal Navy will require as replacements in the Fleet of the middle and late 1970s. A wide-ranging examination of the long-term structure of the Army is being carried out. Good progress has been made with the R&D programme. In particular, sound foundations have now been laid for collaboration between Britain and France in a variable geometry aircraft, as well as in the Jaguar aircraft and the Martel air-to-ground missile; and the two Governments have also agreed on the joint production of a family of helicopters which will meet requirements of the three Services throughout the 1970s.
43. We have settled the broad shape of the future programme of Service aircraft for the next ten years or so, and industry should now be able to plan its future with confidence. In the complex technical studies of which this programme is the outcome the interests of industry have constantly been borne in mind. Where we have decided to obtain aircraft from abroad, we have incorporated British equipment into the aircraft, wherever possible. The offset arrangements, which we have negotiated with the United States Government, have opened up opportunities to British exporters. The part played by the Ministry of Aviation in this fruitful and developing partnership has now been taken over by the Ministry of Technology.
Support Facilities

44. The planning of the future shape, size, and deployment of our forces requires a continuous and thorough examination of the scale and organisation of support facilities, especially in the United Kingdom and Far East. We intend to cut supporting services, wherever possible, as reductions are made in the combat forces. The inter-dependence of the Services at home will increase, as it has done overseas. This will lead to the streamlining and re-location of facilities, though sometimes at the expense of considerable capital costs.

45. The Statements on Defence 1965 and 1966 and Chapter III of this Statement show some of the ways in which we have already cut out duplication and overlapping between the Services. The defence intelligence service has been completely integrated. A single organisation now handles all Service lands questions. We have placed many important functions, e.g. supply of clothing, food and motor transport, under single-Service management. A rationalised communications network is being developed. We have decided to set-up a Royal Defence Academy and a Royal Defence College to provide higher education for all three Services. With the new organisation run by the Director General Supply and Co-ordination, we are standardising items, procedures and nomenclature in the logistics sphere. We have invested heavily in computers. We also devote considerable effort to work study, O & M and such techniques as critical path analysis, in addition to employing the services of management consultants. By way of illustration, more than 600 staff are engaged on standardisation work; over 700 people are employed full-time on work study; and the capital cost incurred on computers for administrative purposes amount to about £7M. over the last 2 years or so.

Command Structure

46. We are undertaking a radical review of the home
commands. The aim is that each Service will have a major front-line command, covering the whole, or the bulk, of its 'tooth' units based in this country. Other Service commands, which may be geographical or functional in character, will continue to exist. Their precise nature will be worked out in relation to the special needs of each Service, but the total number of commands will be reduced. Changes leading toward the new structure will begin in the coming year. They are designed to achieve greater operational effectiveness, together with savings in manpower.

Reorganisation of Ministers

4.7. The need to apply the necessary priority and momentum to questions of support and organisation and to the management and equipment field generally, was one important reason for the changes recently made in the roles of Ministers and for the creation of two new senior posts for personnel and logistics and for projects.

4.8. The growing interdependence of the three Services has not only blurred the frontiers between the traditional areas of separate Service management, but also imposed on the Ministry of Defence additional tasks of control and coordination. Moreover, the Defence Review decisions have required the rapid preparation of plans for the large-scale redeployment of forces and the detailed planning and implementation of new equipment programmes. The work of direction and supervision has been heavy; and it will continue to be so for some years to come. The higher organisation has, therefore, been adapted to enable the Secretary of State to concentrate on the wider aspects of defence policy and planning, while retaining direct responsibility for operations and maintaining effective political supervision over the remainder of the defence field.
49. The Ministerial functions have, therefore, been revised. Instead of having only one Minister — the Secretary of State — primarily concerned with defence problems as a whole, while six Ministers concentrated mainly on the problems of the individual Services, the Government has changed the balance in order to have three senior Ministers concerned with the problems of defence as a whole, with a Parliamentary Under Secretary of State in charge of each of the three Service Departments.

50. In October 1964, as an interim measure, each of the Service Ministers of Defence was given a functional field of interest in addition to his Service responsibilities. This arrangement has now been developed in a more effective way. The two new Ministers of Defence are free of single-Service responsibilities, and each will have functional duties 'across the board'; they will replace the previous Service Ministers of Defence. One, who has the title of Minister of Defence for Administration, is responsible for personnel and logistics matters affecting all three Services; the other, who has the title of the Minister of Defence for Equipment, is responsible for matters concerning all three Services in research, development and production, and of procurement and sales. All six Ministers are members of the Defence Council. The Parliamentary Under Secretary of State normally chair the Service Boards, in the absence of the Secretary of State.

/Chief Adviser
Chief Adviser Personnel and Logistics

51. Changes have also been made in some senior posts of the Ministry, chiefly in order to enable the Secretary of State and the new functional Ministers to carry out their functions as effectively as possible. A senior serving officer has been appointed Chief Adviser Personnel and Logistics; he assists the Minister of Defence for Administration and acts through him as the principal adviser to the Secretary of State on personnel and logistics, subject to the overriding authority of the Chief of the Defence Staff, who remains the foremost adviser on all military matters. The Chief Adviser Personnel and Logistics is the permanent chairman of the Principal Personnel Officers' Committee and the Principal Administrative Offices' Committee; he attends meetings of the Chiefs of Staff when matters of concern to him are under discussion. The post of Deputy Chief of Defence Staff (Personnel and Logistics) has been abolished.

Defence Scientific Staff

52. The duties of the former Chief Scientific Adviser have been re-allocated and reorganised. In future, there will be two posts of Chief Adviser - Chief Adviser (Projects) and Chief Adviser (Studies). The Chief Advisers and their staffs, together with the Chief Scientists (Royal Navy), (Army), and (Royal Air Force) and their staffs, will continue to comprise the Defence Scientific Staff. The posts of Deputy Chief Scientific Adviser (Projects) and Deputy Chief Scientific Adviser (Studies) have been abolished.

/Chief Adviser (Projects)
Chief Adviser (Projects)

53. The Chief Adviser (Projects) acts as a general adviser to the Minister of Defence for Equipment in the project field. He is also chairman of the Weapons Development Committee, which is responsible for advice on which major projects should be included in the development programme, and for ensuring that the whole programme matches current defence policy, available resources, and operational requirements. He has direct access to the Secretary of State and, as the professional head of the scientific staff in the Ministry of Defence, is a member of the Defence Council.

Chief Adviser (Studies)

54. The Chief Adviser (Studies) has a special responsibility to the Secretary of State for overseeing the work of the Defence Operational Analysis Establishment and Organisation. He undertakes studies on behalf of the Secretary of State in the field of general defence policy and systems analysis. He is chairman of the Defence Research Committee, which keeps the defence research programme as a whole under review and ensures that research effort is directed to projects offering the best return. He is also chairman of the Operational Analysis Committee, which oversees the programme of defence operational analysis and identifies problems of defence policy to which this technique can be applied.

55. While continuing to serve the Ministry as a whole, the Defence Operational Analysis Establishment and the related Headquarters staff have become increasingly concerned with studies of general defence strategy and weapons systems, applying ......
applying operational analysis and cost-effectiveness techniques to their work. The main value of their studies lies in what they can do to define clearly the extent to which decisions can be founded on ascertained fact rather than on empirical judgement, and to expand the area of fact by the systematic collection and critical examination of evidence. The work of the Defence Operational Analysis Establishment is further described in Chapter VI, paragraphs 32-34. In addition, the Ministry continues to be well served by distinguished advisers from the academic world, who have assisted in the study of general areas of defence policy. A number of eminent scientists serve on the Defence Research Committee, which thus serves as a link between the Ministry, the Universities, and the scientific world generally.

**The Programme Evaluation Group**

56. A Programme Evaluation Group has been set up to assist the Secretary of State and his senior advisers of the Ministry to assure themselves that, in any major area of policy, the right questions are being asked and all reasonable alternative policies adequately examined and presented. The Programme Evaluation Group is a small branch composed of military, scientific and civilian administrative staff. Its present head is a senior scientist. It has no executive responsibility, since its function is to apply critical and constructive comment to major proposals which go up to the Secretary of State from those sections of the Ministry concerned with future defence policy and programmes. It works in close consultation with the Defence Operational Analysis Establishment.

Effects ......
Effects of organisational changes

57. These changes in organisation have been decided in the light of experience and studies over the last two years, including the work of the special committee which was appointed to study the structure at all levels, both in the Ministry and in Commands. They will serve to strengthen political direction of defence policy without weakening the management of the Services; to improve still further the policy-making machine; and to help forward inter-Service coordination and the search for economies in personnel and logistics.

58. We cannot relax our efforts to improve the organisation of the Services and the Ministry, if we are to use our defence resources to best advantage and to release resources where we can for other national needs. Although we cannot now settle the shape of the defence organisation for the 1970s, we can ensure that further changes – if they are required – will be decided and introduced as quickly and smoothly as possible.
CABINET

STATUTORY POWERS FOR PRICES AND INCOMES

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

I have considered further in the light of our discussion on 2nd February and of consultations with the Trades Union Congress (TUC) and Confederation of British Industry (CBI) the possible nature and form of the further statutory powers which we might seek in order to ensure that the effectiveness of the prices and incomes policy is not destroyed by the actions of an unco-operative minority among employers and trade unions. I attach at Annex A a note discussing the issues involved in devising legislation for this purpose. I also attach at Annex B for information a summary of the existing powers in Parts II and IV of the Prices and Incomes Act.

2. There is a fundamental difference between powers of the Part II type, which are designed solely to delay implementation of a pay or price increase for a short time while it is examined by the Government or the National Board for Prices and Incomes (NBPI) and powers which are designed to prevent unco-operative elements on either side of industry from acting in breach of the policy and thereby undermining its general acceptability and effectiveness. I see no escape from the fact that powers for this latter purpose would need to be drawn in pretty wide terms and would be closer in their general nature to the present powers in Part IV than to those in Part II.

3. On the other hand, there are various ways in which the Government could alter the form of the powers and so limit the use to which they could be put. The most effective limitation would be to confine the exercise of the powers to the enforcement of recommendations by the NBPI. This would have drawbacks as well as advantages, as described in paragraphs 9 and 10 of Annex A. Other safeguards which could be offered are suggested in paragraph 12 of Annex A.

Views of the CBI

4. My discussions with the CBI were no more than provisional since they made it clear that they had themselves reached no firm views and would need time to give full consideration to the Government's views. The principal objective of the CBI is to minimise Government intervention in industrial matters. They fear that once the Government had statutory powers going beyond those in Part II it would be obliged to use them on an increasingly wide scale. The CBI is therefore opposed to further legislation in this field. On the other hand I formed the view that
CBI might not necessarily react violently against proposals to seek fresh statutory powers, if these were hedged around with substantial safeguards. They seem to put greatest importance on the interposition of some independent body between the Government and the exercise of the powers.

Views of the TUC

5. If anything the TUC are even more strongly opposed to Government intervention in the field of collective bargaining than the CBI. They have already circulated a statement to Executives of affiliated unions stating their view that when Part IV of the Act lapses in August it should not be renewed or replaced by any similar provisions and that it is neither necessary nor desirable to implement Part II. Not surprisingly, therefore, when I met them, they expressed their opposition to the various proposals I put forward, partly on the grounds that they would not in practice have the desired effect and partly on the grounds that they would be unacceptable to the unions. While they will be giving further consideration to these suggestions, they left me in little doubt that the majority of the General Council will be strongly opposed to proposals to seek further statutory powers.

Conclusions

6. Taking into account the position of the CBI and more particularly of the TUC, I conclude that, although some new powers will be needed, they must be drawn - and exercised - with great care. We can reasonably hope for a good deal of general public support for powers going significantly beyond the present Part II, but we must not go too far ahead of public opinion.

7. Nonetheless, it is clear that the pressures to which the policy of restraint will be exposed after 30th June will be too great for us to deal with effectively if we have to depend only on the simple delaying powers of Part II for the reasons given in C(67) 13. Here I would draw my colleagues' attention to the prospective increases in pay in the second half of 1967 summarised in Annex C. It is not possible, of course, to indicate prospective increases in prices in this way, but we must expect there to be renewed pressure on prices even allowing for the effects of the lower level of demand compared with the period before July, 1966.

8. Neither the TUC nor the CBI have been able to give us real assurance that they would be able to deal effectively by their own arrangements and influence with breaches of the policy. Much as we need to involve the CBI and TUC in the operation of the policy, it would be too great a risk to move into the period after 30th June with nothing more to buttress the policy than a simple delaying power.

9. My conclusion is, therefore, that the right course would be for us to seek the powers described in paragraphs 5 and 6 of Annex A but to limit their use to enforcement of recommendations by the National Board for Prices and Incomes after the latter's independent examination of prices and pay cases.

M.S.

Department of Economic Affairs, S.W.1.

8th February, 1967
ANNEX A

THE NATURE AND FORM OF ADDITIONAL STATUTORY POWERS

This note discusses the possible forms of statutory powers relating to prices and incomes which might be taken in modification of or addition to those contained in Parts I and II of the Prices and Incomes Act, 1966.

Simple Extension of Delaying Powers

2. Part II in its present form provides a maximum statutory early warning period of thirty days (during which a price increase or pay settlement which has to be notified may not be implemented without Government approval) and a further maximum period of three months delay (making a total maximum delay of four months) in those cases which are referred to the National Board for Prices and Incomes (NBPI) for examination. It should be noted that—

(i) These powers were not intended to impose delay for its own sake, but are related to references to the NBPI.

(ii) Although there is power to refer to NBPI price or pay proposals of which statutory advance notification is not required, there is no power to stop their implementation before a reference is made. In other words the parties may be able to "jump the gun", and cannot be prevented from doing so unless the net of compulsory notification is spread very wide.

(iii) In cases referred to the NBPI the parties are free to do what they like after the Board's report has been published. The only sanction is that of public opinion. There is no power to prevent the parties implementing the original proposals with retrospective effect.

3. It would be possible simply to extend the maximum periods in Part II, for example the early warning period from thirty to sixty days and the temporary standstill period pending the Board's examination from three months to say six months. This could be presented as consistent with the original concept of Part II, because the maximum periods at present laid down are not generous (even though the CBI and TUC thought them too long). But Part II powers, even in this extended form, could not be presented as enabling the Government to deal with the selfish minority. Although there might be some advantage in providing the Government and the Board more time in which to consider particular proposals, it seems doubtful whether this would be sufficient to justify the introduction of amending legislation.
Powers to delay and to prevent retrospection

4. A longer extension of the maximum period of delay - say to nine or twelve months - would have three weaknesses -

(i) It could hardly be presented as consistent with the original purpose of imposing a standstill simply to admit examination by the Board, but would be clearly seen as the imposition of delay for its own sake and thus as a departure from the original principles on which Part II was founded.

(ii) The powers would present no effective defence against challenge by a selfish minority if they did not enable the Government to prevent increases from being introduced with retrospective effect. Admittedly a delay of up to twelve months in the implementation of a price or pay increase could be of some permanent benefit, even without such powers, particularly in the case of prices where retrospective increases are not usually possible. And it might help to support confidence overseas but it would be unrealistic to suppose that in all cases the opportunity for unions to demand or employers to concede retrospective payment would be voluntarily foregone (the electrical contracting industry might well be a case in point). Moreover, unless retrospective payments were barred, employers would remain liable to legal action for recovery of arrears of pay where they had entered into contractual obligations to increase pay. (Difficulties on this score have arisen in relation to the present Part IV and it may be necessary to consider some form of indemnification of employers who would otherwise be liable for up to six years after Part IV lapses.)

(iii) As explained in paragraph 2 above the present form of Part II makes it possible to "jump the gun" unless the net of compulsory notification is spread very wide.

Nature of the powers needed

5. There appears to be no way in which the real recalcitrants who were unwilling voluntarily to observe the requirements of prices and incomes policy could be dealt with unless the powers were of such a nature as to overcome these weaknesses. It would be unrealistic to expect the majority to continue to support the policy if selfish minorities could at the end of the day receive pay increases or impose price increases which had been judged to be inconsistent with the policy. The minimum powers necessary for this purpose would seem to be -

Prices

(a) Power to postpone a proposed increase in price, wholly or in part, for up to [twelve] months.
(b) Power to require a reduction for up to £twelve months of a price even if no increase had been proposed but where the criteria for price reductions were found to apply.

Pay

(a) Power to postpone a proposed increase in pay, wholly or in part, for up to £twelve months.

(b) Power to prevent retrospective payment of an increase which had been postponed.

6. One further point would be for consideration. A combination of the powers in Part II together with those described in paragraph 5 above would not ensure that price or pay increases were subject to a standstill pending examination by the NBPI. Even if the Government had imposed compulsory notification of proposed increases on a wide scale, some determined groups might well put their increases into effect. This situation could be remedied only if the Government had power to require reversion of prices or pay to the previous levels. Otherwise the NBPI would be put in the difficult position of examining cases for increases which already applied. The exercise of this power would, of course, have to be available at the Government's own hand but it could be subject to confirmation by the NBPI.

7. These are wide-reaching powers. Indeed, the general power to require a price reduction under paragraph 5(i)(b) above goes wider than Part IV, where there is power only to require reversion of a price which has been increased since 20th July 1966 to the level charged before 20th July. But it is central to the price objectives of the policy to seek for price reductions even where prices have not been increased and the lack of such a power would leave the Government wholly dependent on the pressure of public opinion deriving from the recommendations of the NBPI or on the Monopolies Legislation where monopoly conditions applied.

Enforcement of NBPI recommendations

8. While the powers described in paragraphs 5-6 above would be most effective if they were exercised freely by the Government without the backing of the NBPI, their use could probably be made more acceptable if it were limited by statute to the enforcement of recommendations by the NBPI. An analogy exists in the powers in the Monopolies and Mergers Act, 1965 to enable the President of the Board of Trade to require compliance with the Monopolies Commission's recommendations.
The advantages of this course might be -

(i) Public opinion may well be influenced considerably by the reports of an independent body and it may be easier to get across the issues involved for the national interest.

(ii) This course would take some of the sting out of the charge that the Government want to be free to "interfere" with a considerable part of the field of collective bargaining.

(iii) Interposition of the NBPI between the Government and the exercise of new statutory powers would represent an important practical limitation on their use. However large the NBPI became, it would not be practicable to refer to it every case which might raise the question of using powers, particularly in cases involving small numbers of employees or of minor economic importance.

There would on the other hand be disadvantages -

(i) There would probably be some occasions when the Board’s recommendations were not acceptable to the Government and in such cases the Government would have no effective powers at its disposal.

(ii) There would probably be some occasions when the circumstances of the case were so clear cut that examination by the NBPI was not strictly necessary. The Government would nevertheless have to refer the case to the Board if it judged that use of the powers (other than the simple delaying power) would be necessary. In some cases, the time taken by the Board in reporting might itself provoke some form of industrial action whereas a swift decision by the Government to use their powers might prevent this.

(iii) The power to enforce the Board’s recommendations would be bound over time to alter the character of the Board’s work and of its reports. Much of its work so far has deliberately been conducted in a rather informal manner. It has not, for example, sat in public or published the evidence supplied to it. This has helped the Board to act quickly and to obtain views and information which more formal procedures might not have revealed. Statutory power to enforce the Board’s recommendations would bring pressure for a more judicial approach which might tend to turn the Board into something more like an arbitration tribunal. It would also be likely to undermine the effectiveness of the Board’s long-term or structural recommendations.
11. A suggestion has been made that some independent body other than the NEPI and more judicial in character should be interposed between the Government and the exercise of powers. It seems very doubtful whether this would be satisfactory. The issues which would have to be decided before using powers are basically economic and political and are not appropriate for a judicial or quasi-judicial body to determine. It is difficult to believe that there is room for two independent bodies in this field. Certainly the creation of a new body would do great damage to the standing of the NEPI.

Safeguards on the exercise of powers

12. Whether or not the Government's exercise of powers was tied to enforcement of NEPI recommendations it would be possible to devise safeguards which would go significantly further than those which were included in the present Part IV -

(a) The new powers could be made subject to annual renewal by Parliament and the Government could be required to consult the CBI and TUC before seeking renewal each year (as it doubtless would in practice in any event).

(b) The Government could also be required to consult the CBI and TUC ("employers" and "unions") before exercising the powers in each individual case. This safeguard was not included in Part IV, although the Government has in practice committed itself to such prior consultation. Although this would entail some limitation on the speed with which the Government could act against breaches of the policy, a requirement to consult might help to secure the co-operation of the CBI and TUC and stimulate them to use such influence as they may have on the parties immediately concerned.

(c) As in the case of Part IV, the Government could be required to give the immediate parties concerned proper notice of intention to exercise the powers and to consider representations.

Sanctions

13. Every effort was made in the preparation of the Prices and Incomes Act to limit the risk of union officials or employees being imprisoned for offences under the Act. The penalties for offences involving pay increases were applied to the employer. But it was necessary to provide in section 16(4) of the Act for penalties against industrial action. This was not done simply to be sure that employers breaching the policy would not be able to plead that they had done so under duress, but because in the absence of section 16(4) it would not have been possible to give unions the protection of section 16(5). Without this protection, unions and workers would have been exposed to the grave consequences of action for criminal conspiracy or action for civil damages without limit on liability.
14. The only penalties on unions or workers provided in the Act are fines. Although refusal to pay fines could, of course, lead to imprisonment, the Criminal Justice Bill will reduce (but not eliminate) the risk of imprisonment for non-payment of fines.

15. In connection with the issue of sanctions, it has been suggested that if some way could be found of operating the prices and incomes policy on the prices side alone, the danger would be reduced of action against unions and workers including the risk of "martyrdom" through imprisonment for refusing to pay a fine. In theory, this might be done by using the power to prevent price increases to ensure that no employer could implement a pay increase out of line with the policy.

16. This seems to be a difficult course, not only on economic grounds but also in terms of the practicability of relating price increases to the genuine effect on costs of given levels of pay without a considerable apparatus of oversight and inspection. There would also be problems in preparing legislation on this basis in a form likely to be enforceable.

17. It seems in any case doubtful whether this course would solve the Government's problems in relation to the unions. If there were official or unofficial industrial action to induce or compel an employer to pay an increase which involved the employer in a price increase which the Government had forbidden, the employer could presumably plead in mitigation that his breach of the order was committed under the duress of industrial action. It is true that employers might find it difficult to convince the Court that their only course was to increase prices rather than to reduce profits, but there could well be cases where the Court was satisfied on this score. In this event, the Court might regard the breach as one which certainly should not attract a heavy fine on the employer. In some cases at least the employer might find himself in a position to bring an action against a union or group of workers for criminal conspiracy or civil damages.
Part II of the Prices and Incomes Act, which has not yet been brought into operation, contains reserve powers to give statutory reinforcement, insofar as this should prove necessary, to the voluntary "early warning" system for prices and incomes. Part IV of the Act, which was brought into operation on 6th October 1966, contains reserve powers to give statutory reinforcement, insofar as this should be necessary, to the voluntary standstill on prices and incomes announced on 20th July. These powers lapse automatically on 11th August 1967, twelve months after the Royal Assent. The powers in each of these two parts of the Act are described below.

Part II

2. These powers can only be brought into force by Order in Council for a period not exceeding twelve months, although at the end of the period a further Order in Council may be made. The Government is obliged to consult with representatives of management and unions before either a first or a subsequent Order in Council is made, and the Order has to be approved in draft by both Houses of Parliament. The Order in Council may bring into operation either the powers relating to prices, charges and dividends or the powers relating to pay claims, awards and settlements, or both.

3. The main powers in Part II may be summarised briefly as follows -

Notification of proposals to increase prices and charges

(a) Section 7 gives power to require advance notification, or "early warning", of price increases of such goods or services as may be specified by order. The price of such goods and services may not be increased during a period of thirty days after notification.

Temporary standstills on prices and charges pending examination by NBPI

(b) Section 7 also gives power to delay, for a period of up to three months, the implementation of price proposals which have been notified in accordance with (a) and which the Government decide to refer to the NBPI. In such cases the maximum period of delay could be four months (including the thirty days in (a)).
(c) Section 8 gives power to delay, for a period of up to three months, the implementation of price proposals of which advance notification has not been required under section 7, but which are referred to the NBPI.

Notification of dividend increases

(d) Section 12 gives power to require notification of increases in the distributions of such companies as may be specified by order. (There is no provision for temporary standstills on dividend proposals.)

Notification of pay claims

(e) Section 13 gives power to require notification of claims presented on behalf of such groups of employees as may be specified by order. (There is no provision for temporary standstills on pay claims.)

Notification of pay awards and settlements

(f) Section 14 gives power to require advance notification of awards and settlements covering such groups of employees as may be specified by order. Such awards and settlements may not be implemented during a period of thirty days after notification.

Temporary standstills on awards and settlements pending examination by NBPI

(g) Section 14 also gives power to delay, for a period of up to three months, the implementation of awards and settlements which have been notified under this section and which the Government decide to refer to the NBPI. In such cases the maximum period of delay could be four months (including the thirty days advance notification).

(h) Section 15 gives power to delay, for a period of up to three months, the implementation of awards and settlements of which advance notification has not been required under section 14 but which are referred to the NBPI.

4. All these powers relate to references to the NBPI. The powers to require advance notification are designed to enable the Government to consider whether particular proposals to increase prices, pay claims or settlements should be referred to the Board. They are not designed to impose delay for its own sake. The maximum delay of four months in the implementation of price or pay proposals applies only where advance notification has been required by order and the case is referred to the NBPI for examination. A maximum delay of three months may be imposed in cases of which advance notification has not been required but which are referred to the NBPI only if the price or pay increase has not been
implemented at the time the reference is made. Thus to be sure of
preventing parties from "jumping the gun" and implementing price or pay
proposals before the Government had been able to decide whether or not
they should be examined by the NBPI, it would be necessary to spread the
net of compulsory notification very widely.

5. Finally, it should be noted that the delay of three or four months
as the case may be in the implementation of a pay award or settlement
relates to the actual payment of the money and not to the date of the
increase. There is nothing to stop the parties from implementing the
award or settlement from a retrospective date after the NBPI has reported.
Nor is there any indemnity for employers who refuse to implement a
settlement from the date originally agreed, in accordance with recomenda­
tions of the Board, but who fail to secure the agreement of the union to a
later operative date. Thus the only sanction at the end of the day when
the Board has reported is the sanction of public opinion.

Part IV
6. The powers in Part IV of the Act could only be brought into force by
Order in Council for the remainder of the period of twelve months after the
Act was passed and cannot be renewed. The Order in Council required the
approval of both Houses of Parliament within thirty days.

7. The main powers in Part IV may be summarised briefly as follows -

Power to prevent increases in prices and charges

(i) Section 26 gives power to prevent any increase in the prices of
such goods or services as may be specified by order from the
date the order comes into operation.

Power to require prices and charges to be no higher than on 20th July

(j) Section 27 gives power to require the price of such goods or
services as may be specified by order to be no higher than the
level prevailing on 20th July 1966, or some intermediate level
between that prevailing on 20th July and the date the order
comes into operation. A statutory period of notice of at least
fourteen days is required.

Power to prevent increases in pay

(k) Section 28 gives power to prevent any increase in pay
(including an increase following reduction in normal hours of
work) of such employees as may be specified in the order from
the date the order comes into operation.
Power to require pay to be no higher than on 20th July

(i) Section 29 gives power to require the level of pay of such employees as may be specified by order to be no higher than the level prevailing on 20th July, or some intermediate level between that prevailing on 20th July and the date the order comes into operation. A statutory period of notice of at least fourteen days is required.

Power to defer the operation of statutory wage regulation orders

(ii) Sections 31 and 32 give power to defer the effective date of orders embodying statutory minimum wage proposals by Wages Councils or by Agricultural Wages Boards.

8. All these powers relate to specific increases which have occurred since 20th July 1966 or which may occur during the remainder of the period Part IV is in force. The powers in (i) and (ii) above enable the Government both to require price or pay levels which have been increased since 20th July to be put down to the level ruling at that date and to prevent further increases from the date of the order. Since the powers can only operate for a maximum of twelve months (in practice ten months since Part IV was not activated until 6th October) their effect is to defer not only the actual payment but the effective date of an increase for this period only. The repayment of money which has already been paid out before an order has been made cannot however be required.

Sanctions

9. The sanctions under Part II of the Act are as follows. Employers failing to notify increases in dividends or pay awards or settlements are liable to a maximum fine of £50 on summary conviction. Both trade unions and employers are liable to a similar penalty for failing to notify pay claims.

10. The penalty for employers failing to notify a price increase or for implementing a price increase whilst this is forbidden under Part II of the Act is a maximum fine of £200 on summary conviction, or a maximum fine of £500 on conviction on indictment except in the case of bodies corporate where no limit is specified. Employers who implement a pay award or settlement whilst this is forbidden under Part II are liable to a similar penalty. In addition trade unions or employees who seek to "compel, induce or influence" an employer to implement an award or settlement, e.g. by strike action, whilst this is forbidden are liable to a similar penalty. (Since however trade unions are not bodies corporate the effective maximum penalty is a fine of £500 on indictment.)
11. There are similar sanctions under Part IV of the Act against employers who make a price or charge, or pay remuneration, higher than is permitted under a Part IV order (unless they have received the consent of the appropriate Minister), and against trade unions or employees who seek to "compel, induce or influence" an employer to breach a Part IV order.

12. Thus there is no provision for imprisonment for offences under Part II or Part IV of the Act. An offender could be committed to prison under the existing law if he failed to pay a fine imposed under the Prices and Incomes Act, but the risk of fine defaulters being committed to prison will be very substantially reduced, under the Criminal Justice Bill now before Parliament. No prosecution under either Part II or Part IV of the Prices and Incomes Act can be instituted without the consent of the Attorney-General.
Annex C

Pay Increases in 1967

In the course of 1967, and mainly in the months up to July, over 6 million workers, including about half a million non-manual workers will receive pay increases (or hours reductions) resulting from commitments prior to July 20th, 1966. Some of these groups, in particular the engineers, builders and the doctors will get more than one increase in the course of the year. The increases for manual workers under these commitments will raise the hourly wage rate index by about 3.5%.

2. Apart from pay increases under existing commitments, pay increases have already been agreed for about 2 million workers (including 1 million covered by Wages Council proposals) to come into effect either during or after severe restraint, and current claims in the pipeline cover 2.7 million manual workers and 2 million non-manual workers. Other groups have reviews due or are expected to present claims but have not yet done so. These are expected to cover at least 4 million workers - possibly many more.

3. Taking into account the pay increases resulting from the delayed implementation of existing agreements, the settlements already reached and the new agreements in prospect, the index of hourly wage rates is expected to rise by at least 6% over the whole of 1967.

4. The workers due or likely to receive pay increases during 1967 fall into four main categories, of which the main groups are:

(i)
(i) Groups receiving pay increases (or hour reductions) under commitments entered into on or before 20th July, 1966 (over 6 million, including 4 million non-manual workers).

   Engineering, construction, railways, local authorities non-manual, electrical contracting, heating and ventilation, doctors and dentists.

(ii) Groups which have already agreed increases for implementation during or after the period of severe restraint (2 millions).

   Agriculture, food, company busmen, dock labour, retail distribution, cinema theatres, laundries, coal and coke distribution.

(iii) Groups which are considering claims (2½ million manual, 2 million non-manual).

   Coalmining, brewing, iron and steel, wool textiles, hosiery (Scotland), paper and paper-box making, printing, electricity supply, road haulage, N.H.S. manual employees, government industrial workers, motor vehicle retail and repair trade, Ford and Vauxhall Motor Co., Engineering "white collar", Civil Service non-industrial, banking, N.H.S. admin. and clerical, Merchant Navy Officers, police, fire service.

(iv) Groups where claims are expected or reviews due (at least 4 millions)

   Civil Service non-industrials (central pay claim), teachers, baking (Wages Council), Biscuit manufacture, chemicals, cotton spinning and weaving, catering, hosiery (Midlands and Hawick), wholesale clothing, footwear, furniture and woodworking, pottery, London busmen, Post Office manual workers, rubber, miscellaneous industries.
17th February, 1967

CABINET

FAMILY ENDOWMENT

Memorandum by the Chancellor of the Exchequer and the Minister without Portfolio

Following the discussion at Cabinet on 20th December last (CC(66) 67th Conclusions, Minute 7) we have reviewed the whole problem.

2. We see very serious objections political and otherwise to a "give and take" scheme. Part I of this paper shows why. In our view what is needed is a much more positive and precise approach designed to make best use of our limited resources and directed at problems which ought to have first call on what we can afford. Part II explains what we have in mind. We might present this approach as "Campaign against poverty - first steps".

Part I - Objections to "Give and Take"

Fiscal, Economic and Financial

3. Family allowances are State subsidies. Tax child allowances are not; they simply recognise that people with children cannot be expected to pay as much tax as people with the same income without children. The fundamental point is that to get more from tax relief you have to have more income, and it is positive earnings that we want to encourage. To mix subsidies and tax allowances in a mechanistic scheme is to mix chalk and cheese.

4. People much prefer to retain money they have earned by their own hard work than to receive the same amount from the State. "Give and take" runs flat contrary to this preference and would do so in the case of 3½ million taxpayers who receive family allowances, only about half of whom would have some net gain.

5. A constant criticism of PAYE is that a man is not allowed to keep more of what he earns - especially on overtime. Yet when the national need is to encourage people to work, "give and take" would bring some 600,000 extra people into tax; it would also increase the tax of families with two or more children - in the case of 10s, Od, "give and take" by 15s, 0d, per week for a man with three children earning £20 per week. True there would be greater or less financial
compensation from increased State subsidies paid to the wife but this would not be an effective substitute.

6. "Give and take" would be looked at with grave suspicion and resentment by all taxpayers. Given Press comment and what has been publicly advocated by some groups "give and take" would be thought to be merely the first step in "confiscating" tax child allowances and thereafter other personal allowances.

7. It is technically true that "give and take" would only marginally impose the cost of helping poorer families on other families, but could we possibly convince the public of this since in fact we would be paying out £160 million or so in cash and financing this as to about 60 per cent by increased tax on families with two or more children?

8. "Give and take" would create all sorts of anomalies in the tax system. Some examples are given in Annex A.

9. Tax allowances would be made intolerably complicated and illogical at the very time when we are trying to simplify the tax system. It would not be possible to maintain such a structure for very long; all kinds of claims for further concessions would be made. The poorest parents would want family allowances for the first child in the family and would say that this concession could be financed easily by a reduction of child allowances. The greatest danger would be pressure, which in the long run would be very difficult to resist, for tax child allowances for second and subsequent children to be restored to their original figure. We should then be left meeting the full cost of the increased family allowances, without any compensatory adjustment (10s. Od. on family allowances is equivalent to an extra 6d. on income tax).

10. We should be criticised once more for shuffling round large sums of money and disturbing the financial arrangements of nearly 4 million families in order to distribute a small fraction of these sums.

11. The mechanical interlocking of cash benefits and tax allowances could in future seriously limit the room for manoeuvre in adjusting taxation to economic needs and in financing public expenditure.

Incomes Policy

12. It may be thought that "give and take" would help with our income policy, by making family men with the lowest incomes better off and so reducing the pressure for wage increases. The other possibility - which we think more likely - is that salary and wage earners who were affected by the cut in tax allowances would look at their reduced "take home" pay and would press for bigger pay to make it up. In any case "give and take" would have no effect except on earners with two or more children within the family allowance field. Increased family allowances would do nothing to reduce wage claims by single and married people without children, and those with only one child. "Give and take" would substantially reduce the levels of earnings at which the people affected would begin to pay tax, or to pay at the standard rate. A 10s. 0d. increase in family allowances accompanied by a cut of £45 in child allowances would mean that those income levels would be reduced by £84 a year per "qualifying" child. This would considerably increase the grumbles about tax disincentives to working harder, doing overtime, etc.
Public Expenditure

13. Two points here:

(1) Too much should not be made of this, but "give and take" would mean another £160 million or so on Votes which it would not be easy to explain away particularly overseas.

(2) "Give and take" is very expensive. Even the "net" cost, i.e. difference between increased payments and increased taxation, is for the 10s. Od. scheme, £48 million in the first year and £32 million thereafter. In terms of loss of taxable capacity the cost is likely to be a great deal higher, and it is this higher cost that will limit correspondingly what we can do in furthering our economic and social policies elsewhere. My colleagues know how difficult the outlook is.

Other Shortcomings

14. "Give and take" is so designed that it would give some net help, often marginal, indiscriminately to large numbers of families. Even with a net cost of £48 million in the first year and £32 million thereafter:

(1) It would only bring 57 per cent of the 160,000 families known to be below supplementary benefits level up to that level. It is these families who are the subject of the Government Survey due to be published in the spring.

(2) It would damnify 2 million families. True by small sums but politically this would be very troublesome. Of course we could avoid this if we added further to the cost of "give and take" but we could solve lots of problems if we had unlimited resources.

15. "Give and take" in spite of its cost would not deal effectively with any of the problems we do know exist, e.g. families with really low incomes, those physically or mentally unable to better themselves and so on. Nor does it recognise that poverty may arise from special problems such as low wage areas or regional differences. And it does nothing about one-child families or the first child in larger families.

16. Finally at a time when we are dissatisfied with the family allowance system, "give and take" would embed it more firmly than ever into the Social Security structure.

Other Possible Schemes

17. We have considered very carefully whether there are other less objectionable schemes. We have looked at "option schemes" i.e. under which people can have family allowances or tax child allowances but not both, and at "give and take" in reverse i.e. under which tax allowances would remain as they are or be improved but family allowances tapered off. We are clear that none of these are practicable because of cost, complexity, inequity as between individuals, the administrative burden, or some combination of these factors.
Part II - A Direct Aid Approach

18. In our view a more positive approach is needed which will show clearly that we are doing our best to deal directly with the well known pressing problem of 160,000 families with inadequate incomes and that we are showing a real concern for those in trouble; and which give the fullest possible value for money.

19. We might approach this on a broad front and put forward a package of specific measures. It would of course be necessary for us to discuss its precise makeup and details with our colleagues but some of the elements could be:

(i) A scheme of supplementary family allowances. This would be income-tested but adapted to help those who have to pay high rents and distressed families with only one child whom "give and take" would not help at all.

(ii) An increase of say 5s. Od. in family allowances for fourth and subsequent children.

(iii) Help for educationally "deprived areas" - the Secretary of State for Education's paper C(67) 9 refers. Help of this kind would clearly be directed at a real need and children would be certain to get the benefit.

(iv) Proposals have already been made and considered in the Social Services Committee on "Service by Youth" - these could be associated (SS(67) 1st Meeting).

(v) Some special recognition of the position of fatherless families. This could be given in connection with (i) and (ii) above. (Special attention was drawn to this problem in the recent Report of the Inner London Education Authority).

(vi) Progress on local authority rent rebate schemes.

20. (i) above could take various forms but we might give 5-10s. Od. supplementary family allowance for the first, second and third children in families so designed that it gave help tapered off to a three-child family with an income of up to about £17 a week, in addition to family allowances and national insurance contributions. We could deduct rent in assessing income - the wide variation in rents is one of the most serious factors in poverty and deprivation. (For example if the income limit for full supplementary allowances was £10 per week a man earning £14 per week would still get full benefit if he had to pay £4 per week rent). This could be of special value to people who perform have to live in privately owned accommodation who cannot benefit under rent rebate schemes. The supplementary allowance would be paid to the wife, there would therefore be no obvious supplementation of wages and no invidious shop floor comparisons. A 10s. Od. supplement for first, second and third children would cost £11-12 million per annum and together with (ii) above would deal fully with at least 65 per cent of families below supplementary benefit level - a higher proportion at much lower cost than "give and take".
21. We know some of our colleagues are not happy about further income-testing. We sympathise with this view but there is a balance to be struck here. We cannot afford to waste resources and taxable capacity and there is really very little criticism indeed of the many income tests which already exist (Annex B). Moreover an income test does ensure that our limited resources go where they do most good; and it ensures that the real cases of hardship do come to notice and that the public services can be mobilised to help them.

22. (ii) above would cost about £12 million per annum if we gave the increase to the fourth and all subsequent children. But here again variations are possible. An increase of 5s. 0d. could be given for the fourth child only - cost £7.5 million. A 7s. 6d. increase for the fourth child only would cost some £11 million.

23. We understand that 50 per cent of the families with inadequate incomes live in local authority housing. Effective rent rebate schemes should help greatly and directly. Special guidance to local authorities could be tied in with a "direct aid approach".

24. We emphasise that we would need to discuss with our colleagues concerned before deciding the precise nature of the measures to be taken and what forms or combination of e.g. the ideas set out above would give best value. It may be we should have to analyse or analyse further what sort of families most need help.

Conclusion

25. We invite the Cabinet to endorse "a direct aid approach" and to authorise us to work out the details with our colleagues concerned.

L. J. C.
P. G. W.

Treasury Chambers, S. W. 1.

17th February, 1967
TAX ANOMALIES

Assuming '10s, Od, give and take':

(a) A first child under 11 would attract an allowance of £115, available against income tax and surtax. Second and subsequent children under 11 would attract an allowance of £70, and the compensation in the form of higher family allowances would not fully compensate the standard ratepayer - still less the surtaxpayer. Suggestions that the old allowance of £115 should run for surtax but only £70 for income tax would introduce further confusion and would still not leave the surtaxpayer no worse off (since he pays more than the standard rate of income tax on family allowances).

(b) The child allowances for the first child in the family, children over 19, children (e.g. of Commonwealth immigrants) outside the United Kingdom and some other categories would be given in full at their present amounts, but the allowances for all other children would be reduced by £45 with an associated increase of 10s. Od. in family allowances. This would greatly complicate the child allowance system.

(c) The basic child allowance for a second child would be reduced to £70; but a dependent relative attracts a basic allowance of £75 and the relative may have income drawn in whole or in part from public funds up to a total of £210 without any reduction of the dependent relative allowance. (Most children have little or no income of their own - but most dependent relatives have £4 a week national insurance retirement pension). For many years the income limit for a dependent relative up to which the full dependent relative allowance is given has been increased to keep in line with periodical increases in national insurance retirement pensions. Parents would want to know why an increase in family allowances was taken as an excuse for cutting down child allowances - particularly when the increases in family allowances increased their own taxable income. (Even those who understood the position at the start would soon forget that they had, in effect, exchanged part of their child allowances for bigger family allowances and would claim that the reduced allowances were too low). It would also be asked why a child with a personal income of up to £115 attracts full child allowances, whereas smaller sums paid by the State lead to a reduction in the child allowance.

(d) The result in some cases would be contrary to the intention of helping the poorer families e.g. there would be no tax set-off in cases where the child does not rank for child allowance (if it has an income of its own above the qualifying child's income limit).
Housing
Rent relief schemes
Rates rebates

National Health Service
Free dentures and dental treatment
Free glasses
Travelling expenses to hospital

Education
Free school meals
Secondary education maintenance allowances
Higher education awards

Local Health and Welfare
Free home helps
Accommodation in old people's homes
Temporary accommodation

Other Government Services
Supplementary benefits
Legal aid
Free welfare foods and milk
10th February, 1967

CABINET

FARM PRICE REVIEW

Memorandum by the Minister without Portfolio

I ask the Cabinet to resolve a disagreement in the Ministerial Committee on Agricultural Policy on the limits to which Agricultural Ministers should go in negotiations on this year's Farm Price Review.

2. The Committee reached agreement on a large number of the commodities included in the Review and I need not trouble my colleagues with these. We could not however reach agreement on two matters: beef/milk and pigs. Appendix A sets out the respective positions on these two issues. Appendix B summarises in tabular form from the total effect (over all the Review commodities) of the alternative proposals. It may help my colleagues if I set out my own views on how the differences might be resolved.

General

3. We are committed to the selective expansion programme set out in the National Plan and recently endorsed by the Ministerial Steering Committee on Economic Policy. While the programme did not set targets for particular commodities, I am satisfied that we shall not achieve it unless we secure a substantial increase in beef (two-thirds of which comes from the dairy herd) and in pig production. For this, additional incentives are needed.

4. We must, however, have regard to the total size of the award in relation to Exchequer costs and the prices and incomes policy. The Agricultural Ministers suggest a total award of £35 million, which represents 7 per cent of total farm income. This would allow farmers to meet all of this year's cost increases, leave them £20 million to improve income and invest, and permit them to retain the whole of the benefits of increased efficiency (currently assessed at £30 million per annum). In my view, this would be over-generous. The Treasury, DEA and Board of Trade, on the other hand, following discussions in the Committee, would support recommendations implying a total award in the range of £15-18 million. While this would cover cost increases, leaving the farmer the whole benefit of increased efficiency, I do not feel it would be adequate if we are to achieve our expansion objectives. In my view, an award in the region of £25 million would be justified.
Beef/Milk

5. The main issue here is the increase in the guaranteed price for milk. Any increase falls on the consumer. The retail price at present is 9\(\frac{1}{2}\)d. a pint. Under present arrangements, this will rise to 10d., a pint on 1st April, 1967, stay at that level till the end of the year, then fall to 9\(\frac{1}{2}\)d. for the remainder of the milk year (i.e. up to 1st April, 1968). If the price were kept at 10d. till 1st April, 1968, this would permit an increase in the guaranteed price to the farmer of approximately 2\(\frac{1}{2}\)d. per gallon. The economic Departments feel we should not go beyond this. The agricultural Departments want an increase to the farmer of 2d. a gallon, which would mean increasing the retail price from 10d. to 10\(\frac{3}{4}\)d. a pint from December, 1967, to the end of the milk year (1st April, 1968).

6. In my view, the smallest increase consistent with attaining our objectives would be 1\(\frac{1}{2}\)d. a gallon in the guaranteed price to the farmer. This would mean holding the retail price at 10d. a pint until the end of January, 1968, then increasing it to 10\(\frac{3}{4}\)d. for the remaining two months of the milk year. I do not think this would be unacceptable from the point of view of prices and incomes policy. I also consider that the other proposals put forward by the Agricultural Ministers in this complex - increased calf, beef cow, and hill cow subsidies and a 5s. 0d. increase in the guaranteed price for beef - are justified. This would mean that the award on beef/milk would be £24\(\frac{1}{2}\) million, compared with £11-13 million recommended by the economic Departments and £29\(\frac{1}{2}\) million recommended by the agricultural Departments.

Pigs

7. The Ministerial Committee agreed that the "middle band" should be increased as already announced (equivalent to an increase of 9d., a score in the guaranteed price) and that the guaranteed price should be increased by 4d. a score to offset the former quality premiums. The net effect of these changes would be an increase of £3\(\frac{1}{2}\) million. It was also agreed as part of the general arrangements for pigs that the guarantee mechanism should be altered so that the progressive fall in the guaranteed price as the number of forecast certifications rises beyond the "middle band" should be made steeper, and conversely the progressive rise in the guarantee as certifications fall below the "middle band" should also be made steeper. The effect of this will be to increase returns to pig producers over the present levels so long as certifications remain (as they are now) below the "middle band": the increase would total some £2 million, but this would not technically be included in the total value of the Review award.

8. In this situation, the Treasury do not feel we should go beyond an increase of 4d. in the guaranteed price. The agricultural Departments, supported by the DEA and the Board of Trade, think the price should be increased by 9d.

9. An increase of 9d. would allow pig producers to retain the whole value of increased efficiency, and from this point of view an increase of 6d. would be more justifiable. But an increase of this amount would bear hardly on Northern Ireland farmers who depend to a great extent
on pig production; and in these circumstances I think that the full increase (9d. a score) is justified. I do not, however, consider it necessary (as proposed by the Agricultural Ministers) to give an assurance regarding guaranteed price levels extending over three years in a commodity as liable to fluctuation in supply as pigmeat: I think an assurance covering only the 1968 Review would be adequate.

Other Commodities

10. In order to keep the total value of the award within the limit of £25 million which I have suggested, I propose that the guaranteed price of potatoes should be raised by only 5s. 0d. a ton as against the 10s. 0d. which Departments have agreed: this will save just over £1 million. The fertiliser subsidy is currently running at the rate of some £30 million per annum; there is general agreement that some reduction could be made without loss of farming efficiency. I propose that this should be set at £4 million and should stand irrespective of whether the National Board for Prices and Incomes recommend an increase in the price of fertilisers following their examination of the case currently before them.

Conclusion

11. On the basis of my proposals, the award for the 1967 Review would amount to £25.25 million. In addition there would be a £2 million addition to the income of farmers as a result of the change in the arrangements for guarantees for pigmeat; but this cannot be reckoned as part of the award. Of this total sum of £27.25 million, £13 1/2 million would fall upon the Exchequer and £13 1/2 million would fall upon the consumers of milk. The figures are summarised in Appendix C.

P.G.W.

70, Whitehall, S.W.1.

10th February, 1967
ISSUES IN DISPUTE

Beef/Milk

The Agricultural Departments proposed to further stimulate the production of beef, with the aim of achieving the selective expansion target of a total saving on imports of beef and milk products of £54 million by 1970, at a cost of some £30 million to the Exchequer and the consumer of liquid milk combined, through

(a) increasing the guaranteed price of milk by 2d a gallon (plus £18.25 million);
(b) increasing the calf, beef cow and hill cow subsidies (plus £4.75 million);
(c) raising the guaranteed price for beef by 5s a cwt (plus £6.25 million).

The Treasury considered that the Agricultural Departments had underestimated the effects on production of the present economic situation and that if necessary some shortfall in the expansion target must be accepted owing to the disproportionately high cost of achieving the full objective. They proposed, at a total cost of £9 million

(a) increasing the guaranteed price of milk by ¾d a gallon to offset the rise in costs (plus £4.5 million);  
(b) increasing the calf and hill cow subsidies (but not the beef cow subsidy which was introduced only last year) as proposed by the Agricultural Departments (plus £4.5 million).

The Department of Economic Affairs did not accept that further expansion could not be achieved except at the cost proposed by the Agricultural Departments and did not wish to see a further increase in the retail price of milk in 1967-68.

The Board of Trade supported the Treasury proposal on milk, together with an increase in subsidies and the guaranteed price of beef on the lines proposed by the Agricultural Departments. This would cost £15.5 million.

After discussion in the Committee, the Chief Secretary, Treasury, accepted an increase of ¾d a gallon in the guaranteed price of milk (plus £6.25 million) and the Joint Parliamentary Under-Secretary, Department of Economic Affairs, indicated that he would be prepared to accept a total increase of £9 million on the value of the guarantees in respect of the guaranteed prices of milk and beef and of the hill cow and beef cow subsidies, the allocation of the sum to be left to the discretion of the Agricultural Ministers, subject to a maximum of ¾d a gallon on milk. The President of the Board of Trade agreed to some advance on an increase of ¾d a gallon. He considered that a limit of £11½ million should be imposed on the total additional financial incentive in the beef/milk complex.
Pigs

A rise in the "middle band" for pigs (above which the rate of subsidy begins to fall) was announced last September to take effect in the current Review: Departments agreed that this must stand.

The Agricultural Departments, the Department of Economic Affairs and the Board of Trade proposed to increase the guaranteed price of pigs by 9d a score to take account of increased production costs (5d) and the abolition of a special premium (4d); the latter was generally accepted. At the same time they wished to give an assurance that there would be no reduction in either the guaranteed price of pigmeat or the upper limit of the "middle band" at the next two Annual Reviews. As part of these arrangements, the Agricultural Departments would accept the proposed alterations in the guarantee mechanism as a safeguard to the Exchequer if pig numbers should, over the next few years, rise unduly.

The Treasury view was that any increase in the guaranteed price (apart from the 4d increase to offset abolition of the quality premium) and any long-term assurance would be unacceptable.

The Foreign Office were generally opposed to giving any longer term assurances.

It was generally agreed, subject to the views of the Agricultural Departments referred to above, that the guarantee arrangements should be altered so as to increase the incentive to produce up to the level of the middle band and to deter subsequent over-production. This would add to producers' returns for the time being £2 million, which however they would lose as soon as the middle band was reached. This would, for technical reasons, not count as part of the formal award.
## APPENDIX B

The Total Value of the Present Departmental Proposals

<table>
<thead>
<tr>
<th>Commodity or Grant</th>
<th>Agricultural Departments</th>
<th>Treasury</th>
<th>DEA</th>
<th>Board of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Change £m</td>
<td>Value £m</td>
<td>Change £m</td>
<td>Value £m</td>
</tr>
<tr>
<td><strong>MILK</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed price (gal.)</td>
<td>+ 2d</td>
<td>+18 1/4</td>
<td>+ 3d</td>
<td>+6 1/2</td>
</tr>
<tr>
<td><strong>CATTLE</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Guaranteed price (cwt)</td>
<td>+ 5s</td>
<td>+6 1/4</td>
<td>-</td>
<td>+4 1/2</td>
</tr>
<tr>
<td>Production grant</td>
<td></td>
<td></td>
<td>+ 4s</td>
<td>+4 1/2</td>
</tr>
<tr>
<td><strong>SHEEP</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Guaranteed price (lb)</td>
<td>+ 1d</td>
<td>+2</td>
<td>+ 1d</td>
<td>+2</td>
</tr>
<tr>
<td>Hill sheep subsidy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Wool</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>PIGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle band Quality premium</td>
<td>+ 3</td>
<td>+3</td>
<td>+3</td>
<td>+3</td>
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<tr>
<td>Guaranteed price (score)</td>
<td>+ 9d</td>
<td>+3 1/2</td>
<td>+ 4d</td>
<td>+1 1/2</td>
</tr>
<tr>
<td>Price (score)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>EGGS</strong></td>
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</tr>
<tr>
<td>Guaranteed price (doz)</td>
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<td>-4</td>
<td>- 1d</td>
<td>-4</td>
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<tr>
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<tr>
<td><strong>POTATOES</strong></td>
<td>+ 10s</td>
<td>+2 1/2</td>
<td>+ 10s</td>
<td>+2 1/2</td>
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<tr>
<td>Guaranteed price (ton)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>SUGAR BEET</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>FERTILISERS</strong></td>
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<tr>
<td><strong>PLOUGHING GRANT</strong></td>
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<td>-3</td>
<td>-3</td>
<td>-3</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td>15 1/2(c)</td>
<td>18 1/2(c)</td>
<td>17 1/2(c)</td>
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Notes

(a) The figure includes any increase in the rates of hill cow and beef cow subsidies

(b) Calf subsidy only

(c) This figure takes no account of the effect of the change in the guarantee arrangements for pigs which will add £2 million to farmers' incomes in present circumstances (see Appendix A) but includes the automatic addition of £1½ million due to the increase in the standard quantity of milk.
<table>
<thead>
<tr>
<th>Commodity or Grant</th>
<th>Change</th>
<th>Value (£ million)</th>
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<tr>
<td>MILK Guaranteed price (gal.)</td>
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<td>CATTLE Guaranteed price (cwt.)</td>
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<td>SHEEP Guaranteed price (lb.)</td>
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<tr>
<td>Wool</td>
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<td>PIGS Middle band</td>
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<tr>
<td>Quality premium</td>
<td>-1½</td>
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<tr>
<td>Guaranteed price (score)</td>
<td>+9d.</td>
<td>+3½</td>
</tr>
<tr>
<td>EGGS (Hen) Guaranteed price (doz.)</td>
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<td>-4</td>
</tr>
<tr>
<td>CEREALS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>POTATOES Guaranteed price (ton)</td>
<td>+5s.</td>
<td>+1½</td>
</tr>
<tr>
<td>SUGAR BEET</td>
<td></td>
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<tr>
<td>FERTILISERS</td>
<td>-4</td>
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<td>PLOUGHING GRANT</td>
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<tr>
<td>TOTAL</td>
<td></td>
<td>25½</td>
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*This figure takes no account of the effect of the change in the guarantee arrangements for pigs which will add £2 million to farmers’ incomes in present circumstances (see Appendix A) but includes the automatic addition of £1½ million due to the increase in the standard quantity of milk.*
Memorandum by the Minister of Social Security

In C(67) 17 the Chancellor of the Exchequer and the Minister without Portfolio have put forward some criticisms of the "give and take" scheme, together with new proposals described as a "direct aid approach". While not claiming that the "give and take" scheme is free from difficulties, I consider that C(67) 17 greatly overstates them, besides ignoring both the virtues of such a solution and the serious objections to any means-tested scheme.

The relation between family allowances and income tax child allowances

2. Although family allowances and income tax child allowances serve different purposes, this surely does not mean that they have to be looked at in total isolation from each other. Indeed, in our last Election Manifesto we promised that we should "seek ways of integrating more fully the two quite different systems of social payment - tax allowances and cash benefits paid under National Insurance". Some of the arguments in C(67) 17 - in particular, that the cut in the tax allowances made under the "give and take" scheme might have to be restored - seem to rest on the supposition that an increase in family allowances does not improve a family's income and taxable capacity, and leaves their need for a particular level of tax allowances (i.e. as compared with, for example, a childless couple) unchanged. Nor do I see why the "give and take" scheme need have the repercussions or the restrictive effect on future taxation policy suggested in C(67) 17; it is essentially no more than an operation to adjust at a particular point in time the relative roles of these two forms of help for families.

Public acceptability of a "give and take" scheme

3. It is true that there has recently been unfavourable Press comment on a scheme, allegedly being contemplated by the Government, which would hit heavily a large number of families in the middle income range and whose cost would be borne by people with children while those without escaped unscathed. But, as I have made clear in C(67) 7, the scheme I advocate does neither of these things. It would be quite wrong to allow criticisms of a hypothetical redistributive type of scheme to influence our attitude to the fundamentally different type of scheme I am proposing, which the public has so far been given no opportunity to consider. I do not see any great difficulty in getting across to the public the essentially simple idea underlying this scheme, or in dealing with any fantasies about future "confiscations" of tax allowances.
4. Paragraph 5 of C(67) 17 refers to the extra numbers who will be brought into the taxable range or have their tax increased, and suggests that this will discourage extra effort. But those concerned will still be left with the greater part of their existing child tax allowances, and so will remain considerably lower down on the tax scale than one-child or (still more) no-child families with the same earnings. For example, on earnings of £20 a week, a single person and a married man without children pay income tax of about £3 16s. 6d. and £2 17s. 6d. a week respectively; and both are in the standard rate tax range, i.e. pay tax on additional earnings at a rate of 6s. 3d. in the pound (the standard rate of 8s. 3d. less 2/3rds earned income relief). By contrast, after the "give and take" operation (involving a £45 reduction in the relevant tax allowances), a married man earning £20 a week and having, for example, two children aged 11-15 and one under 11, will pay tax, including the tax on the increased family allowances, of about 24s. Od. a week; and he will be some way below the standard rate tax range, paying tax on additional earnings at a rate of 4s. 3d. in the pound (the 6s. Od. reduced rate less 2/3rds earned income relief). I see no reason to suppose that in these circumstances men with two or more children will work less hard than men with one child or none - if anything, I should have thought rather the reverse. On the other hand, the paper ignores the real disincentive effect of any means-tested allowance, regardless of whether it is paid to the husband or the wife.

The proposed "direct aid" approach

5. The essence of the proposals listed in paragraph 19 of C(67) 17 lies in items (i) and (ii). Items (iii), (iv) and (vi) could go along equally well with the "give and take" scheme; there is no apparent interdependence of substance or of timetable. Item (v) - special treatment for fatherless families - is a subject on its own, which my Department has under study as part of the social security review. The full rate of supplementary benefit, including the long-term addition, is already available to fatherless families with low resources, and my Department's recent survey confirmed that the vast majority of those fatherless families which are eligible are being looked after under this scheme. Before specially favourable treatment for fatherless families could be justified we should need convincing reasons, which at present are not apparent, for differentiating them from other families deprived of the father's earnings, e.g. through sickness or unemployment.

6. Although the main proposal is described as a scheme of supplementary family allowances, it is in fact merely another variety of means-tested scheme, with the objectionable features common to all such schemes. It could not be convincingly represented as an extension of the family allowances scheme, both because it would have to be separately administered and because the rules would need to differ in a number of respects.

7. Moreover, this scheme is markedly ineffective in helping the poorest families, i.e. those with incomes deficient by supplementary benefit standards. Even with the additional help of the proposed straightforward increase of family allowances for the fourth and subsequent children, only about 65 per cent of the families in the "deficiency" area would be lifted out of it. Moreover, that number would include only about 62 per cent of the total number of children in such families, as against a figure of about 65 per cent of the
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children lifted out by the 10s. 0d. "give and take" scheme. This is because the C(67) 17 proposals give proportionately most help to the smaller families in the "deficiency" area (10s. 0d. each for the first three children, only 5s. 0d. for the fourth and subsequent), whereas need tends to be greatest among the larger families: over half of the children in the "deficiency" area are in families with four or more children (C(67) 7, Annex A, paragraph 9).

8. Such a scheme would be wide open to criticism for not solving the "deficiency" problem, and to pressure for expansion so that it did. Once the bridge has been crossed by the adoption of a means-tested scheme, I doubt whether there is any defensible stopping point short of straightforward supplementation of earnings to bring them up to full supplementary benefit standards. The "give and take" scheme, on the other hand, is protected against this because it patently does not set out to achieve something which, within any reasonable figure of cost, can only be done with a means-tested approach.

9. In any case I have serious doubts about the possibility of maintaining two different standards of means-tested cash payments, operated by the same Department, one more favourable in some circumstances and the other in others. For example, I understand that the scheme in C(67) 17 assumes that there would be no disregard of the wife's earnings such as is given in calculating supplementary benefit entitlement; if, as I would judge, this could not be held, the cost of £11-12 million a year for this part of the proposals would be increased by about £2 million, bringing the combined cost of the two family endowment proposals up to £25-26 million a year. This is not all that far below the cost of the "give and take" scheme (apart from the once-and-for-all extra cost in the first year, caused by the time-lag in the tax system).

10. The pattern of help resulting from the proposals in C(67) 17 would be -

First child - A means-tested allowance of up to 10s. 0d.
Second child - Family allowance of 8s. 0d., plus a means-tested allowance of up to 10s. 0d. - a total of up to 18s. 0d.
Third child - Family allowance of 10s. 0d., plus a means-tested allowance of up to 10s. 0d. - a total of up to 20s. 0d.
Fourth child - Family allowance of 15s. 0d. (or perhaps 17s. 0d.)
Fifth and subsequent children - Family allowance of 15s. 0d. (or perhaps 10s. 0d.).

I do not see how such a pattern could be rationally defended. And by containing something to displease everybody it would be likely to please nobody: it would irritate both those who dislike means-testing and those who object to giving extra help regardless of need. (For the larger families, an increase of 5s. 0d. in family allowances for the fourth and subsequent children, at an extra cost of £12 million a year, gives help to rich and poor alike, something which at least the "give and take" scheme does not do).
Incomes policy

11. I have stated in C(67) 7 (paragraphs 7 and 8) my reasons for believing that the "give and take" scheme would help to restrain wage claims rather than stimulate them. The argument in paragraph 12 of C(67) 17, that the increased family allowances would do nothing to reduce wage claims by all the people who do not have two or more children, ignores the fact that wage claims are made for the whole group of workers in a particular category, not for sub-groups according to their family circumstances, and that they are often pressed on behalf of the whole group on the ground that those members with middle or large sized families are suffering hardship.

12. A means-tested scheme would surely act as a permanent stimulus to wage demands. The fact that a means-tested supplement had to be paid for a substantial number of families with the father in regular full-time work and a by no means excessive number of children, would provide the strongest possible support for a claim that the wages in the father's occupation were unduly low.

Conclusion

13. Nothing in C(67) 17 leads me to alter my view that "give and take" is the right answer and means-testing the wrong one, and that the choice to be made here is of fundamental importance not merely for the future of family endowment but for the whole of our social policy and, ultimately, for the kind of society we shall be creating. The objections to an extension of means-testing to people in work remain valid for the solid practical reasons explained in my earlier papers (C(66) 157 and C(66) 183), and above all because of its harmful effects - all the more harmful for being insidious - on a man's independence, dignity and incentive to work.

M. H.

Ministry of Social Security, W.C. 2

20th February, 1967
CABINET

THE FUTURE OF PRICES AND INCOMES POLICY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

I have now held further consultations with the Trades Union Congress (TUC) and the Confederation of British Industry (CBI) on the lines agreed by the Cabinet on 14th February (CC(67) 8th Conclusions, Minute 2).

Statutory powers

2. I explained to both organisations that the Government had given the most careful consideration to the views which they had expressed on earlier occasions but remained of the view that, given the economic situation, it would not be possible to move immediately from the present phase in which the Government possess wide (though not widely used) powers under Part IV to one in which no powers were available to the Government other than the early warning and very limited standstill powers in Part II.

3. I emphasised that this did not mean that the Government regarded the prices and incomes policy as something which they could impose on the trade unions and management. On the contrary we attached the very greatest importance to the successful development of the influence which the TUC and CBI could exercise in their respective spheres by vetting procedures and in other ways. But the TUC and CBI had always admitted that they would be faced with great difficulties in making a voluntary policy effective in cases where a minority challenged the policy and that being so the Government would be doing less than their duty to the country if they did not hold some powers in reserve for at least a limited period after next August.

4. I put to them that in the circumstances the Government believed that the right course for the twelve months after severe restraint would be to make such use as might be necessary of the present powers in Part II and beyond that to seek for a further period of one year powers which would enable us to give statutory force to recommendations by the National Board for Prices and Incomes (NBPI) (on the lines set out in paragraph 32 of C(67) 13). There would be no provision for prolonging these new powers beyond a year without further legislation. On the other hand no undertaking could be given at this stage whether when the time came such legislation would be brought in or not.
5. The General Council of the TUC will be discussing this matter on Wednesday, 22nd February and I will report the outcome orally to the Cabinet. The general reaction of the Economic Committee of the TUC to this new proposal was, however, no more favourable than it had been previously. The TUC are still determined to stand out against any new powers. They are more mistrustful of the role of the NBPI than the CBI and the proposal to interpose the Board between the Government and exercise of new powers has not been received by most members of the Economic Committee as a helpful factor in the issue of powers. My own view is that the vote at the Conference of the Trade Union Executives on 2nd March, while of considerable importance, should not be decisive in influencing our attitude whether or not to go ahead with our legislative proposals. What really matters is the general feeling of trade unionists and the wider public about the need to deal with those groups who are determined to flout the policy. It is only fair to say that the TUC do not see it like this. They think that the vote in favour of their own proposals at the Conference will be seriously reduced if the Government persists with its statutory proposals and that this will effectively prevent the successful development of a voluntary policy.

6. The Council of the CBI discussed the matter on Wednesday, 15th February. The CBI certainly do not welcome legislation on the lines which we now have in mind, but it seems clear that their hostility has been substantially softened on the basis that we limit our new powers to enforcement of NBPI recommendations and to a period of twelve months.

7. There are two particular difficulties for the CBI:

(i) They, like the TUC, wish us to give voluntaryism a clear run by not even activating Part II until it can be shown that voluntary early warning of increases in prices and pay is not working.

(ii) They reacted very sharply to the proposal that our powers to enforce NBPI recommendations should cover recommendations that prices should be reduced (in cases where the criteria of paragraph 10 of Cmd. 2639 are found to apply).

I made it clear that we felt it would be right to activate Part II before Part IV lapsed even though it would not be our intention to require statutory early warning on a comprehensive basis. I also emphasised that we considered it an essential part of the prices and incomes policy to look for price reductions to offset unavoidable increases elsewhere and that we could not, therefore, exclude from the powers to give effect to NBPI recommendations power to require reductions in prices.

8. As a result of the Cabinet's continuing appraisal of the question of powers in the light of CBI and TUC reactions, we have reached the present position:

(i) Part II (statutory early warning and short standstills pending examination by NBPI) to be activated before the lapse of the present Part IV; the precise use to be made of Part II powers to depend on the situation in the summer, but no present intention of requiring early warning statutorily over a very wide field.
Any new powers to be taken for 12 months only with no built-in power to renew them so that a fresh Bill would have to be introduced if we subsequently thought it right to retain all or some of the powers. We have given no pledge so far about not seeking such legislation in 1968.

The new powers to cover:

(a) lengthening the maximum period of standstill on price or pay increases to 12 months;

(b) prevention of retrospective payment of pay increases for the standstill period;

(c) reduction of prices.

These powers to be exercisable only where the NBPI has so recommended, but the Government would be free, of course, to decide not to use the powers.

These powers will not in practice be as wide as they seem. The limitations imposed by the interposition of the NBPI are very substantial:

(i) The NBPI could be expanded, but it could not take a great many references and prepare worthwhile reports on them at one time. In particular, we would have to be prepared to let some of the smaller cases involving breach of the policy go by default.

(ii) The NBPI is not infallible and it might find it difficult in some cases to reach specific conclusions. We should then be unable to use the reserve powers.

(iii) There are bound to be some cases in which the Board's findings will not conform with the Government's view of the needs of the situation. We should again in this situation have no effective powers.

There is one further point to which I must draw the Cabinet's attention. As the Prime Minister said in his summing up on 14th February, we must put to the CBI and TUC, before the Trade Union Conference on 2nd March, the package of proposals which we believe to be necessary because of the extreme difficulty, if not impossibility, of then going beyond the proposals.

In addition to the proposals in paragraph 8 above, I have mentioned to the CBI the problem of those who may be tempted to "beat the gun" and increase prices or pay without giving the Government advance notification. As I explained in paragraph 6 of Annex A to C(67) 13, this would be a risk even if we imposed statutory notification of proposed increases on quite a wide scale. It would be a much more serious risk if we decided only to ask for very selective statutory notification, as the CBI and TUC are urging us to do.
12. The best way of dealing with this problem would be to take power to require reversion of increases in pay or prices which have taken place if those increases were being referred to the NBPI. Such powers would have to be exerciseable at the Government's own hand. If the NBPI recommended that the increases in question should not be further held up, the price or pay revision orders would be revoked.

13. The CBI were very hostile to the idea of the Government themselves having such a power, despite the fact that it would do no more than enable us to treat fairly all parties whose proposals are referred to the NBPI. The TUC would be no less hostile to our taking this power. But I do not think we should drop the idea without careful consideration, because without it we would be putting a premium on selfish action. As my colleagues know, we have relied on voluntary early warning even during the standstill because we had power under Part IV to require reversion of a price or pay increase and the voluntary system has worked well with this power in reserve.

14. The statutory powers now in view are far more restricted in practical terms than those which I originally outlined and it is tempting to say that one more limitation hardly matters if the power involved is likely to cause further serious difficulty with the CBI and TUC. Against this, if we are prepared to activate Part II and to take power to enforce the recommendations of the NBPI, it would be bound to look odd and illogical if we were to leave such a serious loophole for the actions of the selfish minority. I recommend, therefore, that we should seek this power to require temporary reversion of price or pay increases which have "beaten the gun".

Norm and Criteria

15. I explored with the TUC and CBI the suggestion which was discussed at our last meeting that instead of fixing a percentage norm for pay increases we might adopt the concept of a national dividend in the form of a global sum of money which was available in each year for distribution in increased wages and salaries. Neither organisation saw any attraction in this idea and indeed the TUC expressed themselves most strongly against it.

16. Although, as was pointed out at our last meeting, there could be some advantages in presenting the norm idea in this way, it is clear that "a national dividend" is not different in substance from a percentage norm but is a different way of expressing it. It would, of course, be a simple matter for people to convert the money figure of the national dividend into a percentage figure and there would be a strong temptation to regard this percentage as the minimum rate of increase. Experience has shown that union leaders would feel compelled to negotiate on the basis of getting something more than this percentage as proof of their bargaining power and skill.

17. I believe that this concept might become more acceptable as part of our presentation of any norm in the longer term and I should in any case hope to continue to discuss with the TUC and CBI the whole problem how an incomes norm can best be arrived at and publicly presented. In these discussions we should have an opportunity to explore further such concepts as a national dividend.
18. But for our immediate purposes—and as the year advances the matter is becoming increasingly urgent—I see no alternative to facing squarely the issue of the norm and criteria on the lines summarised in paragraphs 19-25 of C(67) 13. It is obvious that in our present economic situation we could not possibly justify a norm as high as—still less higher than—the level of 3-3½ per cent which should have prevailed up to July, 1966. I suggest that there are two alternatives for consideration for the twelve months beginning 1st July, 1967:—either the principle that no-one is entitled to an annual increase without justification in relation to criteria which would be close to the more flexible criteria of the White Paper (Cmd. 2639) which was agreed by the Government, CBI and TUC—this is the real meaning of a "nil norm"—or a low norm which to preserve a credible relation with the likely growth of productivity would have to be no more than 2 per cent together with stricter criteria which would be closer to those for the present period of severe restraint (Cmd. 3150).

19. The first of these courses seems to me the better one for the following reasons:

(i) It would mean that no-one would be entitled to expect a pay increase merely through the passage of time (and it was the shortening of the interval between pay increases which was so damaging to the policy before the standstill). All increases would have to be viewed against the criteria. This would help to retain an atmosphere of restraint after 30th June. On the other hand, adoption of more flexible criteria would avoid giving the impression that the Government were determined to maintain the freeze for a further year.

(ii) It would avoid the implication of our setting a national productivity target at a time when our general economic plan has not yet been revised and would give the Government more discretion in the timing of reflationary measures.

(iii) It would reduce the area for argument and disagreement with the TUC and CBI. Adoption of a 2 per cent norm would raise in an acute form with those organisations the question of what rate of growth the Government should be aiming at. This might result in the TUC or CBI (or both together) promulgating a norm different from that of the Government.

(iv) A 2 per cent norm would become the minimum pay increase and all unions and most employers would start bargaining from this level.

20. I am fortified in this view by the outcome of my latest consultations with the TUC and CBI. The TUC have not told me explicitly that they would welcome a nil norm. I did not expect them to do so. But this is what they are in fact expecting and I do not think there is any reason to doubt that they would prefer this to a very low norm and stricter criteria which would almost certainly force them to put out their own versions of what the norm and criteria should be. The CBI would certainly regard the nil norm with more flexible criteria as appropriate to our present economic situation and think that it would be more likely to create the right atmosphere than a norm of say 2 per cent.
21. I recognise that many of my colleagues, particularly those responsible for pay in the public services, may feel concern lest the absence of a positive norm should imply a severity of restriction on pay increases over the next twelve months which is unlikely to be secured in the private sector with or without statutory powers. But I suggest that it is misleading to consider the norm in isolation from the criteria with which it would be associated. What we are seeking to do is not to bar pay increases after 30th June but to secure a realistic degree of restraint in the timing and size of increases. The onus would rest on the parties proposing increases to have proper regard to the reasonable criteria on the lines of Cmnd. 2639 and this would be far indeed from imposing a freeze on the public services. We have shown during the standstill that we are not, unlike our predecessors, picking on the public services. Indeed many private employers feel that we have been less severe on the public services than they are urged to be.

Phasing of increases after June 1967

22. As I mentioned in my earlier memorandum (C(67) 13, paragraph 34) regard will need to be paid during the period immediately after severe restraint to which workers have, and which have not, obtained increases in the twelve months ended 30th June, 1967. It seems to me that we must seek to establish three principles:

(i) The least we must ask is that those who have received increases under deferred commitments or under the severe restraint criteria should wait at least twelve months for further improvements under new agreements.

(ii) We also need to reaffirm the statement in the White Paper on Prices and Incomes Standstill (Cmnd. 3073, paragraph 23) that it would defeat our intention if the parties concerned were to seek to make good in subsequent negotiations any increases forgone as a result of the standstill and severe restraint.

(iii) It also seems desirable that large adjustments in pay required to meet exceptional circumstances should be phased over two or more years.

We should be making good progress in dealing with the problems of the transitional period if we could establish these principles in agreement with the CBI and TUC. More ambitious proposals, such as consideration of the main pay claims together in order to establish priorities or general acceptance of a minimum increase for the two-year period July, 1966 to June 1968, with very few exceptions above this level, do not seem to be practical politics at the present time.

The Next Steps

23. I would therefore propose, if my colleagues agree, to continue discussions with the CBI and the TUC on the basis of the legislative proposals outlined above and with the object of securing agreement on a "nil norm" and criteria along the lines of those in the White Paper (Cmnd. 2639) and on principles for dealing with the transitional problems of phasing increases after 30th June, 1967, leaving the final decisions to be
taken by the Government after the Conference of Trade Union Executives on 2nd March. This means that we shall not be in a position to inform Parliament of our firm intentions until after the Conference. We must recognise that in following this course we lay ourselves open to criticism at home and possibly overseas for our apparent indecision in determining the next phase of the policy, given that consultations with the CBI and TUC have been continuing for some weeks.

M.S.

Department of Economic Affairs, S.W.1.

21st February, 1967
CABINET

TELEVISION IN THE HOUSE OF LORDS

Memorandum by the Lord President of the Council
and the Lord Privy Seal

The Cabinet decided on 10th November, 1966 (CC(66) 56th Conclusions, Minute 7) on the basis of a paper put forward by us both (C(66) 147) to authorise a joint experiment in televising both Houses of Parliament in the spring of 1968 for a short period. The cost, to be met by a supplementary vote, was to be £150,000 for the Commons and £18,000 for the Lords. This decision was without commitment to any permanent arrangement, and was to be subject to a free vote in either House. The Lord President in his speech to the Commons on 24th November put this decision on record (H.C. Hansard, Vol. 736, cols. 1612-3). In the event the Commons rejected the experiment in the Commons.

The Lords had already decided in principle that they wished for a TV experiment. The Lords' Select Committee was in some doubt about the £18,000 which had been earmarked for the Lords, since it was not clear whether the Commons' vote would result in the withdrawal of the offer of the £18,000 which had been made by the Government. The Report of their Select Committee will soon be published and, in the debate on it, it will be necessary for the Government spokesman to indicate what the Cabinet has decided on this.

The object of the experiment which the Lords' Select Committee is suggesting would be to produce a series of dummy programmes including edited versions of debates, news flashes and so on which would be shown to the House of Lords and made available to the House of Commons, if it so wished. It is understood that the estimated cost on the lines now suggested of a one-House three-day experiment, would be £16,500, rather less than was originally authorised for the Lords' share of the Joint Experiment.

We hope that our colleagues will agree that we should not deny the money up to £18,000 which had previously been offered.

The Lord Chancellor concurs in our proposal.

R. H. S. C.
L.

Privy Council Office, S. W. 1.
21st February, 1967
CABINET

IRON AND STEEL NATIONALISATION: NATIONAL STEEL CORPORATION SALARIES

Memorandum by the Minister of Power

The Prime Minister had asked that the question of National Steel Corporation Salaries should be brought to Cabinet on the basis of proposals I had agreed with the First Secretary of State and the Chancellor of the Exchequer and which are outlined in the paper at Annex.

Since this paper was prepared, however, Lord Melchett, Chairman of the Organising Committee, has told me that the salaries indicated in paragraph 10 of the paper, if approved by the Government, would depress the salary levels lower down in the industry to an extent which would make it impossible to retain or secure staff of the required quality. He would therefore wish to resign and believes that the bulk of the Organising Committee would not be willing to serve.

I am discussing this further with Lord Melchett and will report the position to my colleagues when the paper is discussed.

R. W. M.

Ministry of Power, S. W. I.

1st March, 1967
CABINET

IRON AND STEEL NATIONALISATION: NATIONAL STEEL CORPORATION SALARIES

Memorandum by the Minister of Power

The Cabinet considered last September (CC(66) 48th Conclusions, Minute 5) the question of the salaries to be paid to members of the National Steel Corporation; the Cabinet then settled the salary to be offered to the future Chairman of the Corporation but agreed to determine at a later date the salaries for members of the Corporation.

2. The matter is now urgent in that I have to be ready to appoint at least the minimum seven members by about Easter in order to meet the requirements of the Bill.

3. The nationalised steel industry, with a capital concentration of £1,600 million and a labour force of nearly 300,000, will be the largest manufacturing complex in Britain and one of the largest in the world. In addition it faces serious problems at home and fierce competition abroad. Its problems are all the greater in that it will not merely provide a holding company to run the 14 companies more efficiently but will break up the existing structure and reconstitute the industry on entirely new lines.

4. There can be no question but that the consequences of the failure of this exercise would be disastrous in both political and economic terms.

5. In the light of all these factors I am now convinced that the Corporation must be a functional Board with members directly responsible for specific fields of policy, e.g. engineering, marketing and production. This approach means of course that, certainly with the initial appointments, the members must be persons of proved experience and expertise. This raises a problem in that the higher levels of salary in manufacturing industry are considerably higher than those currently paid in the existing public sector. To give some practical examples of the problem, with the exception of the two trade unionists (Ron Smith and Sid Harris) there is not one of the 10 members of the Organising Committee who does not already earn considerably more than the maximum of the highest salary paid to a member of an existing public Board.

6. For obvious reasons it will be my intention to invite Michael Milne-Watson of Richard Thomas & Baldwins to become a member of the Corporation but he is already receiving a Treasury approved salary of £15,000 per annum and it would clearly be absurd to offer him a post on the Corporation controlling 14 nationalised steel companies at something over half that rate.
7. An analysis of the senior Executives in the five largest companies to be taken over is as follows:-

<table>
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<tr>
<th></th>
<th>Salary Range</th>
<th>No. Within</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman/Chief Executive</td>
<td>£15-23</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>£20,000 or more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing Director/Deputy Chairman</td>
<td>£12-19</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>£17,500 or more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Executive</td>
<td>£10-14</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>£13,500 or more</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The size and complexity of these companies is of course very small indeed in relation to the Corporation.

8. Much of the management of the steel industry is deplorable and my fear is that despite our obligation to protect existing salaries we may lose the best men at all levels to private industry if we do not provide a proper avenue of advance. Not only are we in direct competition for talent with the engineering industry but the remaining private sector of the iron and steel industry, with 260 firms and some 100,000 men (excluding Iron and Steel Foundries), is also a factor to be reckoned with.

9. In short there will be competition for men as well as markets and there is both a private steel sector and related manufacturing sectors to which key management of all levels can go.

10. All this leads me to recommend a salary structure as follows:-

<table>
<thead>
<tr>
<th></th>
<th>Salary</th>
</tr>
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<tbody>
<tr>
<td>Chairman</td>
<td>£18,000</td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>£15,000</td>
</tr>
<tr>
<td>Members</td>
<td>£9 - 13,000</td>
</tr>
</tbody>
</table>

11. These salaries are considerably lower than those at present being paid to many top Executives both within the companies to be nationalised and in industry generally and would represent a positive move against excessively high salaries. They would provide a realistic structure which would not create problems in relation to incomes policy.

12. For men already in the steel companies to be taken over who are wanted for the Corporation (like Milne-Watson), the provisions of the Nationalisation Bill would preserve their contractual rights if they remained in their present employment; and we would have to let them keep their contractual salaries on a personal basis if they accepted appointment to the Corporation. It might still be necessary to pay more to attract someone from outside the industry whose qualifications for a particular Corporation appointment were outstanding. Individual cases would be considered on their merits after consultation as necessary with the First Secretary of State and the Chancellor of the Exchequer.
13. During the passage of the Bill, Corporation salaries have been debated twice and the debates have received considerable press coverage. On the last occasion (on 23rd January) we had a long debate and there was overwhelming support, including from the Government benches, for the proposition that the Government have to pay something approaching a market rate. Two particularly significant speeches were made by Brian O'Malley and James Tinn, who both represent steel constituencies.

14. I am quite convinced that this structure cannot seriously be challenged on grounds of incomes policy:

(1) This is a new scale for a new job at a lower rate than existing scales for smaller jobs in the same and related industries.

(2) Far from increasing incomes it would with the exception of Ron Smith produce a cut in substantive salary for virtually everyone including the Chairman.

(3) Far from increasing the salary bill there will be a very sizeable reduction as a result of the decision to concentrate fourteen separate companies into probably four groups.

15. I have discussed this problem with many people including leading trade unionists within and outside the industry as well as with representatives of left-wing opinion in the House and there is overwhelming opinion in favour of recognising the special factors in this particular case.

16. When we decided to go ahead with steel nationalisation it was a step with massive implications for the future of British industry and the economy. We will run very serious risks and attract nothing but criticism if we seek to avoid the logic of the situation.

17. I believe my proposals in paragraphs 10 and 12 are the least we can do if we are to achieve a smooth transition to public ownership, safeguard our new and vast investment in the industry and make nationalisation a success.

18. I have already had a preliminary discussion with the First Secretary of State and the Chancellor of the Exchequer, who agree with the salary structure proposed in paragraph 10 above, and agree that the payment of higher individual salaries to people from outside the future public sector of the steel industry mentioned in the latter part of paragraph 12 would, if the need arose, have to be considered strictly on its merits at the appropriate time.

19. I invite my colleagues to agree.

R.W.M.

Ministry of Power, S.W.1.

CABINET

FAMILY ENDOWMENT

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

As my colleagues know, when we discussed family endowment in Cabinet on 23rd February (CC (67) 9th Conclusions, Minute 4), I indicated that while, whatever my personal views, I could not dissent from the view of the majority in favour of an increase in family allowances, I must reserve my position on the method by which it should be financed.

2. I think I should now make clear to my colleagues the reasons for my reservation, so that they may understand the consequences of going forward with a decision.

3. To increase family allowances by 10s. a week for each child except the first for every family in the country from 1st April 1968 would be to increase total Exchequer expenditure by £160 million. The method of financing put forward is to cover the bulk of the increase by raising Income Tax—by reducing the child allowances—and to meet the rest by increasing other forms of taxation. This is the reality—extra expenditure of £160 million requiring extra taxation of the same amount—which should not be obscured in our discussions, and cannot be obscured publicly, by looking only at the net difference between the amount to be spent in total and the amount to be raised from Income Tax.

4. On the expenditure side we are saying in effect that in considering the pattern of our public expenditure as a whole we wish to give further priority to social security benefits over other forms of expenditure. We should not overlook the extent to which we have already moved in this direction with the improvements we have made in the system in spite of the difficulties of the last two years—improvements which, with the uprating proposed for later this year, will have added over £700 million to the annual bill.

5. Before we finally decide to add another £160 million it seems to me only sensible that we should consider the effect of this on total public expenditure over the next few years, and on the relative priorities we shall be attaching to this form of expenditure as against further expenditure to support our economic policy, education, health,
housing, roads, defence and the other programmes. Indeed, we have authorised a special review of all public sector expenditure with just this in mind—recognising first that, with the slower growth in our total national resources that we now foresee, there must be some reduction in the growth of total public expenditure, and secondly that there is a need for a conscious deliberate reshaping of our priorities. The results of the official work we have authorised will be coming to us in a few months' time and by mid-summer we shall be in a position to take comprehensive and carefully-thought-out decisions. At that time I should be sympathetic to a further increase in social security benefits, especially if it can be directed to those in greatest need, provided the balance of argument shows that it can be done without too much detriment to our other programmes, or to the growth of the rest of the economy. But to decide it finally now, before we can see the consequences, would be to take a leap in the dark which we might well regret when the consequences for other programmes become clear.

6. I see the problem this way because I hold to two propositions:

(a) the maximum increase in taxation rates which would be tolerable between now and 1970 is about £300 million;

(b) to limit the increase to this figure requires a reduction of about £500 million in the total public expenditure programmes by 1970.

These are the hypotheses which have been accepted by my colleagues for the review of expenditure to which I have referred. While I recognise that they may be modified in detail when we come to take our final decisions, it is as clear as it can be that we cannot accommodate an additional increase in taxation of £160 million. For this reason the only hypothesis on which I could accept an increase in family allowances of £160 million is that there will be an equivalent reduction in other programmes. This is the only method of financing which seems to me compatible with maintaining, in a period of slower growth than we had hoped for, a tolerable balance between the public and private sectors. In short—and this is what I want my colleagues to understand—I am not prepared to finance this extra expenditure by an increase in taxation, over and above the increases that are already likely to be necessary in later years.

7. Even so, the result would not be wholly satisfactory. We should have accepted a reduction in some of our programmes—schools, housing or whatever it might be—in order to make room for an increase in family allowances, the bulk of which would go to families who do not need it, and have not asked for it. It would also be electorally unpopular. This would be the result of accepting the views of those of my colleagues who are opposed to income-tested benefits in this field and who maintain their opposition in spite of the fact that income tests have been devised and accepted in other fields, for example, rate rebates and the encouragement of local authorities to introduce rent rebate schemes. My own view is that if our social programmes are to go forward, and help is to be given
where it is really needed while keeping taxation within tolerable limits, the Cabinet will have to face the issue of income-testing and come to an agreed conclusion on it.

8. I must also stress that there is every sign that 1968–69 will be a very difficult year. We can accommodate a steep rise in public expenditure in this coming financial year, mainly because we are expecting private investment to be falling and private consumption to be restrained. In 1968–69, however, we shall hope to see private investment at least ceasing to fall, if not actually rising. We must make room for this; but even if we are successful in slowing down the rate of increase in our public expenditure programmes to the extent I have indicated, to do this by 1968–69 will not be easy and we may have to face making the whole of the tolerable increase in taxation in that one year—perhaps even, if the economy recovers quickly enough, more than the whole, as a temporary measure. We shall not see the pattern of 1968–69 at all precisely until the autumn of this year, but it is already clear that the Budgetary problem is going to be a difficult one. This is another reason for not taking this decision now.

L. J. C.

Treasury Chambers, S.W.1.
8th March, 1967.
In his memorandum (C(67) 23) the Chancellor of the Exchequer proposes that a final decision to increase family allowances should be deferred until the results of the special review of public sector expenditure will be available.

The proposal in my memorandum C(67) 7 was for a family allowance increase to operate from April, 1968 associated with a reduction of income tax child allowance designed to ensure that the benefit of the increase was concentrated on families below the standard-rate tax level. This was approved in principle by the Cabinet on 23rd February (CC(67) 9th Conclusions, Minute 4) and the Chancellor of the Exchequer, the Minister without Portfolio and I were invited to arrange for a more detailed examination of the implications.

If further action is now to be suspended until midsummer or perhaps until the autumn, when as indicated in the last paragraph of C(67) 23 we can expect to see the pattern of 1968-69 precisely, all prospect of getting the scheme into operation by April, 1968 will be lost. While there would be no difficulty about a simple increase in family allowances (which could if necessary be put into effect within three months of a firm decision), the associated tax adjustments, and any changes in the family allowances and tax systems necessary to bring them more closely into line, raise a number of detailed problems calling for careful examination by my Department and the Department of Inland Revenue and probably further decisions by Ministers. I understand that the Inland Revenue Department has to be given some weeks for the preparation and issue of firm instructions to staff on any changes in the amounts of, or conditions for, tax allowances before the annual recording begins in the autumn. Legislation will have to be drafted for introduction early in the new session. This makes it essential to take firm decisions not merely on the principle but on all the details of the scheme, as well as to complete consultations with the Trades Union Congress (TUC) and the Confederation of British Industry (CBI), by July at the latest.
4. Attention has been concentrated on child poverty for a long time now. Informed opinion is seriously (and rightly) concerned about it, and we have given repeated assurances that it is receiving urgent consideration. We have already announced that half a million children are living below the supplementary benefit level, and the results of the official survey will be published in June showing this and also showing that there are many more children living not far above that level. At about the same time we shall be announcing general increases in social security benefits to take effect in the autumn. We shall at that point undoubtedly be heavily criticised if we are proposing to do nothing about family endowment until April, 1968, and I remain strongly of the view that we ought then to announce an interim increase in family allowances to come into force in the autumn and to be subsumed in the give-and-take scheme in April, 1968. If we were to have no such plan to announce, criticism would intensify to an intolerable extent, even if no changes were made in the charges for school meals and welfare milk.

5. It is true, as the Chancellor says, that a give-and-take scheme with a 10/- increase in family allowances would entail additional expenditure of £160 million, but I would reiterate my belief that the realistic approach is to look at tax allowances and family allowances together and not separately. (This was the approach with regard to investment allowances and investment grants.) We specifically promised in our election manifesto to "seek ways of integrating more fully the two quite different systems of social payment - tax allowances and cash benefits paid under National Insurance". Both tax allowances and family allowances are intended to give help to families with children as against those without. Together they are complementary, providing a flexible means of deciding how such help should be given.

6. I really cannot see that an arrangement which leaves the family of the standard rate tax payer with virtually the same income as before has in any way diminished his taxable capacity; and to the extent that families below the standard rate range are receiving improved family allowances, their taxable capacity has, prima facie, increased. What we are in effect doing is using the built-in incomes test of the income tax system to direct help to those families who need it. The net effect of the 10/- scheme is to concentrate the help on approximately 2 million lower-paid families with two or more children - in particular, to give the full benefit of the increase to those of the 160,000 families below the supplementary benefit level who have two or more children, and to the many other families who are not far above that level (300,000 families are above that level but less than £3 above it) and who will still be outside the taxpaying range after a give-and-take scheme has been introduced.

7. The Chancellor says that when the time comes to take a decision on family endowment the Cabinet should face the whole issue of income testing. This I understand to refer to a direct income test, against which the Cabinet decided on 23rd February. I would again remind my colleagues of the strong practical objections to such a test for a benefit paid to families where the father is in full-time work - in particular, the resentment it would cause and the disincentive effect it would have. I set out these objections fully in C(66) 183, and my views have been subsequently reinforced by the strong opposition to income testing expressed to me by the TUC.
8. In view of the necessity to reach an early conclusion if a give-and-take scheme is to operate in April, 1968, I would urge my colleagues to confirm their decision of 23rd February in favour of the principle of my proposals, and to authorise the working-out of details by the Departments concerned.

M. H.


9th March, 1967
The Prime Ministers Group on Housing has been considering the level of the housing programme. The immediate and crucial issue is the level of the 1967 local authority programme in England and Wales.

2. At the last election we were firmly committed as a Party to the building of 500,000 houses in 1970. So far we have not succeeded in building at a rate that will ensure that the 1970 target (based on our assessment of the Nation's housing needs) will be reached. In 1963 299,000 houses were completed in Great Britain, in 1964 374,000, in 1965 382,000, in 1966 385,000 and we may not reach 400,000 this year.

3. In the public sector, completions this year and next year will be up because of a rise in the allocations in 1965 and 1966. They will be helped by the specially increased allocation made last year but against this the future level of private completions is very uncertain.

4. The programme of approvals endorsed by Ministers for this year, however, falls short of last year's total of approvals by 4,000. In addition, an extra 3,000 approvals will be needed for houses for miners. The effect of these two factors is to reduce the local authority programme by 7,000.

5. Good planning requires telling local authorities of their programme of approvals well in advance of the time they should let tenders. Indeed, for efficient operation, they should be told this in the autumn of the year before. Against this timetable, we are already late in settling their programmes and they will therefore be pressing very strongly over the next few weeks to know how many tenders they may expect to be approved this year. We shall have to tell them. When we come to fix their figures, if the present year's allocation is not increased, we cannot avoid difficult and unpleasant choices.

6. In the past we have told priority areas (141 out of about 1,400 local authorities) to build to capacity. We estimate that these areas are able and anxious to put into tender at least 10,000 more houses this year than in 1966. If we honour our promises to these areas, a very heavy cut must fall upon the non-priority areas for with the programme already reduced by 7,000, the total cut falling upon them would become
17,000. It would probably be impossible to make a cut of this brutal severity, for non-priority is only a relative term - some of the worst slums are in the non-priority areas even though the absolute numbers are not great. The difference between priority and non-priority is to a large extent one of scale rather than need. The consequence would be that, as well as making some cuts in the non-priority areas, we should have to put limits on the priority areas' programmes.

7. All these cuts would become public over the next few weeks and could have grave political effects which would be aggravated because they were being made at a time when there was spare capacity in the building industry.

8. It is true that the private sector looks at the moment to be doing a little better, but it has a long way to go even to match the performance in 1964/65 and even further to make its expected contribution to the housing target in 1970. The prospects are not such as to justify depression now in the level of local authority programmes. We need to make good the dip in this year's allocation - 4,000 houses; provide 3,000 to cover the houses needed for miners; and to add another 5,000 to allow a modest increase and to make the limitations on the local authority programme politically bearable. We are therefore asking for an increase of 12,000 in this year's allocations.

9. This issue was considered by the Prime Minister's Group on Housing on our proposal that the programme for 1967 should be increased by 12,000. The meeting expressed wide support for an increase of 3,000 to offset the additional houses required for miners, though the Chancellor of the Exchequer did not at that stage feel able to commit himself. There was also a measure of support (we believe considerable) for authorising an increase of 7,000 which would maintain approvals at the same level as in 1966 and would also compensate for the additional houses required for miners; the Chancellor of the Exchequer, however, argued strongly against an increase of this order on public expenditure grounds.

10. To sum up. To maintain the credibility of our housing objectives we should be seen to be making significant progress towards them in the public as well as the private sector. The present public sector programmes would oblige us to take open action to keep the level of the local authority programme below that of last year and below what they are able and willing to do. This would be bound to lead to political difficulties at both the national and local levels.

11. In our view, an extra 12,000 approvals is needed to avoid embarrassment. In the light, however, of the discussions in the Prime Minister's Group we would reluctantly accept that the question of the additional 5,000 (paragraph 8) be left over for consideration towards the end of the year. Of the balance of 7,000, half would be started this year and the rest next year leading to about 1,750 extra completions in 1968 and about 3,250 extra in 1969. The programme so increased would provide jobs for 7,000 workers. 7,000 extra approvals in 1967
will increase housing investment expenditure by an estimated £27.5 million spread as follows -

<table>
<thead>
<tr>
<th></th>
<th>1967/68</th>
<th>1968/69</th>
<th>1969/70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£9.1 m.</td>
<td>£11.4 m.</td>
<td>£7.0 m.</td>
</tr>
</tbody>
</table>

They would eventually increase Exchequer housing subsidies by about £0.6 million a year with effect from 1969/70.

12. We accordingly ask our colleagues to authorise now an increase of 7,000 in the local authority programme in 1967.

Ministry of Housing and Local Government, S.W.1.

10th March, 1967
CABINET

FARM PRICE REVIEW

Memorandum by the Minister of Agriculture, Fisheries and Food

At the meeting on 14th February (CC(67) 8th Conclusions, Minute 3) the Cabinet approved the proposals put forward by the Minister without Portfolio in CC(67) 18 on the limits to which the Agriculture Ministers should go in negotiations on the current year's Farm Price Review. The Minister without Portfolio proposed a total award of £25.5 million.

2. I am glad to report that I have been able to get an agreed settlement with the Farmers' Unions at the figure authorised (worked out in detail the figure for the settlement is actually £25.332 million). Within this total we have made, in consultation with the Minister without Portfolio, some minor adjustments in the proposals for the individual commodities. By making no change on potatoes and slightly shading down the increases on milk, cattle and pigs, we have been able to make a very small award on sugar beet (2s. 6d. per ton), a slight reduction in the cut on eggs (now ¾d. a dozen), and - in view of the recommendation by the National Board for Prices and Incomes for increases in fertiliser prices - we have brought down the size of the cut in the fertiliser subsidy from £4 million to about £2 million. I have also avoided giving a long-term assurance on pigs.

3. I attach a copy of the Annual Review White Paper which has been agreed with the Departments primarily concerned. It will be published on Wednesday, 15th March and I shall, as usual, be making a statement about the Review after Questions the same day. Both the White Paper and my statement (a copy of which will be circulated later today) will emphasise that, over and above the changes which might otherwise be necessary, we have decided this year to give a special increase in the guarantees for the beef and dairy herds, and for pigs in order to provide the capital resources needed to finance the selective expansion programme and so save imports.

T.F.P.

Ministry of Agriculture, Fisheries and Food, S.W.1.

13th March, 1967
AGRICULTURE ACTS 1947 & 1957

ANNUAL REVIEW
AND DETERMINATION OF
GUARANTEES 1967

Presented to Parliament by the Secretary of State for the Home Department,
the Secretary of State for Scotland and the
Minister of Agriculture, Fisheries and Food
by Command of Her Majesty
March 1967

LONDON
HER MAJESTY'S STATIONERY OFFICE
PRICE NET

Cmd. 3229
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I. INTRODUCTION

1. This is the second Annual Review to be held during the period of the selective expansion programme for agriculture. When the programme was published, in September 1965, as part of the National Plan, the Government announced that it would have to be kept under constant review to assess the resources required and to measure the progress being achieved, and that they had agreed with the Farmers' Unions that the machinery of the Annual Review should be used for this purpose. In making their determinations on guaranteed prices and production grants this year the Government, though they have also taken into account all other relevant factors, have paid particular attention to the review of the selective expansion programme.

2. Under the selective expansion programme agriculture is expected to contribute to import saving by increasing its production sufficiently to meet a major part of the additional demand expected by 1970 for food for human consumption, and also to supply much of the cereals required for the increase in livestock production. At the same time, by improving its labour productivity more rapidly than the increase in production, agriculture is expected to continue to release manpower to other sectors of the economy.

While the programme does not lay down precise targets, it envisages an annual rate of expansion in net output broadly comparable to the 3½ per cent achieved in the five years preceding the programme. It also assumes the maintenance of the rate of increase in the industry's productivity which, before the programme, had been running at the high rate of about 6 per cent a year.

3. While the economic difficulties of 1966 and the corrective measures which the Government were obliged to introduce have invalidated many of the figures and assumptions in the National Plan, these difficulties have underlined how important is the contribution which agriculture can make to the national economy through import saving, provided that the expansion of production is based on increasing productivity.

4. Accordingly, the Government have considered what progress has been made towards the objectives of the programme since the base year, 1964. There are marked differences between the various sectors of the industry. On the arable...
side progress has been satisfactory. In particular, the cereal acreage has expanded in line with the programme, although some alteration in the balance between wheat and barley is desirable. On the livestock side the position is less satisfactory. Under the programme meat is one of the most important sectors. There is particular emphasis on beef which, it is envisaged, should be expanded to the full extent of the technical possibilities. So far, while the beef herd has been expanding, the dairy herd, from which the greater part of our home-produced beef comes, has shown no increase at all. The sheep breeding flock, after a gradual long-term increase, has recently fallen. The pig breeding herd has fallen during the last two years; in 1966/67 pig production will be well below the level needed, with particularly marked effect on bacon production.

5. Overall, net output is tending to decline. In 1965/66 the index of net output fell slightly; the forecast for 1966/67 shows a further slight fall. The industry is releasing labour at a rate higher than is envisaged in the selective expansion programme; but the effect of the decline in net output in the last two years has been to reduce the average rate of increase in productivity from 6 per cent a year to 4 per cent. This is disappointing. The Government made clear, in announcing the selective expansion programme in September 1965, the importance of maintaining a rising level of productivity. They therefore wish to consider whether, within the ambit of present support for agriculture, there are means of further encouraging productivity.

It is proposed that exploratory discussions on this question should take place without commitment, between the Agricultural Departments and the Farmers' Unions during the remainder of this year.

6. The Government have considered with the Farmers' Unions the economic condition of the industry; and it has been particularly useful to have available the additional economic and financial data prepared in agreement with the Farmers' Unions since the 1966 Annual Review. For the agricultural industry as a whole, net income has remained static during the last three years. For 1966/67 aggregate net income is forecast to be virtually the same as in 1965/66, and slightly lower than in 1964/65. The Government recognise that farm income must cover not only the reward to the farmer for his managerial and manual effort but the return on his capital investment; and that it is the main source of finance for any further investment that may be necessary. The Government have therefore had to consider at this Review
whether the industry has the resources required for the further investment needed to ensure sufficiently rapid progress towards the objectives of the selective expansion programme.

7. In doing so the Government have kept fully in mind the requirements of their prices and incomes policy. The White Paper "Prices and Incomes Standstill: Period of Severe Restraint" (Cmnd. 3150) sets out the criteria which apply up to 1st July 1967. These cover all forms of prices and of incomes, including the incomes of self-employed persons. The particular criteria to apply from 1st July are still under consideration; but the Government have made it clear that the situation thereafter will call for continued restraint on prices and incomes.

8. The Government have also had regard to the assurances they have given to the industry concerning determinations at Annual Reviews. When the selective expansion programme was announced the Government stated that they recognised that the industry would need to have the physical and financial resources required to carry out the programme and that this would be taken into account at future Reviews. At the 1966 Annual Review the Government gave an assurance about the use to be made of the industry's annual gain from increasing productivity. Reaffirming this assurance in September 1966, the Minister of Agriculture, Fisheries and Food pointed out that the Government intended, in interpreting the assurance, to create the conditions in which full-time commercial farmers can use a reasonable part of their rising productivity to finance any further necessary investment and to increase their net incomes and so their standard of living, although this would naturally need to be carried out within the principles of the Government's prices and incomes policy.

9. Against this background, the Government have decided that this year it would be right to give a larger Review award than they would otherwise have considered necessary so as to provide the industry with the capital resources which are clearly needed to finance the selective expansion programme, particularly on the livestock side. Had it not been for the exceptional circumstances this year the Government would have considered that their right course was to be guided by the assurance on productivity which they gave to the industry at the 1966 Annual Review (para. 8 above). If this guideline had been followed this year the industry would only have been
permitted, after taking account of costs of £15 trillion, to have retained a part of its productivity gain.

10. But because of the above considerations the Government have decided to go further than this. The changes in the guaranteed prices and production grants which are being made to give effect to the Government's decision are discussed below. Their effect is to add £25 million to the total value of the guarantees. This will not only recoup the industry fully for the assessed cost increases of £15 trillion, but will also leave it the benefit of the whole of its increasing productivity estimated taking one year with another, at about £30 million a year and a further £10 million, which together will provide a substantial further sum for the additional capital investment required for expansion. The Government believe that this award should give the industry the confidence and the means needed to make possible a further significant advance towards the achievement of the selective expansion programme. They are confident that, if farmers respond to this incentive, net output and net income will again resume their upward trend, although both farm income and production in the coming year can of course also be affected by the weather and other outside influences. The Government are satisfied that the award is consistent with prices and incomes policy and is essential to enable the industry to continue to make its vital contribution to the national economy through import saving.
II. ECONOMIC CONDITION OF THE AGRICULTURAL INDUSTRY

The Course of Production

11. The gross output of agriculture in 1966/67 is expected to be virtually the same as in 1965/66 while there has been a small increase in the volume of goods and services purchased by the industry from other sectors. Consequently, the index of agricultural net output is expected to be slightly lower, and is forecast at 135 for 1966/67 compared with 136 for 1965/66 and 137 for 1964/65 (average of 1954/55 to 1956/57 = 100).

Appendix I, Table K, page 1.

12. The barley acreage has again risen considerably, but this was partly offset by a fall in the acreages under wheat and oats. Yields were below normal for both wheat and barley, and total cereals production was in consequence only the same as in 1965/66. The potato acreage fell somewhat, but the yield has continued at only a little below the high level of 1965 and, as a result, production at present seems likely to be enough to meet demand. Home sugar production is about the same as a year ago. Home production of beef is likely to be higher than in 1965/66. The beef herd has continued to increase. The dairy herd has shown a slight decline, but the output of milk is about the same. Home production of mutton and lamb is likely to be slightly up but the census returns for December 1966 showed a fall in the number of breeding ewes. The number of pigs marketed in 1966/67 fell substantially and the decline in the pig breeding herd continued throughout the year, but has now been checked. Home supplies of eggs over the year are expected to be somewhat higher than in 1965/66.

Income

13. Actual farming net income in 1966/67 is forecast to be £472 million, about the same as in 1965/66 for which net income is now estimated at £468½ million. Adjusted to normal weather conditions, the forecast
becomes £479 million, about 1 per cent more than income on a normal weather basis in 1965/66. Taking the last three years together, there has been little change in the level of aggregate net income. Since the number of full-time farms is declining, there will have been some improvement in average net income per full-time farm.

14. It was agreed with the Farmers' Unions at the 1966 Review that more comprehensive and up-to-date information should be provided on the value of occupiers' capital and on the trends of net income and profitability of full-time farm businesses, in total and for the different categories and sizes of business. A comprehensive report on "The Structure of Agriculture", published by the Government in September 1966, showed the relative contributions to agricultural output of holdings of different types and sizes and gave some indication of their levels of net income. The classification used in the report has been adopted at this Review for summarising the information on farm incomes, output and costs collected for the years 1964/65 and 1965/66 from some 3,500 farms of different types and sizes throughout the United Kingdom. A detailed analysis of the information for England and Wales is presented in this year's annual report on the Farm Management Survey* which is being published simultaneously with this White Paper. Similar information for Scotland and Northern Ireland will be published later in the spring.

15. The information shows that following the substantial improvement in net income on all types of farms in 1964/65, there were varying movements in 1965/66 according to farm type. In England and Wales the upward trend of net income on dairy farms continued, but on other livestock farms net income in general declined appreciably.

* "Farm Incomes in England and Wales," H.M.S.O., 14s.Od.
Smaller reductions took place on cropping and mixed farms. In Scotland net income declined on farms of all types. While the reduction on dairy farms was slight, net incomes on other types of farm, particularly cropping and mixed farms, were substantially lower than in 1964/65.

In Northern Ireland, dairy farms showed a small further improvement in net income, but there was a slight decline on mixed farms. Net income on cattle and sheep farms however suffered an appreciable reduction.

Examination of the farm accounts throughout the United Kingdom reveals a wide range of net income: it is apparent that on farms of the same general type and size above-average levels of net income depend on the efficient use of resources as much as, or more than, on the attainment of a high level of output. (Specimen figures illustrating the changes in net income between 1964/65 and 1965/66 are given in Appendix IV, page...)

Costs and Efficiency

16. The prices of goods and services used in agricultural production have continued to rise, but at a slower rate than in recent years. The usual calculation made in February showed that, at current levels of use, price changes would add in a full year a net total of £15 million to the cost of producing Review commodities. The main increases are for labour, rent and machinery (Appendix III, page...). (The increase in rent reflects higher rents paid in the year up to October 1966, but negotiated earlier in 1966 or in 1965.) These increases in costs have been taken into account along with the annual gain in efficiency, which is assessed, taking one year with another, at £30 million for Review commodities. The figure of £15 million for the net increase in costs was arrived at before the recent increases in feedingstuffs prices and it does not take account of the recommendations made by the National Board for Prices and Incomes on the applications by the fertiliser manufacturers for price increases. The Government have, however, borne in mind the position on feedingstuffs and fertilisers when considering the Review determinations. (Changes in feedingstuffs costs for pigs and eggs are dealt with by automatic adjustments in the guarantees in accordance with the feed formulae).
The net outflow of workers is expected to be about 30,000 a year in 1965/66 and 1966/67 taken together, compared with 28,000 a year between 1960/61 and 1964/65. Because of the slight fall in net output labour productivity over the last two years is expected to rise by about 4 per cent a year on average, as compared with about 6 per cent between 1960 and 1965.

Cost of Agricultural Support

Exchequer cost in 1966/67 is expected to be £234 million, about the same as expenditure in 1965/66. The corresponding estimate figure for 1967/68 is £261 million. In addition, agriculture will benefit from the new investment incentives, which replace the previous investment allowances, and which are included in the estimate because they take the form of direct Exchequer payments instead of tax concessions. The estimated figure for investment incentives to agriculture in 1967/68 is £9.6 million, making a total of £271 million for the estimated Exchequer cost in the coming year (see Appendix V, Table A, page .)
III. COMMODITIES AND ZIGDUCTIC Jx GRANTS

Beef and Milk

19. The selective expansion programme stated that beef production would need to be increased to the full extent of the technical possibilities and recognised that this would require an increase both in the beef herd and in the dairy herd, which is the source of some two-thirds of home-produced beef. The expansion of the dairy herd would, in turn, entail an expansion in milk production which would meet the growing consumption of liquid milk and cream and a substantial part of our additional requirements of milk products. The Government gave an assurance at the 1966 Annual Review that, provided there was no significant change in circumstances, they would not reduce during the period of the selective expansion programme either the guaranteed price for fat cattle or the rate of the beef cow subsidy as determined at that Review. They also gave an assurance on the pool price of milk which is referred to in paragraph 21.

20. The beef herd has responded to the incentives that have been given at previous Reviews. During the period June 1965 to June 1966 it increased by about 8 per cent., from 1,018,000 to 1,106,000, but the recent decline in the number of beef heifers in calf suggests that the rate of expansion may be slowing down. The dairy herd has been slow to respond to increases in the guarantees. It was slightly lower in June 1966 than in June 1965, and the continued increase in the average size of herd has not so far been sufficient to do more than roughly offset the reduction in the number of herds. However, the number of dairy heifers in calf in December 1966 was higher than a year before and some increase in the total dairy herd is now expected. Total sales of milk off farms in 1966/67 are expected to be about the same as in the previous year.
III. COMMODITIES AND PRODUCTION CHAINS

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21. Home-fed supplies of beef and veal in 1966/67 are estimated to be about 10 per cent higher than in 1965/66. Imports are forecast to be at about last year's level (Appendix I, Table D and Figure II, page ). The seasonal fall in market prices for beef last autumn was much more severe than usual, largely because of the closure of the E.E.C. market to exporters and increased imports of fat cattle from the Irish Republic. This fall was reflected in lower returns from store cattle and calves, including calves retained for beef from the dairy herd, and resulted in some loss of confidence throughout the beef producing sector of the industry.

22. The Government consider that, if the objectives of the selective expansion programme are to be achieved, the expansion of the beef herd needs to be maintained and there must be more dairy cows in order to ensure an adequate supply of calves for beef rearing.

23. As regards the beef herd, confidence needs to be restored and some further incentive is required if the rate of expansion is to be maintained. This incentive needs to be given at all stages of production. The Government have therefore decided to increase the hill cow subsidy by £1 5s. and the beef cow subsidy by £1 a head so as to give more help to reearers, to increase the calf subsidy by £1 a head which will encourage further retentions of calves, and to increase the guaranteed price by 5s. Od. a cwt. to help farmers who take animals both from the beef and dairy herds for fattening. The scale of abatements and supplements under the graduated deficiency payments scheme for beef will be adjusted in the light of expected market conditions.
2. As regards the dairy herd, the expansion in the average size of herd needs to go ahead faster so that it will more than offset the reduction in the number of herds. This will require further investment both in animals and buildings, and the Government have decided that an injection of capital should be given for this purpose. The guaranteed price for milk will therefore be increased by 1.31d. per gallon which, together with an increase in the standard quantity on account of the rise in liquid consumption, gives a total increase equivalent to 1½d. on the guaranteed price. Dairy farmers will also benefit from the increase in the calf subsidy. The arrangements for assisting the Milk Boards' schemes for improving compositional quality will continue in 1967/68. Since the dairy herd has not yet expanded, no action is called for under the assurance (given in paragraph 9 of the Annual Review White Paper for 1966) that the Government will take account of any effect on the pool price of extra milk resulting from an expansion in the dairy herd to meet the need for increased beef production.

25. Details of the changes in the guarantee arrangements are given in Appendix VI Part II, page .

Sheep and Wool

26. The aim under the selective expansion programme is that sheep production should increase to meet part of the expected gradual rise in demand for mutton and lamb.

27. After a gradual long-term increase, the breeding flock at December 1966 was 3 per cent smaller than a year before. In general, this decline has been in the lowlands and it is expected that in future an increasing proportion of the breeding flock will need to be found in the hills and uplands. This will require a more intensive use of grassland in those areas, where more fattening of lambs should also be possible. On the other hand, the fattening of sheep in the lowlands will continue to be important as an outlet for store sheep from the hills.
28. Home-fed supplies of mutton and lamb in 1966/67 are expected to be a little above the 1965/66 level and total supplies may be 4 per cent higher than in 1965/66 (Appendix I, Table D, page 24). Market prices for fat sheep and lambs were generally firm until mid-July but there was a temporary sharp drop in the autumn mainly reflecting the weakness in the beef market. Prices of store lambs and breeding ewes, particularly off the hills, also fell, and the Government have recognised the effect which this has had on the incomes of producers.

29. To encourage the development of sheep production in the hills and uplands, the rate of hill sheep subsidy payable on flocks maintained during the current year (1966/67) will be increased by 2s. 0d. to 21s. 0d. for ewes eligible in December 1966, and payment of hill sheep subsidy on those ewes at this higher rate is due to be completed in May. From now on, the rate of subsidy will be determined for the year ahead. The new rate of 21s. 0d. will apply in 1967/68 to ewes in flocks of the type now qualifying for the standard rate and which are eligible in December 1967; payment of subsidy on these at the new rate of 21s. 0d. should be made before the end of March 1968.

In addition, to assist the uplands to play their full part in compensating for the decline in the lowland breeding flocks, the hill sheep subsidy will be extended to include flocks, without restriction on breed, maintained in 1967 within the wider area eligible for hill cow subsidy. This extension to include flocks further down the hill will bring about 2 million more ewes within the scope of the subsidy; payment on these flocks will be at a rate of 10s. 6d. per eligible ewe. There will be a corresponding extension of the winter keep subsidy arrangements and consequent changes in the arrangements in Scotland. Finally, the guaranteed price for fat sheep will be increased by 1d. per lb. to assist fatteners to maintain an adequate outlet for store sheep. Details of the changes in the guarantee arrangements are given in Appendix VI Part II, page 30. The criteria for determining the wool guarantee are under discussion with the Farmers' Unions and the British Wool Marketing Board. The guaranteed price for wool will remain unchanged.
The selective expansion programme recognises that home production can make a substantial contribution to our increasing requirements for pigmeat, consistently with our commitments to our overseas suppliers. It envisages that home production will meet the whole of the growth in demand for pork as well as the United Kingdom's share of the bacon market under the Bacon Market Sharing Understanding.

In the fatstock year 1966/67 about 12.4 million pigs will have been certified for guarantee, about 1.4 million fewer than in 1965/66, and the current forecast covering the twelve months from December 1966 is just below 12 million. Market prices have been much higher than last year, and mainly because of this the Exchequer cost of the pig guarantee has fallen, from £39½ million to £7 million. As the forecast level of certifications has fallen the effective guaranteed price has been automatically increased under the flexible guarantee arrangements, and is now 1s. 6d. above the basic guaranteed price.

As announced in September 1966, the middle band in the flexible guarantee arrangements will be raised by 400,000; this means that forecast production can rise to 13.6 million pigs without any reduction being made, under the flexible guarantee, below the basic guaranteed price. The Government have also decided that, in order to give a stronger incentive to restore production to the level of the middle band, and to encourage greater stability of production thereafter, these arrangements should provide for more immediate and effective price correctives when forecasts of production fall short of or exceed the middle band. Details of the new arrangements are given in Appendix VI, Part II, page.

As was stated in the 1966 Annual Review White Paper, the quality premium on AA+ bacon pigs will be discontinued, thus completing the process begun at the 1965 Annual Review of letting the market decide and pay for the quality it requires in the carcase. The effect of the termination of the quality premium on the value of the guarantee would be offset
by an increase of 4d. per score in the basic guaranteed price, but as a further measure to bring production up to the desired level, and to maintain it as close to that level as possible, the Government have decided to increase the basic guaranteed price by 8d. per score.

35. The effect of these determinations on producers will, apart from the removal of the quality premium, be as follows. In addition to the increase in the basic guaranteed price of 8d. per score, the effective guaranteed price to producers will be raised immediately by 9d. per score as a result of lifting the middle band. Furthermore, the other changes in the flexible guarantee arrangements will add immediately another 6d. to the effective guaranteed price. Hence the effective guaranteed price on pigs now coming forward will be raised immediately by 1s. 1ld. per score, and this should enable the industry to invest in the expansion that is required. As this expansion takes place, and the forecast levels of production approach the middle band, the additions to the basic guaranteed price for which the flexible guarantee arrangements provide will by stages be removed; but even when the middle band is entered, the basic guaranteed price then applying to a greater volume of production will be 8d. higher than before.

36. The fall in production and consequent rise in prices of pigs in 1966/67 led to serious difficulties for the bacon curing industry, which were alleviated by a temporary scheme of assistance introduced in December 1966. It remains the Government's wish to see a strong and efficient bacon curing industry, which will continue to offer producers an adequate outlet for bacon pigs of the quality required. Discussions are being held with the industry on what action to that end may be necessary in the longer term.
The United Kingdom is virtually self-sufficient in eggs and the objective under the selective expansion programme is to meet any increase in demand. This is well within the technical capacity of the industry.

Production in 1966/67 is expected to show some increase over 1965/66; while the trend in egg yields and the size of the laying flock indicate that there will be a further rise in production in 1967/68. While there is a seasonal decline in the autumn, production remains more than adequate to meet demand over the year and it is likely that the British Egg Marketing Board's average selling price will be lower than last year and below the indicator price of 3s. 1d. - the price which it is expected the Board should be able to achieve if supply and demand are in balance.

The underlying trend for some years past has been for production to rise faster than demand. This continues to be the danger and the guaranteed price is therefore being reduced by 3d. a dozen. The guaranteed price for duck eggs is being reduced by 1.2d. a dozen. Very few duck eggs are sold under the guarantee arrangements, and in view of the high cost of administration in relation to the payments made, the Government believe that the guaranteed price should now be brought towards a level at which guarantee payments are not normally necessary.

The Government have agreed with the Farmers' Unions that there should be discussions with them and the British Egg Marketing Board on marketing arrangements for eggs.

Eggs and Pigs - Feed Formulae

As forewarned in paragraph 45 of the 1966 Annual Review White Paper, consideration has been given to the feed formula arrangements in order to ensure that the automatic price adjustments correspond more closely to the changes in feed costs borne by producers. It has now been agreed with the Farmers' Unions that an index of compound feed prices, for pigs and for poultry respectively, will be substituted for the present standard feed prices for an experimental period of three years (Appendix VI, Part II, page ).
Cereals

The selective expansion programme recognizes that the expansion of livestock production will increase considerably the demand for cereal feed and that, consistently with our international obligations, a substantial part of this additional requirement should be produced in this country.

In 1966 the acreage sown to cereals rose by some 300,000 acres, to over 9.35 million. The acreage under barley showed a further substantial increase but the acreage sown to wheat and to oats and mixed corn fell. The decline in the wheat acreage was due partly to unfavourable weather.

The 1964 Annual Review White Paper (Cmnd. 2315) indicated that there would be some adjustment of the standard quantities as between wheat and barley in any year when the wheat acreage was abnormally low. Accordingly for the 1966/67 cereal year the standard quantity for wheat as announced after the 1966 Review will be reduced and that for barley increased (see Appendix VI, Part II, page ).

Yields of wheat and barley from the 1966 crop were below normal and, despite the overall increase in acreage, total production from the 1966 harvest, estimated at about 13.5 million tons, was only the same as in 1965. Yields have been affected by the weather, but are expected to resume their normal upward trend. Cereals production overall is broadly in line with the requirements of the selective expansion programme.

The Government have taken account of their obligations under the Agreements made with our principal overseas suppliers of cereals. Imports in 1966/67 are expected to fall below the three year average to June 1964, referred to in the agreements, but the financial incentives to cereal growing, particularly barley, have been reduced by the operation of the standard quantity arrangements. Moreover, the incentive to plough up grassland for cereals, already reduced by the Government's decision to lower the rate of Part I of the ploughing grant at the 1966 Annual Review, will now be further reduced by the decision to discontinue the grant (see para. 55).

The Government undertook when the selective expansion programme was announced that the standard quantities for cereals would not be reduced below existing levels over the following three years, but would be related to the expected growth in the market. Having regard to the overall growth of demand
for cereals the Government have decided to increase the standard quantities for the 1967 harvest by 600,000 tons in all. The standard quantity for wheat will be increased by 100,000 tons and the standard quantity for barley will be increased by 500,000 tons. The production of barley, however, has been expanding more rapidly than the growth of demand and it is therefore necessary to change the balance of profitability as between wheat and barley in favour of wheat. The guaranteed price of wheat will be increased by 6d. per cwt. and there will be a reduction of 7d. per cwt. in the guaranteed price of barley. The effect, after allowing for the increases in the standard quantities on both cereals, is to leave the cereals guarantee unchanged.

Potatoes

47. The objective for main crop potatoes endorsed under the selective expansion programme continues to be that, except in years of unusually low yields, home production should be able fully to meet home demand.

48. The total United Kingdom acreage planted to potatoes (main crop and earlies) declined by 72,000 in 1966 to 669,000 acres. However, the average yield of the crop at 9.7 tons per acre was at a high level, (as in 1965, when the yield exceeded 10 tons per acre) and the home crop this year at present seems likely to be sufficient to meet demand.

49. The prices so far realized for the 1966 crop have shown a substantial improvement on 1965 and this could well result in a somewhat higher potato acreage in 1967. The Government are leaving the guaranteed price unchanged. They propose, however, to study further with the unions developments in potato production, including the technical and other factors that have led to the recent increases in average yields, and to consider with them in the autumn, when the likely outcome of the 1967 crop is known, the acreage which, in the light of the trend in yields, will be needed to fulfil the objective in the selective expansion programme, and any implications arising from this.
The objective under the selective expansion programme is that home production of sugar should supply part of any increasing demand within the existing contract acreage and factory capacity and without raising international problems. The total contract acreage is still being fully taken up; but the acreage contracted for in some areas has been falling, with the result that some factories have difficulty in obtaining their requirements of sugar beet. Taking account of this and of the increase in costs, the Government have decided to increase the guaranteed price by 2s. 6d. a ton. The contract acreage will remain unchanged.

Field Beans

Increasing attention has been paid in recent years to the production of field beans in this country both as a source of protein for animal feeding and as a break crop for cereals, particularly wheat. The use of the crop in a cereals rotation reduces the incidence of disease and improves the fertility of the soil, while at the same time the recent introduction of new varieties of winter beans together with new methods of weed control make it possible to grow field beans in a fairly wide range of farming areas. Because beans are important as a break crop, and are a source of protein which saves imported feedingstuffs, the Government have decided that some financial assistance to encourage an expansion of the acreage under field beans would be justified. They therefore propose, subject to the necessary legislative authority, to introduce a grant for field beans at the rate of £5 per acre, starting with the 1968 crop. The grant would be for an initial period of three years and would then be subject to review in the light of production trends and market conditions. The cost of this new grant would be taken into account at the 1968 Annual Review. Further discussions will be held with the Unions on the details of the proposed new grant, and on the scope for the development of other break crops.
The use of fertilisers and lime is of importance for the growth in production required under the selective expansion programme. In view of the considerable reduction in the rate of the lime subsidy at the 1966 Review, the Government have decided to make no change in the lime subsidy. On the other hand, fertiliser consumption in general has risen, indicating that farmers appreciate the economic value of applying fertilisers. The cost of the fertiliser subsidy is high; it is estimated at about £30 million in 1966/67.

In considering their determinations at this Review the Government have had in mind that the National Board for Prices and Incomes might recommend increases in the prices of some fertilisers. The Board's price recommendations have now been published and the Government have accepted them. The fertiliser manufacturers have yet to announce in the light of the Board's report what revisions they will be making to their price schedules. No increase has been recommended by the Board in the price of nitrogenous fertilisers. Most of the fertilisers required for the crops to be harvested this year have already been bought by farmers. The bulk of purchases still to be made this season will be nitrogenous fertilisers for grassland and for top-dressing cereals. The main impact of any rise in prices will therefore relate to the crops to be harvested in 1968, the guaranteed prices for which will be determined in the light of next year's Review. Price increases for fertilisers announced between now and the 1968 Review will be included in the estimate of aggregate cost changes taken into account at that Review.

The Government have also had regard to the fact that grants of up to 50 per cent of the cost of applying fertilisers and lime will be available through the Hill Land Improvement Scheme which the Government intend to make under the Agriculture Bill as soon as it becomes law. In the light of all these circumstances the Government have decided to reduce the fertiliser subsidy by just under £2 million per annum.

CONFIDENTIAL
Ploaching Grants Scheme

55. Last year the Government reduced the rate of grant under Part I of this scheme from £5 to £2 10s. per acre. Recent developments in methods of grassland management and arable husbandry have removed the case for providing this special incentive for leys of three years or more, and the Government have decided that the grants under Part I of the Scheme should be discontinued. The proposed Hill Land Improvement Scheme will, however, provide 50 per cent grants for the reseeding and regeneration of permanent pasture in the hills and uplands, including ploughing wherever this is the best method of improving the grass. No change is proposed in the £12 per acre rate for the Part II grants.

20.
NOTE: Some of the figures given in this Appendix differ from those in previous White Papers or Annual Reviews because of later information, changes in the scope and nature of the available data and improvements in statistical methods. Forecast figures for 1965/66 are as at mid-January 1965.

### TABLE A

Crop Acreages and Livestock Numbers at June in the United Kingdom (1)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grain</strong> (1000 acres)</td>
<td>2,062</td>
<td>2,217</td>
<td>1,969</td>
<td>2,102</td>
<td>1,887</td>
<td>2,156</td>
<td>1,808</td>
<td>2,035</td>
<td>2,315</td>
<td>2,550</td>
</tr>
<tr>
<td><strong>Forage</strong> (1000 acres)</td>
<td>2,214</td>
<td>2,226</td>
<td>2,059</td>
<td>2,572</td>
<td>2,088</td>
<td>2,987</td>
<td>4,713</td>
<td>5,032</td>
<td>5,395</td>
<td>6,150</td>
</tr>
<tr>
<td><strong>Dryland corn</strong></td>
<td>1,584</td>
<td>804</td>
<td>384</td>
<td>203</td>
<td>147</td>
<td>125</td>
<td>99</td>
<td>80</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td><strong>Furrows</strong></td>
<td>1,463</td>
<td>985</td>
<td>816</td>
<td>859</td>
<td>703</td>
<td>736</td>
<td>778</td>
<td>741</td>
<td>669</td>
<td>669</td>
</tr>
<tr>
<td><strong>Total Acreage</strong></td>
<td>11,300</td>
<td>12,266</td>
<td>12,216</td>
<td>11,102</td>
<td>10,871</td>
<td>11,977</td>
<td>11,199</td>
<td>11,495</td>
<td>11,790</td>
<td>12,304</td>
</tr>
<tr>
<td><strong>Horses</strong></td>
<td>5,679</td>
<td>5,803</td>
<td>6,848</td>
<td>6,069</td>
<td>7,030</td>
<td>7,732</td>
<td>7,012</td>
<td>6,806</td>
<td>6,573</td>
<td>6,280</td>
</tr>
<tr>
<td><strong>Cattle &amp; Calves</strong></td>
<td>18,960</td>
<td>18,137</td>
<td>17,760</td>
<td>16,051</td>
<td>17,959</td>
<td>16,099</td>
<td>16,212</td>
<td>16,362</td>
<td>16,523</td>
<td>16,404</td>
</tr>
<tr>
<td><strong>Sheep &amp; Lambs</strong></td>
<td>20,378</td>
<td>21,565</td>
<td>22,290</td>
<td>23,041</td>
<td>22,436</td>
<td>23,249</td>
<td>24,454</td>
<td>25,708</td>
<td>26,925</td>
<td>28,957</td>
</tr>
<tr>
<td><strong>Poultry</strong></td>
<td>67,117</td>
<td>92,119</td>
<td>106,905</td>
<td>103,005</td>
<td>114,289</td>
<td>120,930</td>
<td>118,175</td>
<td>118,577</td>
<td>118,141</td>
<td>118,460</td>
</tr>
</tbody>
</table>

The Table relates to agricultural holdings exceeding one acre in extent in Great Britain and, from 1954, of one acre or more in Northern Ireland. Until 1954, figures for Northern Ireland included holdings of one quarter acre or more. Numbers of livestock in Northern Ireland are collected from all owners irrespective of the size of the holding, and also from landless stockholders, and these numbers are included in the Table.

When changes in the definition of "Temporary grass" in the Agricultural Census, figures from 1959 onwards for this item and for "Total arable" acreage are not directly comparable with those for the preceding years. Temporary grass includes lucerne.
### Appendix I

#### Output and Disposal of Milk in the United Kingdom

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid consumption (i)</td>
<td>1,446</td>
<td>1,614</td>
<td>1,610</td>
<td>1,625</td>
<td>1,664</td>
<td>1,659</td>
</tr>
<tr>
<td>Used for butter (ii)</td>
<td>96</td>
<td>194</td>
<td>239</td>
<td>137</td>
<td>159</td>
<td>258</td>
</tr>
<tr>
<td>&quot; cheese (ii)</td>
<td>47</td>
<td>252</td>
<td>260</td>
<td>200</td>
<td>225</td>
<td>265</td>
</tr>
<tr>
<td>&quot; cream - fresh (ii)</td>
<td>-</td>
<td>30</td>
<td>35</td>
<td>45</td>
<td>54</td>
<td>68</td>
</tr>
<tr>
<td>&quot; - sterilised</td>
<td>-</td>
<td>12</td>
<td>14</td>
<td>15</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>&quot; other products</td>
<td>64</td>
<td>209</td>
<td>182</td>
<td>184</td>
<td>192</td>
<td>189</td>
</tr>
</tbody>
</table>

#### Total output for human consumption

| 1960/61 | 1,653 | 2,311 | 2,234 | 2,236 | 2,321 | 2,445 |

| 1961/62 | 1,691 | 1,705 | 1,726 | 1,737 | 1,737 | 1,750 |
| 1962/63 | 314 | 307 | 197 | 164 | 211 | 175 |
| 1963/64 | 263 | 247 | 239 | 257 | 254 | 260 |
| 1964/65 | 72 | 83 | 96 | 106 | 119 | 125 |
| 1965/66 | 13 | 12 | 17 | 17 | 21 | 20 |
| 1966/67 (forecast) | 184 | 189 | 203 | 207 | 207 | 229 |

#### Total output for human consumption

| 1961/62 | 2,537 | 2,545 | 2,478 | 2,498 | 2,549 | 2,550 |

(i) Including farmhouse consumption  
(ii) Including farmhouse manufacture

#### Wholesale Producers' Price as Percentage of Guaranteed Price

<table>
<thead>
<tr>
<th>A</th>
<th>Guaranteed Price</th>
<th>Average Net Price Received by Wholesale Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956/57</td>
<td>38.45d.</td>
<td>35.59d.</td>
</tr>
<tr>
<td>1957/58</td>
<td>38.70d.</td>
<td>34.60d.</td>
</tr>
<tr>
<td>1958/59</td>
<td>37.70d.</td>
<td>35.35d.</td>
</tr>
<tr>
<td>1959/60</td>
<td>37.50d.</td>
<td>33.47d.</td>
</tr>
<tr>
<td>1960/61</td>
<td>38.65d.</td>
<td>35.3d.</td>
</tr>
<tr>
<td>1961/62</td>
<td>37.70d.</td>
<td>35.35d.</td>
</tr>
<tr>
<td>1962/63</td>
<td>37.85d.</td>
<td>33.34d.</td>
</tr>
<tr>
<td>1963/64</td>
<td>32.35d.</td>
<td>32.97d.</td>
</tr>
<tr>
<td>1964/65</td>
<td>40.55d.</td>
<td>34.59d.</td>
</tr>
<tr>
<td>1965/66</td>
<td>41.85d.</td>
<td>37.38d.</td>
</tr>
<tr>
<td>1966/67</td>
<td>42.35d.</td>
<td>39.0d. (estimate)</td>
</tr>
</tbody>
</table>
### TABLE C

**Home Manufacture and Imports of Milk Products in the United Kingdom**

#### 1946/47, 1953/54, 1960/61

<table>
<thead>
<tr>
<th></th>
<th>1946/47</th>
<th>1953/54</th>
<th>1960/61</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home</td>
<td>Imports</td>
<td>Home</td>
</tr>
<tr>
<td>Butter</td>
<td>18</td>
<td>205</td>
<td>29</td>
</tr>
<tr>
<td>Cheese</td>
<td>20</td>
<td>191</td>
<td>90</td>
</tr>
<tr>
<td>Cream - fresh</td>
<td>4</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>- sterilised</td>
<td>161</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Other products (ii)</td>
<td>97</td>
<td>212</td>
<td>84</td>
</tr>
<tr>
<td>Total</td>
<td>135</td>
<td>557</td>
<td>343</td>
</tr>
</tbody>
</table>

#### 1961/62, 1962/63, 1963/64

<table>
<thead>
<tr>
<th></th>
<th>1961/62</th>
<th>1962/63</th>
<th>1963/64</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home</td>
<td>Imports</td>
<td>Home</td>
</tr>
<tr>
<td>Butter</td>
<td>59</td>
<td>407</td>
<td>58</td>
</tr>
<tr>
<td>Cheese</td>
<td>113</td>
<td>139</td>
<td>106</td>
</tr>
<tr>
<td>Cream - fresh (iii) - sterilised</td>
<td>22</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Other products (ii)</td>
<td>393</td>
<td>69</td>
<td>385</td>
</tr>
<tr>
<td>Total</td>
<td>596</td>
<td>625</td>
<td>584</td>
</tr>
</tbody>
</table>

#### 1964/65, 1965/66, 1966/67 (forecast)

<table>
<thead>
<tr>
<th></th>
<th>1964/65</th>
<th>1965/66</th>
<th>1966/67 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home</td>
<td>Imports</td>
<td>Home</td>
</tr>
<tr>
<td>Butter</td>
<td>31</td>
<td>162</td>
<td>40</td>
</tr>
<tr>
<td>Cheese</td>
<td>115</td>
<td>356</td>
<td>109</td>
</tr>
<tr>
<td>Cream - fresh (iii) - sterilised</td>
<td>35</td>
<td>2</td>
<td>39</td>
</tr>
<tr>
<td>Other products (ii)</td>
<td>373</td>
<td>106</td>
<td>393</td>
</tr>
<tr>
<td>Total</td>
<td>566</td>
<td>736</td>
<td>595</td>
</tr>
</tbody>
</table>

---

**Notes:**

(i) June/May years for home production; July/June years for imports. Home manufacture includes farmhouse manufacture.

(ii) Excluding the home manufacture of butter-milk and whey powder.

(iii) Prior to 1963/64, imports of fresh cream were shown separately in the Overseas Trade Accounts. Since then the item has included imported skimmed milk. The share between 'fresh cream' and 'other products' since 1963/64 is estimated in the above Table.
## Appendix I: Table D

### United Kingdom Meat Supplies

<table>
<thead>
<tr>
<th></th>
<th>1945/47</th>
<th>1953/54</th>
<th>1959/60</th>
<th>1960/61</th>
<th>1961/62</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home-fed</td>
<td>Imported</td>
<td>Home-fed</td>
<td>Imported</td>
<td>Home-fed</td>
</tr>
<tr>
<td>Offal</td>
<td>550</td>
<td>398</td>
<td>556</td>
<td>593</td>
<td>756</td>
</tr>
<tr>
<td>Pork and veal</td>
<td>135</td>
<td>427</td>
<td>172</td>
<td>314</td>
<td>230</td>
</tr>
<tr>
<td>Fowl and lamb</td>
<td>15</td>
<td>29</td>
<td>200</td>
<td>37</td>
<td>430</td>
</tr>
<tr>
<td>Beef and ham</td>
<td>87</td>
<td>156</td>
<td>223</td>
<td>226</td>
<td>191</td>
</tr>
<tr>
<td>Poultry meat</td>
<td>70</td>
<td>27</td>
<td>101</td>
<td>17</td>
<td>256</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>857</td>
<td>1,057</td>
<td>1,421</td>
<td>1,000</td>
<td>1,821</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home-fed</td>
<td>Imported</td>
<td>Home-fed</td>
<td>Imported</td>
<td>Home-fed</td>
</tr>
<tr>
<td>Offal</td>
<td>896</td>
<td>394</td>
<td>905</td>
<td>329</td>
<td>793</td>
</tr>
<tr>
<td>Pork and veal</td>
<td>209</td>
<td>382</td>
<td>252</td>
<td>337</td>
<td>206</td>
</tr>
<tr>
<td>Fowl and lamb</td>
<td>517</td>
<td>13</td>
<td>536</td>
<td>12</td>
<td>582</td>
</tr>
<tr>
<td>Beef and ham</td>
<td>224</td>
<td>392</td>
<td>216</td>
<td>377</td>
<td>225</td>
</tr>
<tr>
<td>Poultry meat</td>
<td>340</td>
<td>5</td>
<td>356</td>
<td>5</td>
<td>373</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,226</td>
<td>1,166</td>
<td>2,253</td>
<td>1,006</td>
<td>2,221</td>
</tr>
</tbody>
</table>

Note (i) Figures in the Table exclude offal. Figures are for July June years except for home production of poultry meat, which are estimates for June May years. All the "home-fed" figures except those for poultry meat relate to statistical periods of 52 weeks only. The "home-fed" bacon and ham figures represent commercial home-cured production. Other figures for "home-fed" are estimates of total commercial slaughter for all purposes and include meat from animals bred in the Irish Republic and fattened in the United Kingdom. Figures for imported meat include meat from animals imported live from the Irish Republic, but exclude meat imported from all sources in a preserved or manufactured state (e.g. canned products).

Note (ii) The meat equivalents of animals exported live have not been included in the above Table. Exports of live animals to the Continent rose from an estimated meat equivalent of about 10,000 tons in all in 1961/62 to meat equivalents in 1964/65 of 42,000 tons of beef, 3,000 tons of mutton and lamb and about 1,000 tons of pork. The corresponding estimates for 1965/66 are 45,000 tons of beef, 3,000 tons of mutton and lamb and 1,000 tons of pork, and for 1966/67 are 10,000 tons of beef, 4,000 tons of mutton and lamb and less than 500 tons of pork.
### Appendix I: Table E

**Eggs, Supplies and Imports of Eggs and Egg Products in the United Kingdom (i)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value in million dozen</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total home supplies</td>
<td>451</td>
<td>764</td>
<td>1,069</td>
<td>1,043</td>
<td>1,092</td>
<td>1,145</td>
<td>1,219</td>
<td>1,165</td>
<td>1,189</td>
</tr>
<tr>
<td>Egg station throughput (iii)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sold in shell</td>
<td>433</td>
<td>649</td>
<td>619</td>
<td>621</td>
<td>609</td>
<td>615</td>
<td>666</td>
<td>627</td>
<td>632</td>
</tr>
<tr>
<td>Processed</td>
<td>133</td>
<td>17</td>
<td>60</td>
<td>25</td>
<td>42</td>
<td>50</td>
<td>78</td>
<td>97</td>
<td>57</td>
</tr>
<tr>
<td>For home supplies</td>
<td>313</td>
<td>324</td>
<td>360</td>
<td>417</td>
<td>430</td>
<td>433</td>
<td>453</td>
<td>456</td>
<td>481</td>
</tr>
<tr>
<td>Total home supplies</td>
<td>451</td>
<td>764</td>
<td>1,069</td>
<td>1,043</td>
<td>1,092</td>
<td>1,145</td>
<td>1,219</td>
<td>1,165</td>
<td>1,189</td>
</tr>
<tr>
<td>Total imports</td>
<td>436</td>
<td>188</td>
<td>51</td>
<td>85</td>
<td>69</td>
<td>88</td>
<td>46</td>
<td>47</td>
<td>44</td>
</tr>
<tr>
<td>Total supplies</td>
<td>887</td>
<td>952</td>
<td>1,120</td>
<td>1,128</td>
<td>1,162</td>
<td>1,160</td>
<td>1,192</td>
<td>1,266</td>
<td>1,209</td>
</tr>
</tbody>
</table>

(i) June/July years for home production; July/June years for imports.

(ii) Hen eggs produced for human consumption only; includes output from units under one acre.

(iii) Includes second quality eggs. No information is available on the utilisation of such eggs before 1964 but it has been assumed that about 40-50 per cent of them were processed each year.

(iv) Whole dried, frozen and liquid egg as shell egg equivalent. Excludes albumen and yolk. (Figure for 1946/47 includes some imports of yolk which were not separately distinguishable.)
### Appendix I: Table F

**Home Production and Imports of Crops in the United Kingdom**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Home Imports</td>
<td>Home Imports</td>
<td>Home Imports</td>
<td>Home Imports</td>
<td>Home Imports</td>
</tr>
<tr>
<td>1</td>
<td>1,967</td>
<td>4,575</td>
<td>2,664</td>
<td>3,855</td>
<td>3,064</td>
</tr>
<tr>
<td>1(ii)</td>
<td>39</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>1,963</td>
<td>83</td>
<td>2,521</td>
<td>1,255</td>
<td>2,664</td>
</tr>
<tr>
<td>2(ii)</td>
<td>350</td>
<td>645</td>
<td>255</td>
<td>241</td>
<td>169</td>
</tr>
<tr>
<td>3</td>
<td>2,203</td>
<td>166</td>
<td>2,621</td>
<td>82</td>
<td>3,853</td>
</tr>
<tr>
<td>3(iii)</td>
<td>-18</td>
<td>-28</td>
<td>-1,413</td>
<td>-3,086</td>
<td>-3,044</td>
</tr>
<tr>
<td>4</td>
<td>-280</td>
<td>-28</td>
<td>-28</td>
<td>-3,086</td>
<td>-3,044</td>
</tr>
<tr>
<td>5</td>
<td>-280</td>
<td>-28</td>
<td>-28</td>
<td>-3,086</td>
<td>-3,044</td>
</tr>
<tr>
<td>6</td>
<td>7,222</td>
<td>5,106</td>
<td>8,917</td>
<td>6,632</td>
<td>9,600</td>
</tr>
<tr>
<td>7</td>
<td>9,012</td>
<td>5,064</td>
<td>8,387</td>
<td>6,032</td>
<td>11,060</td>
</tr>
<tr>
<td>8</td>
<td>9,566</td>
<td>9,675</td>
<td>9,600</td>
<td>9,032</td>
<td>9,675</td>
</tr>
</tbody>
</table>

#### Footnotes:

(i) Crop years for home production - July/July years for imports.

(ii) Imports include flour as wheat equivalent.

(iii) Based on known sales through the guarantee scheme. The corresponding estimate based on average yields was 2,992,000 tons.

(iv) Imports of potatoes include shipments from Channel Islands.

(v) Imports of main crop potatoes include seed potatoes.

(vi) Wheat equivalent basis.
### Appendix I: Figure V

Estimated Crop, Milk, and Egg Yields in the United Kingdom

<table>
<thead>
<tr>
<th>Crop Yields</th>
<th>Harvest Years</th>
<th>Potatoes (tons per acre)</th>
<th>Sugar (tons per acre)</th>
<th>Wheat (cwt per acre)</th>
<th>Barley (cwt per acre)</th>
<th>Oats (cwt per acre)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1946</td>
<td>7.1</td>
<td>1.7</td>
<td>19.1</td>
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<td>1948</td>
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<td>1.8</td>
<td>20.7</td>
<td>19.5</td>
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<td>1.5</td>
<td>22.5</td>
<td>20.7</td>
<td>18.4</td>
</tr>
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<td>1950</td>
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<td>2.1</td>
<td>21.0</td>
<td>19.2</td>
<td>17.3</td>
</tr>
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<td>1951</td>
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<td>21.7</td>
<td>20.3</td>
<td>18.3</td>
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<td>1.8</td>
<td>22.7</td>
<td>20.5</td>
<td>19.2</td>
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<tr>
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<td>1953</td>
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<td>2.1</td>
<td>24.0</td>
<td>22.7</td>
<td>19.9</td>
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<td>1954</td>
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<td>1.7</td>
<td>22.7</td>
<td>21.7</td>
<td>18.9</td>
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<td>21.0</td>
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<td>2.0</td>
<td>26.9</td>
<td>24.1</td>
<td>19.4</td>
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<tr>
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<td>1957</td>
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<td>1.7</td>
<td>25.4</td>
<td>22.6</td>
<td>18.3</td>
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<td>1958</td>
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<td>2.1</td>
<td>24.6</td>
<td>23.0</td>
<td>19.3</td>
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<td>1959</td>
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<td>2.3</td>
<td>28.9</td>
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<td>21.6</td>
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<tr>
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<td>1960</td>
<td>8.6</td>
<td>2.6</td>
<td>29.1</td>
<td>25.2</td>
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<td>1961</td>
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<td>2.2</td>
<td>28.2</td>
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<td>1962</td>
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<td>2.0</td>
<td>34.7</td>
<td>29.0</td>
<td>23.1</td>
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<tr>
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<td>1963</td>
<td>8.6</td>
<td>2.1</td>
<td>31.1</td>
<td>28.0</td>
<td>22.3</td>
</tr>
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<td>1964</td>
<td>8.9</td>
<td>2.6</td>
<td>33.8</td>
<td>29.4</td>
<td>23.6</td>
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<tr>
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<td>1965</td>
<td>10.1</td>
<td>2.4</td>
<td>32.4</td>
<td>29.9</td>
<td>24.0</td>
</tr>
<tr>
<td></td>
<td>1966 (forecast)</td>
<td>9.7</td>
<td>2.4</td>
<td>31.2</td>
<td>28.7</td>
<td>24.7</td>
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### Milk & Egg Yields

<table>
<thead>
<tr>
<th>Milk (Gallons per cow)</th>
<th>Eggs (Eggs per bird)</th>
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</thead>
<tbody>
<tr>
<td>1946/47</td>
<td>116</td>
</tr>
<tr>
<td>1947/48</td>
<td>120</td>
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<tr>
<td>1948/49</td>
<td>126</td>
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<td>1949/50</td>
<td>133</td>
</tr>
<tr>
<td>1950/51</td>
<td>136</td>
</tr>
<tr>
<td>Year</td>
<td>Milk (Gallons per cow)</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------</td>
</tr>
<tr>
<td>1951/52</td>
<td>139</td>
</tr>
<tr>
<td>1952/53</td>
<td>150</td>
</tr>
<tr>
<td>1953/54</td>
<td>161</td>
</tr>
<tr>
<td>1954/55</td>
<td>166</td>
</tr>
<tr>
<td>1955/56</td>
<td>168</td>
</tr>
<tr>
<td>1956/57</td>
<td>171</td>
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<td>1957/58</td>
<td>174</td>
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<tr>
<td>1958/59</td>
<td>179</td>
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<tr>
<td>1959/60</td>
<td>181</td>
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<tr>
<td>1960/61</td>
<td>186</td>
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<td>1961/62</td>
<td>191</td>
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<tr>
<td>1962/63</td>
<td>193 1/2</td>
</tr>
<tr>
<td>1963/64</td>
<td>197</td>
</tr>
<tr>
<td>1964/65</td>
<td>201</td>
</tr>
<tr>
<td>1965/66</td>
<td>202</td>
</tr>
<tr>
<td>1966/67</td>
<td>202 1/2</td>
</tr>
</tbody>
</table>

Notes: The graph for sugar shows sugar-in-beet per crop acre.

The graph for milk shows the yield of milk per dairy type cow per annum; figures in this series are not available before 1954/55.

The graph for eggs up to 1962/63 shows the number of eggs produced per adult fowl per annum (all flocks) and from 1963/64 the number of eggs produced per laying bird.
## APPENDIX I

### TABLE G

**Estimated Purchases and Consumption of Concentrated Feedingstuffs on Farms in the United Kingdom (i)**

<table>
<thead>
<tr>
<th>June/May years</th>
<th>1962/63</th>
<th>1963/64</th>
<th>1964/65</th>
<th>1965/66</th>
<th>1966/67 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Farmers' purchases</td>
<td>11.9</td>
<td>11.3</td>
<td>12.2</td>
<td>12.5</td>
<td>12.6</td>
</tr>
<tr>
<td>2. Home-grown concentrated feeds retained on farm of origin</td>
<td>3.2</td>
<td>3.5</td>
<td>3.7</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>3. Total consumption on farms</td>
<td>15.1</td>
<td>14.8</td>
<td>15.9</td>
<td>15.5</td>
<td>16.3</td>
</tr>
<tr>
<td>4. Current home crop production for feed (ii)</td>
<td>8.7</td>
<td>8.6</td>
<td>9.7</td>
<td>10.1</td>
<td>10.0</td>
</tr>
<tr>
<td>5. Balance of farmers' purchases to be met mainly from imported supplies (iii)</td>
<td>6.4</td>
<td>6.2</td>
<td>6.2</td>
<td>6.4</td>
<td>6.3</td>
</tr>
</tbody>
</table>

---

1. Purchases and consumption, by occupiers of holdings of over one acre, of concentrated feeds, including purchases of home-grown cereals, pulse, etc., previously sold off farms to manufacturers and merchants. In trade terms, concentrated feeds consist of compounds, provenders, mixtures and straights. The quantities shown exclude the weight of minerals and other supplements, and sacks.

2. Including by-products from home-grown grains, dried sugar beet pulp, etc.

3. Including by-products from imported grains, etc., and from the fishing industry. The quantities shown for this item differ from actual production of by-products and supplies of imports as shown in Table H mainly because of (a) the exclusion from Table G of quantities consumed on holdings of less than one acre; (b) the inclusion of home-produced fish meal and meat and bone meal; (c) wastage and other losses in the course of processing and distribution; (d) changes in the level of stocks held by processors, distributors and other agents.

### TABLE H

**Imports of Concentrated Feedingstuffs and Production of By-Products from Imported Grains and Seeds**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Imports of concentrated feedingstuffs (i)</td>
<td>6.2</td>
<td>5.9</td>
<td>5.7</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>2. By-products from imported grains and seeds</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
</tr>
</tbody>
</table>

---

(i) Including fed wheat and molasses but excluding imports of coarse grains for human consumption and industrial purposes.
Appendix I: Table J
Numbers of Agricultural Workers at June in the United Kingdom

<table>
<thead>
<tr>
<th>Year</th>
<th>Full-time (1)</th>
<th>Part-time (ii)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
<td>Males</td>
</tr>
<tr>
<td>1946</td>
<td>599</td>
<td>96</td>
<td>197</td>
</tr>
<tr>
<td>1947</td>
<td>611</td>
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<td>1948</td>
<td>625</td>
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<td>639</td>
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<td>1950</td>
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<td>594</td>
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<td>521</td>
<td>66</td>
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<td>1953</td>
<td>563</td>
<td>64</td>
<td>121</td>
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<td>1954</td>
<td>535</td>
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<td>502</td>
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<td>1959</td>
<td>462</td>
<td>43</td>
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<td>1961</td>
<td>420</td>
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<td>1962</td>
<td>407</td>
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<td>34</td>
<td>97</td>
</tr>
<tr>
<td>1964</td>
<td>355</td>
<td>33</td>
<td>94</td>
</tr>
<tr>
<td>1965</td>
<td>332</td>
<td>31</td>
<td>91</td>
</tr>
</tbody>
</table>

(1) Comprises regular whole-time workers and includes members of the Women's Land Army and Prisoners of War in earlier years.

(ii) Comprises workers returned in the Agricultural Censuses as regular part-time, seasonal or temporary workers.
## Appendix I Table K

### Index of Agricultural Net Output in the United Kingdom

**Average 1954/55-1956/57 = 100**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>103</td>
<td>107</td>
<td>105</td>
<td>102</td>
<td>112</td>
<td>119</td>
<td>115</td>
<td>125</td>
<td>127</td>
<td>137</td>
<td>136</td>
<td>135</td>
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</tbody>
</table>

**Note (i)** Includes estimated production from units under one acre.

**Note (ii)** The index measures year to year changes in the value added at constant prices by farmers, landowners and farmworkers to all the goods and services purchased from outside the agricultural sector. It is based on the average of the years 1954/55 to 1956/57. Details of the method of calculation of this index were given in the March 1960 issue (No. 77) of "Economic Trends", published by H.M. Stationery Office.
APPENDIX II

Aggregate Farming Net Income in the United Kingdom

NOTE. The revised figures given in this Appendix for the "Departmental" calculation of aggregate net income in the year 1965/66 replace the forecasts which were published in last year's White Paper when the outcome for the latter part of that year was not known. In addition new statistical information which has become available affects the figures for 1965/66 and some earlier years. Forecasts for 1966/67 are as at mid-January 1967.

### TABLE A

<table>
<thead>
<tr>
<th>Year</th>
<th>&quot;Departmental&quot; Calculation</th>
<th>&quot;Raised Sample&quot; Calculation</th>
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</thead>
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<tr>
<td></td>
<td>Actual</td>
<td>Three Year Moving Average of Actual</td>
</tr>
<tr>
<td>1946/47</td>
<td>196½</td>
<td>-</td>
</tr>
<tr>
<td>1947/48</td>
<td>231½</td>
<td>243</td>
</tr>
<tr>
<td>1948/49</td>
<td>301</td>
<td>285</td>
</tr>
<tr>
<td>1949/50</td>
<td>316½</td>
<td>299½</td>
</tr>
<tr>
<td>1950/51</td>
<td>280½</td>
<td>312</td>
</tr>
<tr>
<td>1951/52</td>
<td>338½</td>
<td>323</td>
</tr>
<tr>
<td>1952/53</td>
<td>349½</td>
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<tr>
<td>1954/55</td>
<td>314</td>
<td>337</td>
</tr>
<tr>
<td>1955/56</td>
<td>350½</td>
<td>335</td>
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<tr>
<td>1956/57</td>
<td>34.1</td>
<td>356</td>
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<tr>
<td>1957/58</td>
<td>376½</td>
<td>350½</td>
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<tr>
<td>1958/59</td>
<td>333½</td>
<td>358</td>
</tr>
<tr>
<td>1959/60</td>
<td>363½</td>
<td>363½</td>
</tr>
<tr>
<td>1960/61</td>
<td>394</td>
<td>394½</td>
</tr>
<tr>
<td>1961/62</td>
<td>426½</td>
<td>422½</td>
</tr>
<tr>
<td>1962/63</td>
<td>14.7½</td>
<td>427½</td>
</tr>
<tr>
<td>1963/64</td>
<td>468½ (474)</td>
<td>424½</td>
</tr>
<tr>
<td>1964/65</td>
<td>478</td>
<td>451½</td>
</tr>
<tr>
<td>1965/66</td>
<td>4.68½ (474)</td>
<td>4.73</td>
</tr>
<tr>
<td>1966/67 (forecast)</td>
<td>4.72 (479)</td>
<td>-</td>
</tr>
</tbody>
</table>

**Revised Series**

Note (i) The "Departmental" calculation is for years beginning 1st June.

Note (ii) The figures in brackets for 1965/66 and 1966/67 are adjusted to normal weather conditions.
Note (iii) The "Departmental" and "raised sample" estimates of aggregate farming net income in Table A are arrived at after making provision for depreciation. Net income is defined as the reward for the manual and managerial labour of the farmer and his wife, and for the use of the occupier's investment.

Note (iv) These two series of aggregate farming net income are calculated in fundamentally different ways. The "Departmental" estimate is built up from the statistics of income and expenditure for the whole "national" farm, whereas the "raised sample" is based on some 3,500 actual farm accounts, which are expanded or "raised" to give an aggregate for all farms in the United Kingdom. There are a number of reasons why the levels of aggregate net income shown in these two series should vary but it is difficult to make a quantitative assessment of the individual causes. Both series are of value in indicating the general trend in the level of income. The revised series for the "raised sample" calculation is based on a new raising method and is provisional.

Note (v) The "Departmental" estimates for aggregate net income include as profit in recent years about £8 million on the production of food for consumption in the farm household. In other industries the corresponding sums are not treated as profit and are relatively much smaller (in many cases non-existent).

Note (vi) From the "Departmental" figures for aggregate net income certain sums should have been appropriated by farmers to cover the excess of replacement cost over original cost of certain assets (slaughter stock, cultivations, growing crops, etc.) used up in the course of the year's production and trade. These sums are:

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946/47</td>
<td>23</td>
</tr>
<tr>
<td>1947/48</td>
<td>23 1/2</td>
</tr>
<tr>
<td>1948/49</td>
<td>17</td>
</tr>
<tr>
<td>1949/50</td>
<td>29 1/2</td>
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<tr>
<td>1950/51</td>
<td>4 1/2</td>
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<tr>
<td>1951/52</td>
<td>40</td>
</tr>
<tr>
<td>1952/53</td>
<td>21 1/2</td>
</tr>
<tr>
<td>1953/54</td>
<td>14</td>
</tr>
<tr>
<td>1954/55</td>
<td>18 1/2</td>
</tr>
<tr>
<td>1955/56</td>
<td>27</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956/57</td>
<td>30</td>
</tr>
<tr>
<td>1957/58</td>
<td>11 1/2</td>
</tr>
<tr>
<td>1958/59</td>
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<td>1959/60</td>
<td>20 1/2</td>
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<td>1960/61</td>
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<td>1961/62</td>
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<td>1962/63</td>
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<tr>
<td>1965/66</td>
<td>45</td>
</tr>
<tr>
<td>1966/67</td>
<td>32 (forecast)</td>
</tr>
</tbody>
</table>
### TABLE B
Details of the "Departmental" Calculation of Net Income for 1965/66 (revised) and for 1966/67 (forecast) £ million

<table>
<thead>
<tr>
<th>Crop Type</th>
<th>1965/66 (revised)</th>
<th>1966/67 (forecast)</th>
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</thead>
<tbody>
<tr>
<td><strong>Grain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>91</td>
<td>82 1/2</td>
</tr>
<tr>
<td>Barley</td>
<td>123 3/4</td>
<td>136</td>
</tr>
<tr>
<td>Other Grain</td>
<td>7 1/2</td>
<td>7 1/2</td>
</tr>
<tr>
<td><strong>Total Grain</strong></td>
<td>222</td>
<td>226</td>
</tr>
<tr>
<td>Potatoes</td>
<td>86</td>
<td>94 1/2</td>
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<tr>
<td>Sugar Beet</td>
<td>39 3/4</td>
<td>40</td>
</tr>
<tr>
<td>Other Crops</td>
<td>13 1/2</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total Farm Crops</strong></td>
<td>359</td>
<td>373 1/2</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
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<td></td>
</tr>
<tr>
<td>Fat cattle and calves</td>
<td>272</td>
<td>274 1/2</td>
</tr>
<tr>
<td>Fat sheep and lambs</td>
<td>85</td>
<td>84</td>
</tr>
<tr>
<td>Fat pigs</td>
<td>211 1/2</td>
<td>203</td>
</tr>
<tr>
<td>Poultry and other livestock</td>
<td>87 1/2</td>
<td>92</td>
</tr>
<tr>
<td><strong>Total livestock</strong></td>
<td>656</td>
<td>654</td>
</tr>
<tr>
<td>Eggs: For food and for hatching</td>
<td>179 3/4</td>
<td>175</td>
</tr>
<tr>
<td>Milk and milk products</td>
<td>412 1/2</td>
<td>422 1/2</td>
</tr>
<tr>
<td>Wool (clip)</td>
<td>1 1/2</td>
<td>1 1/2</td>
</tr>
<tr>
<td><strong>Total livestock Products</strong></td>
<td>608 1/2</td>
<td>611 1/2</td>
</tr>
<tr>
<td>Vegetables</td>
<td>95</td>
<td>101</td>
</tr>
<tr>
<td>Fruit</td>
<td>47</td>
<td>46 1/2</td>
</tr>
<tr>
<td>Flowers and Nursery Stock</td>
<td>39 3/4</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total Horticulture</strong></td>
<td>181 1/2</td>
<td>188</td>
</tr>
<tr>
<td>Sundry Output</td>
<td>23 1/2</td>
<td>24 1/2</td>
</tr>
<tr>
<td><strong>Total Value of Output</strong></td>
<td>1,828 1/2</td>
<td>1,851 1/2</td>
</tr>
<tr>
<td>Farming Grants, Subsidies and</td>
<td>99</td>
<td>108</td>
</tr>
<tr>
<td>Sundry Receipts (iii)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL RECEIPTS</strong></td>
<td>1,927 1/2</td>
<td>1,959 1/2</td>
</tr>
<tr>
<td>Farm Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>312 1/2</td>
<td>305</td>
</tr>
<tr>
<td>Rent (iv)</td>
<td>120 1/2</td>
<td>129 1/2</td>
</tr>
<tr>
<td>Interest (v)</td>
<td>25 1/2</td>
<td>26 1/2</td>
</tr>
<tr>
<td>Machinery:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>90 1/2</td>
<td>95</td>
</tr>
<tr>
<td>Repairs</td>
<td>73 1/2</td>
<td>76 1/2</td>
</tr>
<tr>
<td>Fuel and Oil</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Feedingstuffs</td>
<td>476 1/2</td>
<td>463 1/2</td>
</tr>
<tr>
<td>Seeds (vi)</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td>Fertilisers (vii)</td>
<td>120</td>
<td>126</td>
</tr>
<tr>
<td>Livestock (vi)</td>
<td>72 1/2</td>
<td>77</td>
</tr>
<tr>
<td>Other Expenses (viii)</td>
<td>113 1/2</td>
<td>116 1/2</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>1,507</td>
<td>1,525 1/2</td>
</tr>
<tr>
<td>Change in the value of growing crops, livestock and farm stocks</td>
<td>+ 48</td>
<td>+ 38</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>469 1/2</td>
<td>472</td>
</tr>
</tbody>
</table>

(1) Because of individual roundings, the figures will not necessarily add to the totals shown.
(11) The value of farm sales includes deficiency payments.
(iii) Farming grants and subsidies exclude grants for landlord type functions.
(iv) Including imputed rent for owner occupied farms.
(v) Interest on credit for current farming purposes.
(vi) Comprises the full cost of imported seed and store livestock plus merchants' margins on purchases of homergrown.
(vii) Total cost excluding subsidy, which is credited under Receipts.
(viii) "Other Expenses" comprise maintenance charges and miscellaneous expenses.
## Aggregate Cost Increases Taken into Account at the Annual Review

<table>
<thead>
<tr>
<th></th>
<th>All Products £ million</th>
<th>Review Products £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>+ 6.97</td>
<td>+ 5.42</td>
</tr>
<tr>
<td>Rent and Interest</td>
<td>+ 7.77</td>
<td>+ 6.06</td>
</tr>
<tr>
<td>Machinery expenses</td>
<td>+ 7.00</td>
<td>+ 5.44</td>
</tr>
<tr>
<td>Feedingstuffs</td>
<td>- 0.92</td>
<td>- 0.96</td>
</tr>
<tr>
<td>Seeds</td>
<td>- 0.44</td>
<td>- 0.03</td>
</tr>
<tr>
<td>Fertilisers</td>
<td>+ 0.32</td>
<td>+ 0.25</td>
</tr>
<tr>
<td>Haulage and Marketing</td>
<td>+ 0.93</td>
<td>+ 0.87</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>- 1.56</td>
<td>- 1.49</td>
</tr>
<tr>
<td></td>
<td>+ 20.47</td>
<td>+ 15.56</td>
</tr>
</tbody>
</table>

**Note (i)** These estimates are made on the assumption that any increase (or decrease) in the cost of an item of expenditure will continue for a full year and that there will be no change from the current usage of that item. As pointed out in paragraph 16 on page 110, the annual rate of gain in the industry's efficiency is estimated to be of the order of £30 million for Review products.

**Note (ii)** The figures given above exclude an increase of approximately £0.90 million in respect of changes in feedingstuffs costs which are dealt with automatically by the feed formulae relating the guarantees for pigs and eggs to the cost of standard rations.

**Note (iii)** The expression "Review Products" means the commodities, of the grades and descriptions for which guaranteed prices are provided, listed in Tables A and B in Part I of Appendix VI.
## Specimen Net Incomes for Different Types of Farming

<table>
<thead>
<tr>
<th>Average size of farm (acres of crops and grass)</th>
<th>Average net income per farm (for an identical sample in the two years)</th>
<th>Average net income per farm 1965/66</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964/65</td>
<td>1965/66</td>
</tr>
<tr>
<td><strong>Field and Sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dry</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£107</td>
<td>£1,523</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£160</td>
<td>£1,539</td>
</tr>
<tr>
<td><strong>Applying</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£252</td>
<td>£2,033</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£156</td>
<td>£1,553</td>
</tr>
<tr>
<td><strong>Field and rearing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£141</td>
<td>£1,508</td>
</tr>
<tr>
<td><strong>Applying with arable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£173</td>
<td>£1,339</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£252</td>
<td>£2,033</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£156</td>
<td>£1,553</td>
</tr>
<tr>
<td><strong>Field and rearing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£141</td>
<td>£1,508</td>
</tr>
<tr>
<td><strong>Applying with arable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£173</td>
<td>£1,339</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£252</td>
<td>£2,033</td>
</tr>
<tr>
<td><strong>Livestock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£156</td>
<td>£1,553</td>
</tr>
</tbody>
</table>

| **England**                                   |         |         |                                      |                                |                                   |
|                                               | £61     | £1,056  | £1,083                              | £701                            | £1,112                           | £2,226                           |
| **Applying with pigs**                        |         |         |                                      |                                |                                   |
|                                               | £52     | £1,004  | £1,023                              | £579                            | £1,190                           | £2,019                           |
| **Poultry**                                   |         |         |                                      |                                |                                   |
|                                               | £70     | £842    | £810                                | £555                            | £842                            | £2,366                           |

---

*(1) These figures are a selection of those examined at the Annual Review and are weighted averages based on the census distribution of agricultural holdings by Type of Farming and Size of Business. Net income is defined as the reward for the manual and managerial labour of the farmer and his wife, and for the use of the occupiers' investment. It includes an allowance for changes in the quantity and value of stocks and work in progress.*

*(2) More detailed figures for England and Wales are published in 'Farm Incomes in England and Wales' (Her Majesty's Stationery Office, price 14s. Od.). Corresponding information for Scotland will appear in 'Scottish Agricultural Economics' and for Northern Ireland in the 'Structural Review of Farming in Northern Ireland'.*
## Appendix V

### Table A and Figure I

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Implementation of price guarantees</strong></td>
<td></td>
</tr>
<tr>
<td>Wheat and rye</td>
<td>19.3</td>
</tr>
<tr>
<td>Barley</td>
<td>23.5</td>
</tr>
<tr>
<td>Oats and mixed corn</td>
<td>9.8</td>
</tr>
<tr>
<td>Potatoes</td>
<td>6.9</td>
</tr>
<tr>
<td>Eggs, hen and duck</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Fertilisers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Lime</strong></td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Ploughing</strong></td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Field drainage</strong></td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Water supply</strong></td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Livestock rearing land</strong></td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Hill land</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Marginal production assistance</strong></td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Tuberculosis eradication</strong></td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Calves</strong></td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Beef cow</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Hill cow</strong></td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Full sheep</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Drier keep</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Oils</strong></td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Farm improvements</strong></td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Farm structure</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Investment incentives</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Small farmers</strong></td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Farm business records</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other grants</strong></td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total II</strong></td>
<td>80.8</td>
</tr>
<tr>
<td><strong>Total I and II</strong></td>
<td>235.6</td>
</tr>
<tr>
<td><strong>Administrative expenses estimate</strong></td>
<td>240.6</td>
</tr>
</tbody>
</table>

## III Other services

- Payment from U.K. Exchequer for the benefit of agricultural producers in Northern Ireland
- Total estimated cost of agricultural support

|                                | £ million |
|                                | 0.6       | 1.2     | 1.1     | 0.9     | 1.1     |
|                                | 241.4     | 256.9   | 262.9   | 342.6   | 309.6   |
### APPENDIX V

## FINAL DRAFT

### Page 2

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>Year</th>
<th>£ million</th>
<th>Year</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965/66</td>
<td>15.9</td>
<td>1964/65</td>
<td>21.3</td>
<td>1963/66</td>
<td>29.4</td>
</tr>
<tr>
<td>1965/66</td>
<td>21.6</td>
<td>1965/66</td>
<td>29.4</td>
<td>1965/66</td>
<td>39.3</td>
</tr>
<tr>
<td>1965/66</td>
<td>29.4</td>
<td>1965/66</td>
<td>29.4</td>
<td>1965/66</td>
<td>39.3</td>
</tr>
<tr>
<td>1966/67</td>
<td>7.3</td>
<td>1965/66</td>
<td>7.3</td>
<td>1965/66</td>
<td>60.1</td>
</tr>
<tr>
<td>1966/67</td>
<td>3.5</td>
<td>1965/66</td>
<td>3.5</td>
<td>1965/66</td>
<td>1.1</td>
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<td>1966/67</td>
<td>17.3</td>
<td>1965/66</td>
<td>17.3</td>
<td>1965/66</td>
<td>18.0</td>
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<td>1966/67</td>
<td>25.2</td>
<td>1965/66</td>
<td>25.2</td>
<td>1965/66</td>
<td>35.8</td>
</tr>
<tr>
<td>1967/68</td>
<td>38.3</td>
<td>1965/66</td>
<td>38.3</td>
<td>1965/66</td>
<td>40.7</td>
</tr>
<tr>
<td>1967/68</td>
<td>113.5</td>
<td>1965/66</td>
<td>113.5</td>
<td>1965/66</td>
<td>122.0</td>
</tr>
<tr>
<td>1967/68</td>
<td>14.3</td>
<td>1965/66</td>
<td>14.3</td>
<td>1965/66</td>
<td>60.4</td>
</tr>
<tr>
<td>1967/68</td>
<td>0.4</td>
<td>1965/66</td>
<td>0.4</td>
<td>1965/66</td>
<td>0.7</td>
</tr>
<tr>
<td>1967/68</td>
<td>2.3</td>
<td>1965/66</td>
<td>2.3</td>
<td>1965/66</td>
<td>3.2</td>
</tr>
<tr>
<td>1967/68</td>
<td>3.8</td>
<td>1965/66</td>
<td>3.8</td>
<td>1965/66</td>
<td>3.2</td>
</tr>
<tr>
<td>1967/68</td>
<td>3.3</td>
<td>1965/66</td>
<td>3.3</td>
<td>1965/66</td>
<td>3.2</td>
</tr>
<tr>
<td>1967/68</td>
<td>121.7</td>
<td>1965/66</td>
<td>121.7</td>
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<tr>
<td>1967/68</td>
<td>113.0</td>
<td>1965/66</td>
<td>113.0</td>
<td>1965/66</td>
<td>113.0</td>
</tr>
</tbody>
</table>

#### I. Implementation of price guarantees

- Wheat and rye
- Barley
- Oats and mixed corn
- Potatoes
- Eggs, hen and duck
- Fatstock
  - Cattle
  - Sheep
- Hogs
- Milk
- Wool

**Total I**

#### II. Farming grants and subsidies

- Fertilisers
- Lime
- Ploughing
- Field drainage
- Water supply
- Livestock rearing land
- Hill land
- Marginal production assistance
- Tuberculosis eradication
- Calves
- Beef cow
- Hill cow
- Hill sheep
- Winter keep
- Silos
- Farm improvements
- Farm structure
- Investment incentives
- Small farmers
- Farm business records
- Other grants

**Total II**

#### III. Other services

Payment from U.K. Exchequer for the benefit of agricultural producers in Northern Ireland

**Total estimated cost of agricultural support**

---

Note: The notes on the following page form part of this Table and should be read in conjunction with it.
The figures in I, II and III for years up to and including 1965/66 represent actual expenditure recorded in the Appropriation Accounts. The figures for 1966/67 are the latest estimates (Hansard 6th February 1967, Written Answers, cols. 227 - 228) of cash expenditure in the United Kingdom (Civil Estimates Class V, notes 3, 4, 5 and 6). The figures for 1967/68 are those in the Civil Estimates for that year. They are based on the Annual Review and Determination of Guarantees 1966 except that in the provision for pigs account has been taken of the announcements about the raising of the middle band and the withdrawal of the quality premium. No account has been taken of any other effect of the determinations in this White Paper (see however Note (x)).

Note (ii). The Table includes £9.6 million for investment incentive grants to producers which will be paid for the first time in 1967/68. These grants will replace the previous investment allowances and, unlike them, take the form of direct Exchequer payments instead of tax concessions.

Note (iii). The basis of the calculation of administrative expenses was changed in 1962 so that the figures for earlier years are not comparable with later figures.

Note (iv). Payments in respect of cereals, potatoes and wool relate partly to the crops or clip of the year indicated and partly to the crops or clips of the preceding year or years.

Note (v). Figures for milk exclude expenditure on school and welfare milk. Following the 1962 Annual Review the retail price of milk was arranged so that neither a deficiency nor a surplus will arise, taking one year with another, from the implementation of the price guarantee.

Note (vi). Expenditure on tuberculosis eradication relates to bonus payments under the Attested Herds Scheme only and excludes compensation payments for slaughtered suckers.

Note (vii). The item "other grants" includes in 1966/67 grants to producers in the British Islands, grassland renovation, rabbit clearance societies, improvement of livestock, and bracken eradication.

Note (viii). An asterisk indicates the grants included in the Table in 1966/67 which are, in whole or in part relevant production grants for the purposes of the Agriculture Act 1957, and the 1967 Annual Review. The full list of the relevant production grants in 1966/67 is:-

<table>
<thead>
<tr>
<th>Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilisers subsidy</td>
</tr>
<tr>
<td>Lime subsidy</td>
</tr>
<tr>
<td>Ploughing grants</td>
</tr>
<tr>
<td>Grassland renovation</td>
</tr>
<tr>
<td>Field drainage grants for ditching and mowing (estimated cost £0.5 million in 1966/67; figure in the Table includes expenditure on tiling schemes)</td>
</tr>
<tr>
<td>Bonus payments under the Tuberculosis (Attested Herds) Scheme</td>
</tr>
<tr>
<td>Calf subsidy</td>
</tr>
<tr>
<td>Beef cow subsidy</td>
</tr>
<tr>
<td>Hill sow subsidy</td>
</tr>
<tr>
<td>Hill sheep subsidy (£3.3m. of the payments due in 1967/68 was paid in 1966/67)</td>
</tr>
<tr>
<td>Winter keep</td>
</tr>
<tr>
<td>Silo subsidies</td>
</tr>
<tr>
<td>Grants to small farmers</td>
</tr>
<tr>
<td>Grants for farm business recording</td>
</tr>
<tr>
<td>Grants to producers in the Scottish Islands</td>
</tr>
<tr>
<td>Grants to rabbit clearance societies</td>
</tr>
<tr>
<td>Arrangements for the benefit of agricultural producers in Northern Ireland financed from the U.K. Exchequer</td>
</tr>
<tr>
<td>Grants for agricultural marketing development (see Note (ix))</td>
</tr>
<tr>
<td>Grants for agricultural co-operation (see Note (ix))</td>
</tr>
<tr>
<td>Grants for agricultural credit (see Note (ix))</td>
</tr>
</tbody>
</table>

Note (ix). The Table excludes the cost of grants for agricultural marketing development, agricultural co-operation and agricultural credit mentioned in Note (vii) above. The estimated cost of these grants is £6.5 million in 1966/67 and £0.4 million in 1967/68. Grants for horticulture are also excluded. The estimated cost of them, including horticultural co-operation and credit, is £2.8 million in 1966/67 and £2.0 million in 1967/68.
On the basis of the original assumptions as to output and market prices, the estimated effect of the determinations set out in this White Paper, other than those mentioned in note (i)), together with the increase to be made in the retail price of milk, is a net increase of £16½ m. in the total estimated cost (£271 m.) of agricultural support by the Exchequer in 1967/68. This net increase is the result broadly of increases of £1 m. on wheat, £6 m. on cattle, £5 m. on sheep, £5 m. on pigs and £6 m. on production grants including £4½ m. for earlier payment of subsidy on hill sheep maintained in 1967 and decreases of £½ m. on barley and £2 m. on eggs. The net effect of the determinations on the estimates differs from the effect on the value of the guarantees for several reasons; the more important are that the price guarantee arrangements for some commodities do not involve Exchequer payments and that the payment periods for some items do not correspond with the financial year.
## Appendix Y: Table B

### Relationship between Unit Subsidy & Total Returns

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pigs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value</td>
<td>247s 2d</td>
<td>138s 5d</td>
<td>112s 5d</td>
<td>126s 2d</td>
<td>137s 5d</td>
<td>128s 3d</td>
<td>169s 10d</td>
<td>175s 7d</td>
<td>160s 14d</td>
</tr>
<tr>
<td>Unit Subsidy</td>
<td>13s 1d</td>
<td>9s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
<td>13s 1d</td>
</tr>
<tr>
<td>Total Return</td>
<td>260s 3d</td>
<td>147s 6d</td>
<td>125s 6d</td>
<td>139s 3d</td>
<td>150s 6d</td>
<td>141s 4d</td>
<td>182s 16d</td>
<td>188s 8d</td>
<td>173s 15d</td>
</tr>
<tr>
<td><strong>Cattle</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
<td>26s 8d</td>
</tr>
<tr>
<td>Unit Subsidy</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
<td>3s 6d</td>
</tr>
<tr>
<td>Total Return</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
<td>29s 4d</td>
</tr>
<tr>
<td><strong>Sheep</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value</td>
<td>38s 10d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
<td>39s 5d</td>
</tr>
<tr>
<td>Unit Subsidy</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
<td>6s 4d</td>
</tr>
<tr>
<td>Total Return</td>
<td>44s 6d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
<td>45s 1d</td>
</tr>
<tr>
<td><strong>Fatstock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Value</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
<td>20s 7d</td>
</tr>
<tr>
<td>Unit Subsidy</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
<td>7s 6d</td>
</tr>
<tr>
<td>Total Return</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
<td>27s 13d</td>
</tr>
</tbody>
</table>

### Notes

**Note (i)** The figures for fatstock relate to animals certified under the Fatstock Guarantee Schemes. The unit subsidy for fat cattle and sheep includes payments expected to be made under the graduated deficiency payments arrangements after the end of the fatstock year. The unit subsidy for fat pigs includes quality premiums and adjustments under the flexible guarantee and feed price arrangements.

**Note (ii)** The figures for cereals are in respect of grain taken into account in the Cereals Deficiency Payments Schemes and relate to crop years.

**Note (iii)** The figures for unit subsidy do not include agricultural production grants nor administrative expenses.
**APPENDIX VI**

**GUARANTEED PRICES: DETERMINED IN THE LIGHT OF THE ANNUAL REVIEW 1967**

PART I. PRICE TABLES

For the bases of the prices given in the tables and other particulars of the guarantee arrangements see Part II of this Appendix.

### TABLE A

Guaranteed Prices for Livestock and Livestock Products

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fat Cattle (per live cwt.) (a)</td>
<td>184s. 0d.</td>
<td>+ 5s. 0d.</td>
<td>189s. 0d.</td>
</tr>
<tr>
<td>Fat Sheep and Lambs (per lb. estimated dressed carcase weight) (a)</td>
<td>3s. 2.75d.</td>
<td>+ 7d.</td>
<td>3s. 3.75d.</td>
</tr>
<tr>
<td>Fat Pigs (per score deadweight) (a)(b)(g)</td>
<td>45s. 3d. related to a food price of 28s. 7d. per cwt. (The current feed price is also 28s. 7d. per cwt.)</td>
<td>+ 8d.</td>
<td>45s. 11d. related to a compound feed price of 35s. 5d. per cwt. which is equivalent to a food price of 28s. 7d. calculated on the basis used for the 1966/67 guarantee year.</td>
</tr>
<tr>
<td>Eggs—hen (per dozen) (c)(g)</td>
<td>3s. 6.76d. related to a feed price of 27s. 5d. per cwt. On the basis of the current feed price of 28s. 2d. per cwt. this guaranteed price is equivalent to 3s. 7.26d.</td>
<td>- 0.75d.</td>
<td>3s. 5.51d. related to a compound feed price of 35s. 5d. per cwt. which is equivalent to a food price of 28s. 2d. calculated on the basis used for the 1966/67 guarantee year.</td>
</tr>
<tr>
<td>Eggs—duck (per dozen) (c)(g)</td>
<td>2s. 6.29d. related to a feed price of 27s. 5d. per cwt. On the basis of the current feed price of 28s. 2d. per cwt. this guaranteed price is equivalent to 2s. 6.79d.</td>
<td>- 1.2d.</td>
<td>2s. 5.59d. related to a compound feed price of 35s. 5d. per cwt. which is equivalent to a feed price of 28s. 2d. calculated on the basis used for the 1966/67 guarantee year.</td>
</tr>
<tr>
<td>Wool (per lb.)</td>
<td>4s. 5.25d.</td>
<td>no change</td>
<td>4s. 5.25d.</td>
</tr>
<tr>
<td>Milk (average per gallon) (d)</td>
<td>3s. 6.35d.</td>
<td>+ 1.31d.</td>
<td>3s. 7.66d.</td>
</tr>
</tbody>
</table>
### TABLE E

**Guaranteed Prices for Crops**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat (per cwt.)</td>
<td>25s. 5d.</td>
<td>+ 6d.</td>
<td>25s. 11d.</td>
</tr>
<tr>
<td>Barley (per cwt.)</td>
<td>25s. 4d.</td>
<td>- 7d.</td>
<td>24s. 9d.</td>
</tr>
<tr>
<td>Oats (per cwt.)</td>
<td>27s. 5d.</td>
<td>No Change</td>
<td>27s. 5d.</td>
</tr>
<tr>
<td>Rape (per cwt.)</td>
<td>21s. 7d.</td>
<td>No Change</td>
<td>21s. 7d.</td>
</tr>
<tr>
<td>Potatoes (per ton)</td>
<td>290s. 0d.</td>
<td>No Change</td>
<td>290s. 0d.</td>
</tr>
<tr>
<td>Sugar Beet (per ton, 16.0 per cent sugar content)</td>
<td>130s. 6d.</td>
<td>+ 2s. 6d.</td>
<td>133s. 0d.</td>
</tr>
</tbody>
</table>

**Notes on Price Tables**

(a) The guaranteed prices for fat cattle, fat sheep and wheat are average prices subject to variation seasonally; the method of calculating the fat pigs guarantee payments involves an element of estimation. Because marketing and prices of fatstock and wheat may vary from those forecast, producers' average returns under the guarantees for those products in any year may differ slightly from the guaranteed prices.

(b) The guaranteed price for pigs is subject to the flexible guarantee and feed formula arrangements.

(c) The guaranteed prices for hen and duck eggs are subject to the indicator price and feed formula arrangements.

(d) The guaranteed price for milk includes 0.25d. per gallon special assistance for compositional quality. The guaranteed price is subject to the standard quantity arrangements.

(e) The guaranteed prices for wheat and barley are subject to the standard quantity/target indicator price arrangements.

(f) The guaranteed price for barley is subject to arrangements whereby, to encourage a more even spread of marketings over the season, the deficiency payments are subject to premiums for barley delivered, after sale, in the later months of the cereal year and deductions for barley delivered in the early months of the year.

(g) The feed formula arrangements for pigs and eggs have been adjusted as set out in Part II of this Appendix.
PART II. ADDITIONAL DETAILS OF GUARANTEES

1. The guaranteed prices shown in Part I of this Appendix for livestock and livestock products in 1967/68 and for crops of the 1967 harvest will be on a similar basis to those for the previous year except as stated in the following paragraphs.

Milk

2. The provisional standard quantity for each area in 1967/68 has been calculated as follows:

<table>
<thead>
<tr>
<th>Provisional Standard Quantity</th>
<th>Adjustments for Changes in Liquid Sales</th>
<th>Provisional Standard Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>England and Wales</td>
<td>+ 21.9</td>
<td>1855.2</td>
</tr>
<tr>
<td>Main Scottish Area</td>
<td>- 2.2</td>
<td>190.7</td>
</tr>
<tr>
<td>Aberdeen and District</td>
<td>- 0.1</td>
<td>20.6</td>
</tr>
<tr>
<td>North of Scotland</td>
<td>+ 0.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>+ 2.7</td>
<td>104.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2181.5</td>
</tr>
</tbody>
</table>

3. The final figures for the standard quantities for 1966/67 for each of the five milk marketing areas are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Provisional Standard Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>England and Wales</td>
<td>1843.0</td>
</tr>
<tr>
<td>Main Scottish Area</td>
<td>191.6</td>
</tr>
<tr>
<td>Aberdeen and District</td>
<td>20.6</td>
</tr>
<tr>
<td>North of Scotland</td>
<td>10.4</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>104.1</td>
</tr>
<tr>
<td></td>
<td>2169.7</td>
</tr>
</tbody>
</table>

4. The standard quantity in any area will in future be adjusted so as to maintain a ratio of at least 4 to 1 between liquid sales in the current calendar year and the manufacturing milk within the standard quantity.
Fat Cattle

5. Graduated Deficiency Payments Scheme. With effect from 27th March 1967, the scale of abatements and supplements will be adjusted to take account of the expected market situation for the year. If the average market price for a week is below the standard price for the same week, and the deficiency is within the range 25s. Od. to 31s. Od. per live cwt., a guarantee payment of the amount of this deficiency will be paid in respect of the week; but if the deficiency in the week exceeds 31s. Od. per cwt., or is less than 25s. Od. per cwt., the guarantee payment will be subject to abatement or supplement in accordance with scales determined at the Review, which are being published separately.

Fat Sheep

6. Graduated Deficiency Payments Scheme. With effect from 27th March 1967, the scale of abatements and supplements will be adjusted to take account of the expected market situation for the year. If the average market price for a week is below the standard price for the same week, and the deficiency is within the range 3d. to 5d. per lb. estimated dressed carcass weight, a guarantee payment of the amount of this deficiency will be paid in respect of the week; but if the deficiency in the week exceeds 5d. per lb. or is less than 3d. per lb., the guarantee payment will be subject to abatement or supplement in accordance with scales determined at the Review, which are being published separately.

Fat Pigs

7. Flexible Guarantee Scale. The flexible guarantee scale (set out in paragraph 7 of Appendix VI, Part II of the 1966 Annual Review White Paper) will be modified and with effect from 27th March 1967, the scale will be as follows:

<table>
<thead>
<tr>
<th>Forecast level of certifications</th>
<th>Adjustment to the basic guaranteed price</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.6 million or more but less than 11.9 million</td>
<td>+ 3s. 9d.</td>
</tr>
<tr>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>12.2</td>
<td></td>
</tr>
<tr>
<td>12.5</td>
<td></td>
</tr>
<tr>
<td>12.8</td>
<td></td>
</tr>
<tr>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>13.4</td>
<td></td>
</tr>
<tr>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>14.0</td>
<td></td>
</tr>
</tbody>
</table>
There will be a further adjustment of 1s. for each complete 0.3 million or part thereof by which the forecast level of certifications falls below 11.6 million or exceeds 14.8 million.

8. Quality Premium. With effect from 27th March 1967, the quality premium on AA+ pigs will be discontinued.

9. Feedingstuffs Formula. In 1967/68 the guaranteed price will continue to be subject to adjustment in respect of changes in the cost of a feed ration, but the ration will consist of a representative selection of compound feedingstuffs. Changes in the cost of the ration will be expressed in terms of an index. The feed price to which the new guaranteed prices are related (35s. 5d. per cwt.) is deemed to be equivalent to 1000 points on the index. For every movement of 9 points from 1000 points on the index the guaranteed price will be adjusted by 3d. per score.

Eggs

10. In 1967/68 the indicator prices provided for by Article 4 of the Eggs (Guaranteed Prices) Order 1963 (1963 No. 569) as amended by the Eggs (Guaranteed Prices) (Amendment) Order 1964 (1964 No. 462) will be 3s. 1d. per dozen for hen eggs and 2s. 2d. per dozen for duck eggs. If, during 1967/68, the British Egg Marketing Board's average selling price for hen or duck eggs is below the appropriate indicator price, the proportion of the difference to be met by the Exchequer will remain at 40 per cent instead of being reduced in accordance with the arrangements introduced at the 1963 and 1964 Annual Reviews. These arrangements were set out in the Orders referred to above but have since been amended by the Eggs (Guaranteed Prices) (Amendment) Order 1966 (1966 No. 479) in accordance with the Government's intentions to reduce the proportion met by the Exchequer by 10 per cent a year from 1965/66 onwards.

11. Feedingstuffs Formula. In 1967/68 the guaranteed prices for hen and duck eggs will continue to be subject to adjustment in respect of changes in the cost of a feed ration, but the ration will consist of a representative selection of compound feedingstuffs. Changes in the cost of the ration will be expressed in terms of an index. The feed price to which the new guaranteed
price is related (35s. 5d. per cwt.) is deemed to be equivalent to 1000 points on the index. For every movement of 21 points from 1000 points on the index the guaranteed prices will be adjusted by £d. per dozen.

Cereals

12. Standard Quantities. The standard quantities for wheat and barley will be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Thousand tons</th>
<th>Thousand tons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For 1966 Harvest</td>
<td>For 1967 Harvest</td>
</tr>
<tr>
<td></td>
<td>determined after the Annual Review 1966</td>
<td>determined after the Annual Review 1967</td>
</tr>
<tr>
<td>Wheat</td>
<td>3,650 (a)</td>
<td>3,750</td>
</tr>
<tr>
<td>Barley</td>
<td>7,350 (a)</td>
<td>7,850</td>
</tr>
</tbody>
</table>

(a) Because the wheat acreage was abnormally low the operation of the crop adjustment formula has reduced the wheat standard quantity for the 1966 harvest to 3,520 thousand tons and increased the barley standard quantity to 7,467 thousand tons.

13. Target Indicator Prices. The target indicator prices will be 20s. 6d. per cwt. for wheat and 19s. 0d. per cwt. for barley. If a change should be made in the course of the cereal year in the relevant minimum import prices, an identical change would be made in the target indicator price, and an average target indicator price for the cereal year would be used throughout the calculations.

14. Escalator Arrangement. The escalator arrangement will operate within a range of production of 3.55 to 3.75 million tons for wheat and 7.40 to 7.85 million tons for barley (subject to any adjustments consequent on the crop adjustment formula).

Sugar Beet

15. For the 1967 crop the maximum acreage to which the guarantee will apply will be 427,400 acres in England and Wales and 15,600 acres in Scotland. The maximum acreage for the 1968 crop will be the same as in 1967.
With your permission, Mr. Speaker, and that of the House, I should like to make a statement about this year's Annual Agricultural Review, the details of which are in a White Paper available in the Vote Office.

This year in the Review the Government have looked to see what progress has been made in the selective expansion plan. This is more important than ever. Last year's difficulties make it even more necessary to secure all the import savings we can from our farmers.

Broadly, the arable side, particularly cereals, is expanding in line with the programme. The livestock side, particularly meat, is making less satisfactory progress. Overall, net output is tending to decline. While the labour force is falling rather faster than in the programme, the decline in output means that the industry's productivity is rising more slowly than we had hoped.

The Government have kept fully in mind the requirements of prices and incomes policy. While the particular criteria to apply from 1st July are still under consideration, it is clear that there will need to be continuing restraint on prices and incomes. On the other hand more needs to be done to help agriculture fulfil the programme.

We have always recognised that agriculture must have the physical and financial resources required to increase output and productivity in accordance with the programme. We have recognised also that farm income is a main source of the finance for any further investment the industry may need to make.

For the industry as a whole net income has remained virtually unchanged during the last three years. The forecast for 1966/67 is £472m., almost the same as last year and slightly below 1964/65. Costs have increased by £15½m. This figure does not allow for any increase there may now be in fertiliser prices, but we have allowed for this in our determinations. Against these cost increases must be
set the industry’s rising productivity, estimated – taking one year with another – at about £30m.

7. Our conclusion, after weighing these factors, is that the industry needs an increase in income to finance further investment, particularly on the livestock side, and it should get this in the national interest. If not, the expansion programme will fail.

8. The programme puts particular emphasis on beef. The beef herd has been expanding, but falling market prices last autumn produced some loss of confidence. The dairy herd, from which two-thirds of home-produced beef comes, is static. Further incentives are needed.

We shall increase the guaranteed price for cattle by 5s. a cwt.; the calf and the beef cow subsidies by £1 a head, and the hill cow subsidy by £1. 5s. a head. These incentives cover all stages of production from rearing to fattening. To encourage expansion of the dairy herd we are increasing the guaranteed price of milk by 1d. a gallon, inclusive of the increase in the standard quantities on account of the rise in liquid consumption. The retail price has to go up to 10d. a pint on April 2nd to pay for increased distributive costs and last year’s Price Review award. This year’s award will mean that it will stay at 10d. until April 1968.

9. The sheep breeding flock has recently fallen. Since an increasing share of the ewes must come from the hills and uplands we are increasing the rate of hill sheep subsidy by 2s. to 21s. This higher rate will apply not only to flocks maintained during the current year, but also for 1967/68. In addition, the subsidy will be extended to bring in about 2 million more ewes in flocks further down the hill. Subsidy on these ewes will be at 10s. 6d. Winter keep subsidy payments will be correspondingly extended. Finally, we shall increase the guaranteed price for fat sheep by 1d. a lb.

10. The pig breeding herd has fallen during the last two years. The decline has now been checked, but pigs are well below the level needed. We are increasing the middle band – in effect, the standard quantity – by 400,000, as I announced last September, and...
increasing the guaranteed price by 8d. a score. We are also adjusting the flexible guarantee arrangements to give a stronger incentive to get production up to the required level, and encourage greater stability thereafter. The result of all this is to increase immediately the effective guaranteed price to producers by 1s. 11d. a score. Quality premiums will cease to be paid as announced in last year's White Paper.

11. Production of eggs has over the year as a whole outrun demand. The guaranteed price will be reduced by 4d. a dozen.

12. Cereal production is expanding satisfactorily. The growth in consumption justifies an increase in the standard quantities by 100,000 tons for wheat and 500,000 tons for barley. Since barley is outrunning wheat, we are increasing the guaranteed price of wheat by 6d. a cwt. and reducing barley by 7d. The net effect is no change in the cereals guarantee. We are increasing sugar beet by 2s. 6d. a ton. There is no change for potatoes.

13. The grant under Part I of the Ploughing Grant Scheme will be discontinued. The fertiliser subsidy will be reduced by a little under £2m. a year. We do this after considering all the circumstances, including the recommendations of the National Board for Prices and Incomes; the high cost of the subsidy; and the fact that special grants for fertilisers will be available in the hills and uplands after the Agriculture Bill has become law.

14. The net effect of these changes is to increase the value of the guarantees by just over £25m. This gives full recoupment for the agreed cost increases, together with a further £10m., and leaves with the industry the whole of the estimated £30m. gain from increasing productivity. The Government could, consistently with the assurance on productivity given at the 1966 Review, have permitted the industry to retain only a part of its productivity gain. We have decided that it is right, in the exceptional circumstances of this year, to go beyond this to provide the means for a further substantial
investment in agriculture. I firmly believe that, provided farmers respond to the capital injection given at this Review, output and income will resume their upward trend and, most important of all, the industry will be able to make an even greater contribution to the nation's needs.
13th March, 1967

CABINET

FAMILY ENDOWMENT

Memorandum by the Lord President of the Council

The Chancellor of the Exchequer's memorandum on family endowment (C(67) 23) raises an important issue of constitutional principle. When the Cabinet, on 23rd February (CC(67) 9th Conclusions, Minute 4), decided for the "give and take" scheme and against the Chancellor's proposal for an income test, the Chancellor reserved his right "to consider the fiscal means by which a scheme of that kind should be financed". But in fact the fiscal means he recommends are tantamount to a rejection of "give and take"; and his attempt to postpone a decision which Cabinet has already firmly taken amounts to a demand that the decision should be rescinded, as the Minister for Social Security has made clear, a decision to postpone the preparatory steps needed for a "give and take" scheme might well mean that it could not be introduced in 1968.

2. I do not, of course, want to challenge the time-hallowed principle of the Chancellor's control over the Budget. But the application of this principle must be viewed in the light of modern economic management on the one hand and on the other of the Cabinet's right to decide upon the main lines of major economic policy and social reform. There is no doubt that he must be able to decide in great secrecy on the particular tax changes required in order to implement the Cabinet's economic policy; but I cannot think it proper that this traditional right should be extended to the point where the Chancellor requires a Cabinet decision to be rescinded on the ground that it affects those budgetary issues which are within his sole competence. To concede this would go far to undermine the whole doctrine of collective Cabinet responsibility for economic and social policy.

3. The question of family endowment has been considered at length on two occasions by the Cabinet which has "faced the issue of income-testing" before reaching its conclusion that direct income-testing in this field is not acceptable and that the limitation of the improved family allowances to the poorer families should be achieved by indirect income-testing. It is not correct to say that the "give and take" scheme does not operate an income test; it operates an income test of the better off through adjustment of their tax allowances and thus avoids the humiliation inevitable in any direct income-testing.

4. Nor am I impressed with the Chancellor's new argument that the "give and take" scheme costs £160 million which can only be found by cutting other social services. This conclusion can only be reached by disregarding the relationship between tax allowances and Government grants inherent in the "give and take" scheme. I should have thought
that on any reasonable calculation only the net annual cost of £32 million should be counted against the tolerable increase on taxation rates. The Chancellor himself recognised the general validity of this point in his White Paper on Public Expenditure (February, 1966 - Cmnd, 2915):

Again, the new system of investment grants to manufacturing and extractive industries will substitute Government expenditure for tax reliefs. Changes of this type, even when they are fiscally exactly equivalent, result in more or less "public sector expenditure" as defined in paragraph 6 and thus make it necessary to redefine the total limits accordingly).

If it is possible (as it obviously is) to "redefine the total limits" when investment grants are substituted for investment allowances, the same kind of redefinition can surely be carried out with regard to the family endowment scheme.

5. Finally, if the Chancellor wishes, it would not be difficult to work out an option scheme to relieve family poverty parallel to the option scheme we have introduced in order to help the needy owner-occupier. Such a scheme would have the advantage of removing the danger of confusion to which the Chancellor points in paragraph 3 of his memorandum. But since this advantage would be more than counter-balanced by its administrative difficulties I would hope that my colleagues will abide by their previous decision.

R.H.S.C.

Privy Council Office, S.W.1.

13th March, 1967
CABINET

HOUSING: PUBLIC AUTHORITY HOUSING PROGRAMME 1967
ENGLAND AND WALES

Memorandum by the Chancellor of the Exchequer

As the Minister of Housing and Local Government and the Secretary of State for Wales have pointed out in C(67) 25, I do not feel able to accept that any immediate increase should be authorised in the total of public authority housing approvals for 1967.

2. The present authorised programme has already produced a substantial increase since 1964 in Public Sector house building. It also provides for a continuing increase year by year both in the number of houses completed and in the volume of housing work under construction. It is designed to provide about half of the target of 500,000 houses in 1970 and it is not running behind schedule.

3. Unfortunately the increase in the Public Sector has so far been largely offset by the fall in private housing. But the Private Sector is beginning to pick up. In October last, the speculative builders forecast that they would start building only 179,000 houses in Great Britain in 1967; in January, they forecast 204,000. Since then I have announced the easing of credit restrictions and the Building Societies are now in a position to step up their mortgage lending.

4. The probable speed and scale of the expansion in private house building is difficult to estimate and current forecasts of likely performance in 1968 are bound to be tentative. But the Official Committee on Housing estimate that, if allowance is also made for the planned increase in the Public Sector, total completions should rise by 5-15,000 this year and by a further 25-30,000 in 1968. This would give a United Kingdom total of between 427,000 and 442,000 houses completed in 1968. The detailed figures are given in an Annex to this note.

5. When we authorised the local authorities' programme for 1966, we recognised that this was going above the target that we had set ourselves, and this was accepted as a means of boosting the programme for the time being. This we have succeeded in doing. To have 155,000 as the programme for 1967 is merely to return to the course which was originally agreed. I recognise that it may mean that some local authorities will not be able to build as many houses as they would be physically capable of building. But this condition is not peculiar to the housing programme; and any claim for housing must be considered
against the other pressing demands for public expenditure for other programmes. The purpose of the current review of public expenditure is to enable us to do this and to reconsider priorities over the next few years, with the aim of reducing civil public expenditure by £200-£300 million below the basic programme for 1970-71. One of the major points for discussion in that review will be the present target of 500,000 houses, and in my view it would be quite wrong to anticipate the decision on that point by adding to the housing programme now.

6. In the shorter term, the proposal of 7,000 additional approvals would add about £9 million to the high level of public expenditure in the current year. It would also add some £11.4 million in 1968-69, and I must warn my colleagues that all the indications are that, because of the sharp increase in total expenditure which is entailed by our existing policies, we shall shortly have to consider seriously the problem of limiting the increase in public expenditure in that year.

7. I must therefore ask my colleagues not to authorise any increase in the Public Sector housing programme in advance of the current review of public expenditure.

L. J. C.

Treasury Chambers, S. W. 1.

13th March, 1967
### APPROVALS (ENGLAND AND WALES)

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The authorised total shown for 1966 includes the extra 11,000 which were approved in April (3,500) and July (7,500) of that year. A further 2,900 were issued on the local authority side to offset the short-fall of a similar amount on New Towns.

### COMPLETIONS

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<th>Northern Ireland</th>
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**Northern Ireland**

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**TOTAL UK**

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Addition now proposed (England and Wales: 1,75 5,25)
14th March, 1967

CABINET

REORGANISATION OF THE POST OFFICE:
DRAFT WHITE PAPER

Memorandum by the Postmaster General

In July, 1966, (CC(66) 36th Conclusions, Minute 4), the Cabinet decided that the postal and telecommunications services of the Post Office should be transferred to a new public Corporation to be set up for the purpose. I announced the decision in Parliament on 3rd August, 1966. The Cabinet invited the Chancellor of the Exchequer and me to give further consideration to what should be done with the Post Office Savings Department. We recommended that it should remain in the Civil Service, reporting to Treasury Ministers. The Prime Minister accepted this and I announced it in Parliament on 15th November. The new National Giro and the existing Post Office remittance services are to become the responsibility of the Corporation.

2. I undertook to present a White Paper to Parliament setting out proposals for the reorganisation when the Select Committee on Nationalised Industries had reported on its current enquiry into the Post Office, and after consultation with the staff.

3. The terms of the White Paper have been discussed by the Ministerial Committee on Economic Policy who have agreed the attached draft. The reference to a national Data Processing Service in paragraph 25 is dependent on the outcome of the present consideration of this question.

4. When I announced the decision I indicated that I expected vesting day for the new Corporation to be within about three years. I now feel that from the practical point of view the right target date for vesting is 1st April, 1969. This means that we must secure Royal Assent to the Bill by July, 1968. A place has been sought in the legislative programme, and we are aiming to introduce the Bill in time for the Second Reading to take place before the Christmas recess.

5. In keeping with this timetable, and subject to clearance of the point about the National Data Processing Service, I invite the Cabinet's agreement to my presenting the White Paper to Parliament before Easter.

E. W. S.


13th March, 1967
Introduction

1. The Post Office provides two major public utilities - posts and telecommunications - which play a vital part in the economic and social life of the nation. Its operations are correspondingly vast. During the last financial year it
- handled transactions to a total value of £7,900m.
- invested £210m. - or more than any other public undertaking except Electricity Supply.
- dealt with 11,300 million letters and 6,900 million telephone calls.

At the end of the financial year the written-down value of its fixed assets was over £1,400m. Its staff form nearly 2% of the working population or about half the non-industrial Civil Service.

2. Trading operations on this scale must be managed on commercial lines if they are to be efficient. Successive Governments have sought to adapt the status and structure of the Post Office to meet this requirement. This began with the important changes in organisation which followed the Bridgeman Report in 1932. Since 1955 the Post Office has been responsible for balancing its own income and expenditure, and has been explicitly encouraged to conduct its business as a commercial enterprise. In 1961 its finances were separated from the Exchequer. Since then it has been subject to financial disciplines similar to those applying to the statutory nationalised authorities. But constitutionally it is still a Government Department, with a Minister at its head who must answer to Parliament for its day-to-day operations.

3. The Government have carried out a fundamental review of the Post Office, set against the challenging future of change and expansion which faces many of its services. Its present structure and methods are those of a Department of State. These have been
evolved primarily for the formulation and execution of Government policy, and are geared to the discharge of ministerial responsibility to Parliament. They are unsuited to the running of the postal, telecommunications and remittance services, and the new Giro service (Cmd. 2751). The Government concluded that the process begun in 1932 should be carried to its logical conclusion. A public corporation should be created to run these great businesses with a structure and methods designed directly to meet their needs, drawing on the best modern practice.

4. The Postmaster General announced this decision in Parliament on 3rd August 1966. In November 1966 he told Parliament that the Post Office Savings Department would remain as part of the Civil Service and would report to Treasury Ministers. It will be known in future as the National Savings Department.

5. The Government undertook that when the House of Commons' Select Committee on Nationalised Industries had completed its enquiry into the Post Office, and after consultation with representatives of the staff, the Postmaster General would present a White Paper to Parliament. This would set out proposals for the reorganisation. The Select Committee presented its Report on 28th February 1967.

ESTABLISHMENT OF THE CORPORATION

6. The Post Office is a major Department of State. Practically the whole of it is involved in the constitutional change. This is an undertaking without precedent. Moreover, Post Office services are an integral part of the nation's life. In addition to communications, the Post Office provides part of the machinery of the Social Security system, and many other kinds of business are transacted at Post Office counters. The Government's objective is to create an authority which will

- be responsible for developing the most efficient services possible, at the lowest charges consistent with sound financial policies.
- carry on in a worthy manner the Post Office tradition of service to the public.
- develop relations with its staff in a forward-looking and progressive way.

Ministerial Organisation

7. The Government have decided that a single Minister of the Crown will bear ministerial responsibility for the new Corporation and for the residue of the Postmaster General's functions (except Savings). An announcement as to which Minister will assume these functions will be made in due course.

Titles and Insignia

8. The Corporation will be known as "The Post Office". Her Majesty The Queen has been pleased to approve that the title "Royal Mail" should continue, and that the Corporation should use the Crown and the Royal Cypher as the Post Office does at present. The Sovereign's head will continue to be included in the design of stamps and postal orders. Postage stamp designs will be considered jointly by the Corporation and by the Minister and submitted to Her Majesty by the latter.

Legislation

9. The Government intend to introduce a Bill establishing the Corporation in the 1967-68 Session. The members of the Corporation will be appointed as soon as possible after the Bill becomes law. As soon as possible after that - on "vesting day" - the Corporation will take over active responsibility for the services and will assume the appropriate assets and liabilities of the Post Office.

Position in Northern Ireland

10. The Corporation, like the Post Office, will operate in Northern Ireland, as in other parts of the United Kingdom.

THE OBLIGATIONS OF THE CORPORATION

11. The essential purpose of the charge will fail unless the Corporation has effective freedom of a kind appropriate to a
nationalised authority. Yet the special role of the Corporation's services in the social fabric of Britain, and its monopoly of providing many of them, must carry special obligations. The Government intend that these requirements should be reflected, both in the legislation and in the relationships of the Corporation with its users, with Parliament and with the Minister.

The Services

12. The Corporation's most important responsibilities will be to provide letter and telephone services for the country as a whole, and to meet the needs of commerce and industry for inland and overseas communications.

13. Post Office counter services play a vital part in the national Social Security system. The Government consider it essential to provide statutory safeguards for the future functioning of this system. The Bill will confer on the Minister a reserve power to give directions to the Corporation to make its own counter facilities available for central Government and Government of Northern Ireland services.

Financial Obligations

14. The Corporation will have the same sort of financial obligations as other nationalised industries. It will be expected, as the Post Office is now, to pay its way with a sufficient margin between income and expenditure to make suitable allocations to reserves. It will observe the criteria set out in paragraphs 19-23 of the White Paper on the Financial and Economic Obligations of the Nationalised Industries (Cmnd. 1337). The Corporation will be set financial targets by the Minister to provide a stimulus to efficiency and to ensure that it generates an appropriate proportion of its own capital requirements. The Minister will discuss these with the Corporation as soon as possible.

15. The Corporation will inherit a number of public services which cannot be made financially viable at any reasonable level of charge. The outstanding example is the inland telegraph service, which
run at a loss for many decades and cannot hope to pay for itself as its use continues to decline. Obligations of this kind are normally taken into account when financial targets are fixed.

16. At present the Post Office provides agency services to the Government at 'cost' which includes the overheads of the services themselves but excludes a proper contribution to the Post Office's overall financial obligation. In future, the prices charged for agency services should make such a contribution to the achievement of the Corporation's financial obligations and the Corporation will negotiate with client Departments contracts designed with this object in view. The Minister will be given a reserve power to determine the charge to be made in the event of disagreement.

THE POSITION OF PARLIAMENT

17. The constitution and responsibilities of the Corporation will be embodied in legislation. Its accountability to Parliament will be different from that at present. There will no longer be a Minister answerable to Parliament for its day-to-day activities. But both Houses will have the opportunity to consider the Report and Accounts of the Corporation when these are laid before Parliament every year. The work of the Corporation will be subject to scrutiny by Committees of the House of Commons. Increases in the total amount it may borrow will need to be approved by the House of Commons.

18. The Minister responsible for the Government's functions in relation to the Corporation will be answerable to Parliament for the discharge of these functions and for the exercise of his powers (see para. 37 below).

SAFEGUARDS FOR THE USER

19. Parliament and public have a right to expect guarantees that the Corporation will be responsive to the social and business needs of users and sensitive to their opinion. For this reason, the Government attach great importance to the arrangements to be made for user consultation.

20. The keystone of the consultative structure will be a national Users' Council to be established by legislation, with a secretariat
Independent of the Corporation. In appointing the Council the
Minister will take account of the desirability of having members who
are familiar with the special requirements and circumstances of the
various parts of Britain. Arrangements will be made to ensure that
there is effective consultative machinery below national level. The
Council will represent the interests of all users. It will be able
to make recommendations about the services. It will consider pro-
posals put to it by the Corporation, and any complaints from
individual users which may be remitted to it from below national
level. The user consultative machinery as a whole will be flexible
and readily adaptable to change.

21. The Bill will require the Corporation to consult the Council
about all major proposals affecting its main services, in so far as
these affect users. This will extend to proposals to vary, intro-
duce or discontinue main services on a national scale. Its function
in relation to charges and conditions of service is explained in
para. 24 below. The Users' Council will have access to the Minister
if it disagrees with the Corporation. The Government will do all
they can to foster a successful working relationship between the
Corporation, the Council and the other consultative organs.

CHARGES AND CONDITIONS

22. The Corporation, like all other businesses and the nationalised
industries, will be expected to have regard to the requirements of
the national prices and incomes policy and their charges will be
subject to prices and incomes legislation. It will also be expected
to follow the informal arrangements for consultation about sub-
stantial changes in the level of prices between the Boards of
nationalised industries and the Ministers concerned currently
formalised in the arrangements for early warning of increases in
prices or charges described in the White Paper - Prices and Incomes
Policy: "Early Warning" System (Cmnd. 2608).

23. Subject to these general considerations, the Corporation will
itself have statutory power to fix charges for its services and

- 6 -
facilities and the conditions on which they are to be provided. It will be required to publish those charges and conditions.

24. The Government intend that the advice of the Users' Council, as the principal organ of consumer interest, should play an important role in the fixing of the Corporation's charges and conditions of service. But these will necessarily cover a very wide range indeed, including both the major elements of the main services - like the charge for a letter or telephone call charges - and those for minor and ancillary services and facilities, used only by relatively few people, but requiring to be set out in great detail. The Government believe that it would hinder rather than help the work of the Council if the Corporation were obliged to follow a uniform consultation procedure for changes over the whole of this great range, regardless of their importance. They would naturally expect the Corporation to make suitable working arrangements to keep the Council informed about all development in the field of charges and conditions. But the legislation will impose an obligation on the Corporation to consult the Users' Council only about proposals for major changes in the charges or conditions for the main services. It will provide for disagreements between Corporation and Council about interpretation of this provision to be referred to the Minister for decision.

THE POWERS OF THE CORPORATION

25. The Corporation will be equipped with the statutory powers, including the financial powers, it needs to run the Post Office services which are to be transferred to it, including the Giro. The Corporation will also be empowered to run a National Data Processing Service.

26. The Corporation will borrow long term exclusively from the Minister, and will be empowered to borrow temporarily from the Minister or with his consent from other persons. The Treasury will be able to guarantee short term borrowing from the banks under this provision. Total outstanding borrowings in addition to the opening
capital debt will be given a specific limit. As has been said earlier, any increases in the total amount which the Corporation may borrow will need to be approved by the House of Commons.

27. The Bill will confer various ancillary and general powers on the Corporation, including power to manufacture anything used in connection with the exercise of its powers. The Corporation will also have power to form subsidiaries and to engage in joint undertakings with other organisations. It will be expected to consult the Minister if it proposes to undertake on a large scale any manufacturing work which the Post Office had not done previously.

28. The PMG's existing monopoly of the carriage of letters under the Post Office Act 1953 and his telecommunications monopoly under the Telegraph Act 1869, extend to the United Kingdom, the Channel Islands and the Isle of Man. The Bill will confer on the Corporation a corresponding monopoly of the carriage of letters and, in a modernised form, of telecommunications within the United Kingdom. The question of the continued application of the postal and telecommunications monopolies to the Channel Islands and the Isle of Man will be discussed with the Insular Authorities in the Channel Islands and with the Government of the Isle of Man.

29. The Postmaster General's existing telecommunications monopoly is generally speaking confined to communications between one person and another who is not the former's servant or agent. The Government do not intend that the Corporation should have a wider monopoly in this respect, so that the position of private networks operated at present outside the Postmaster General's monopoly will not be affected. The monopoly will not extend to broadcast transmissions from radio stations direct to the general public.

30. The Postmaster General's legal monopoly extends to inland telecommunications only, though in practice he is able to exert certain controls over the activities of overseas telecommunications operators in this country. The Government have decided that subject
to the limitations expressed in the preceding paragraph, the Corporation's monopoly should extend, within the area of the United Kingdom (and - dependent upon the outcome of the negotiations referred to in para. 28 - the Channel Islands and the Isle of Man) to overseas telecommunications to, from and via that area. They have reached this conclusion because, with the rapid technological developments that are taking place in this field, overseas and inland telecommunications systems are becoming increasingly integrated from the operational point of view. Thus, for example, the International Subscriber Dialling and national Subscriber Trunk Dialling networks are interdependent to the point, where, to the user, they are virtually one system. The Government believe that in these circumstances it is right for the Corporation's monopoly to extend to overseas telecommunications.

31. The Corporation will be empowered to grant licences under its monopolies, subject to the consent of the Minister, and to charge royalties on them. The reorganisation will not affect any vested rights of the Corporation of Kingston-upon-Hull existing on vesting day to operate their own local telephone system, or other rights then existing under telegraph licences. Nor will it mean that overseas telecommunications operators will lose any rights in this country which they then have. But the Corporation's licence will be required for any renewal of such rights, and for the operation of any new telecommunication facilities within its monopoly.

PURCHASING POLICY

32. The Corporation will pay full regard to Government policy for purchasing in the public sector.

THE ORGANISATION OF THE CORPORATION

33. Posts and Telecommunications are vast businesses in themselves, with different characteristics and meeting different needs. But they have been run jointly by the Post Office in the past and are complementary in some respects and interdependent in others. Many of their supporting functions are effectively and economically
organised on a common service basis. There are thus real advantages in the continued overall direction of their affairs by a single body. The Bill will therefore create a single statutory Corporation which will be headed by a single, small, largely executive board. At the same time, if the two businesses are to develop successfully in their different ways and seize their different opportunities, they must be managed separately within this single, overall framework. The Government consider that the managerial structure of the Corporation should provide for this at all levels - national, regional and local.

35. Traditionally the Post Office has followed the organisational pattern of a central government department. This pattern is not appropriate for the successful management of a large service industry like the Post Office. A fundamental examination of the organisation is therefore now being carried out to see what changes are called for to fit it to the future needs of the Post Office, whatever its status. Where appropriate, changes will be implemented in advance of vesting day.

36. The nature of Post Office services, as well as the sheer size of the business, calls for a system that devolves as much authority and responsibility as possible at every level. The Corporation will be expected to apply and develop this philosophy to meet the needs of the future.

THE MINISTER

37. As has been said, responsibility for the Corporation within the Government will be borne by the Minister who assumes those of the Postmaster General's functions (other than those in the Savings field) which are not taken over by the Corporation. Certain statutory powers of the Minister in relation to the Corporation, including his function in relation to the exercise of its licensing power under its monopolies, have already been mentioned.
Submissions to Her Majesty on behalf of the Corporation will be made either by the Minister or, where appropriate, by the Home Secretary. The Minister will also have
- the duty to appoint the Chairman and members of the Corporation.
- the power to give such directions of a general nature to the Corporation about the performance of its functions as appear to him to be required in the national interest.
- the power to give specific directions to the Corporation in the interests of national security and in the field of international relations.
- the power to direct the Corporation to remedy any defect in its general plans and arrangements, which might be brought to light by the Users' Council or otherwise.
- the power to direct the form of the Corporation's accounts and to appoint auditors.

38. The Corporation will settle the general lines of its capital development with the approval of the Minister, and will be required to give him any information for which he might ask.

39. The Minister will assume the Postmaster General's present functions in the field of Wireless Telegraphy under the Wireless Telegraphy Act 1949, and his associated functions in the Broadcasting field. This will include general regulatory control of radio transmission and reception, and the issue of licences accordingly.

40. The Minister will also assume the Postmaster General's responsibility for broadcasting policy, and his constitutional functions in relation to the BBC under its Charter and Licence and to the ITA under the Television Act 1964.

SERVICES PROVIDED BY OTHER GOVERNMENT DEPARTMENTS

41. The Post Office makes use of certain services provided by other Government Departments, primarily the Ministry of Public Buildings and Works and Her Majesty's Stationery Office. Since
1961 both the Post Office and the other Departments have been free to terminate or modify this relationship, subject to giving due notice. This arrangement will continue when the Corporation is set up. Because of the magnitude of the commitments involved on both sides, no action would be taken to end or modify the relationship except after adequate notice and full consultation.

**INTERNATIONAL AND COMMONWEALTH RELATIONS**

42. The Corporation will be expected to have full regard to the Government's policy in the field of international relations.

**International Organisations**

43. The Post Office has in the past played a leading part in the affairs of the Universal Postal Union and the International Telecommunication Union and of other international organisations in the posts, telecommunications and radio fields. It has done so, either alone or with other Government Departments, where the participants are Governments, representing the United Kingdom. It has also done so where they are operational entities, as the United Kingdom operating agency in the field concerned.

44. When the Corporation is set up, the Government will ensure that the United Kingdom remains an active member of the Universal Postal and International Telecommunication Unions and of all other inter-governmental bodies with related purposes and will continue to be represented on these at Government level. Where it is appropriate to designate an operating agency under the constitution of the international organisation concerned the Corporation will be designated as the United Kingdom operating agency for posts and telecommunications (but not, of course, for broadcasting). For example, it will become the communication entity for the United Kingdom designated under Article II of the Agreement establishing Interim Arrangements for a Global Commercial Communications Satellites System (Cmd. 2436).

**Commonwealth Communications**

45. The United Kingdom has in the past had particularly close links with Commonwealth countries in communications matters. The
The government will ensure that the creation of the Corporation leads to no loosening of ties in this important respect. The arrangements for Commonwealth co-operation in the telecommunication field are at present under review. The Corporation will participate as an operating agency in whatever new machinery is created.

POSITION OF THE STAFF

46. The Post Office employs over 1,00,000 Civil Servants. The great majority are in departmental grades which have no counterparts in the rest of the Civil Service. In addition there are nearly 23,000 sub-Postmasters, who undertake work for the Post Office on a contractual basis.

47. The transfer of existing Post Office staff to the Corporation will present a unique problem - first because of the number of staff involved and secondly because most of them are involved in providing essential services.

48. It is essential that, apart from those in the Savings Department, these very large numbers of staff should be transferred from the Civil Service to the new Corporation when it is set up, so that it can continue to perform the services for which it will be responsible. The Government have given most anxious thought to this problem and have reluctantly decided that it will not be practicable to offer the staff an option to choose either to transfer to the Corporation or to remain in the Civil Service. Nor will it be possible to second them to the Corporation for a limited period during which they can decide whether they wish to remain with the Corporation.

49. Nevertheless, the Post Office is prepared to consider sympathetically ways and means of moving individuals into the Savings Department, the residual Ministry or other Government Departments where there are suitable vacancies. This must, of course, be subject to the need to maintain the services.
Consultation has already begun with the staff associations on the nature of certain assurances in the unique circumstances facing the staff who are being transferred to the Corporation. Inevitably there are many issues which have still to be discussed, but the Government have already felt it appropriate to give undertakings on four issues which are of particular concern to the staff. These are:

**Position up to Vesting Day**

Between now and vesting day Post Office staff will continue to be Civil Servants and will be treated as such. Their pay will be determined on the same basis as that applicable in the Civil Service as a whole. They will have recourse to the Civil Service Arbitration Tribunal in suitable cases. They will have access to Civil Service Pay Research and their pensions will remain non-contributory; and consultation will continue on the present basis.

**Conditions of Service**

The Corporation is expected to begin negotiations as soon as it has been established on the conditions of service which will apply after vesting day. To the extent that these are not completed by that day for any group of staff, pay and conditions of service as they stood immediately prior to vesting day will continue to apply to the group until they have been varied by negotiations or, where applicable, arbitration.

**Security of Tenure**

Civil Servants hold their positions at the pleasure of the Crown, and the Crown may dismiss them at pleasure. Nevertheless there is in practice, subject to fitness and efficiency, a high degree of security of tenure for established Civil Servants. When manpower demands have fallen in particular sectors of the Post Office the practicability of redeployment and, where necessary, the retraining of those affected have been the subject of full consultation with the staff associations concerned.
The Government intend that the Corporation shall also, subject to manpower needs and to fitness and efficiency, give a high degree of security of tenure, and that there shall be no arbitrary system of hire and fire. Any problems arising from reduced manpower demands shall as in the past be the subject of full consultation. There will be discussions with the Post Office (and thereafter the Corporation) on the arrangements for implementing this intention and the establishment of an appeals procedure for use in cases where an individual considers he has been unreasonably dismissed. There is thus no reason for transferred staff to feel insecure - especially as the total manpower demands of the Corporation are likely to increase.

Superannuation

The Corporation's superannuation arrangements will be the subject of negotiation with the appropriate staff organisations. As with other nationalised industries, these arrangements will be subject to approval by the responsible Minister.

The aim will be a scheme which can be applicable both to staff transferred to the Corporation and to new entrants; but whatever the details of any new scheme, existing Civil Servants will be entitled to opt instead to have the benefits they would have enjoyed had they not been transferred from the Civil Service. In any case the Government will require the Corporation to ensure that all reckonable service before the transfer took place is counted as reckonable service for the purpose of the Corporation's arrangements.

The Civil Service scheme will apply pending the introducing of the Corporation's new arrangements.

The Corporation, in negotiation with the staff, will be free to modify the initial superannuation arrangements in the light of prevailing circumstances and subject to approval by the responsible Minister.
The Corporation will be judged by its success in providing services to the public imaginatively, flexibly and efficiently. Managers at all levels will have a greater degree of personal responsibility for contributing to the right decisions and for seeing that they are carried out speedily and effectively. The Government believe that this greater scope for initiative, and the more stringent requirements in assessing performance to which it leads, will be widely welcomed within the Post Office.

Without detriment to the responsibilities of managers to manage, the Government will expect the Corporation to promote the most constructive relationships between the management and the staff. The new Corporation will not be taking over an industry marked by bad industrial relations: on the contrary, a fine tradition of co-operation and consultation between the management and staff has been built up in the Post Office. The Government will expect the Corporation to ensure that this develops further in the new conditions and to set the highest standards in relationships with the staff. It would be premature to lay down in any detail what form the new machinery will take, since this must be determined in discussions between the Corporation and the appropriate staff organisations. Nevertheless, the Bill will impose on the Corporation a duty to consult with the staff organisations on the setting up of machinery at all appropriate levels for negotiation and arbitration and for the promotion and encouragement of measures affecting the efficiency of the services and the safety, health, training and welfare of the staff. The Government would, however, not wish any legal provisions on the subject to be regarded as restrictive; rather should such provisions specify minimum arrangements on which the two sides should continue to build, developing the existing tradition. The Government indeed believe that the change in status presents an opportunity for developments
in industrial democracy within the Corporation leading both to increasing the contribution of the staff to the efficient running of the services and to increasing the satisfaction of the staff with their conditions and place in the organisation.

53. It has been recognised by management and trade unions in the Post Office that past arrangements and attitudes have on occasion given rise to delays - sometimes but not always for reasons outside Post Office control - and the Government's intention is that the two sides, in discussions before vesting day, should review their arrangements and approach to ensure that any weakness is removed. This will be in the public interest and will be advantageous to management and staff.

54. The Government are convinced that if the contribution of the staff is to be fully effective some rationalisation of the structure of staff representation, accompanied by a reduction in the number of associations from the present figure of 20, would be helpful both in streamlining and speeding up joint machinery and in adaptation to the new organisation. The changes associated with the transformation of the Post Office may assist this process.

CONCLUSION

55. The services which the new Corporation will take over from the Post Office have an exciting future. The technologies on which they drew are advancing at unprecedented speed and economic and social progress will continually create new openings for their exploitation. The changes set out in this White Paper are being made to meet this challenge. They will provide a context in which the spirit of service which has inspired the Post Office in the past can be carried forward successfully into the future.


When the Ministerial Committee on Science and Technology considered the Airbus project on 24th February, 1967 they instructed the Official Committee on Science and Technology to give further consideration to the proposals for an Airbus in the light of British European Airways' (BEA) interim re-equipment programme. The further report from the Official Committee is attached as Annexes A and B to this paper.

2. The European Airbus is the first major civil aircraft project to be considered by the Government since October, 1964. The case for it is based on the following considerations:

(a) The British aircraft industry needs to integrate with Europe, and build on a European home market, in order to survive. The European aircraft industry itself cannot survive unless it keeps a stake in the subsonic medium-range passenger aircraft business. American dominance in big jets has become so powerful that a really determined effort has got to be made by the Europeans if all the air fleets in the world are not to go American and stay American.

(b) The Airbus is the best basis for challenging American domination. It is too late to challenge them with a long-range subsonic jet; at smaller sizes than the Airbus we are already confronted by an aircraft (the Boeing 727-200) whose operating economics we could not beat with the technical knowledge now available.

(c) The Airbus offers a great deal of work for the design staffs and production teams of the British aircraft industry, and without it, this industry would face a drastic reduction in size. The likelihood is that many of the skilled people thus lost would emigrate to America and strengthen the American aircraft industry still further in relation to our own. Even if the available resources could be redeployed in the United Kingdom, the export content of their output could not be expected to be higher than the average for the engineering industries generally - 25 per cent - as against 65 per cent for the civil aircraft industry.
This issue is therefore primarily a political one which Europe has somehow to be able to solve and which must be connected very closely with the future thinking of Europe on collaboration, especially in advanced technology. We may have to pay over the odds to solve it, as Plowden implied. France and Germany appear ready to accept this. This makes the European airbus a test case for us.

We have a vital British interest here which must condition our attitude. That is to install a Rolls Royce engine in the airbus. Rolls/Bristol are now an aero-engine company of world size and potential. They need this engine to keep ahead and an order for a European airbus would enable it to be developed and would provide the base from which it could find further orders abroad. The fact that it was being installed in the European airbus would probably help to get it into the projected Lochheed airbus with an extra market.

Here we have a different interest from the French who have hitherto preferred the Pratt and Whitney JT9D engine. There are signs now that a determined political stand in the interests of European technology would persuade them to accept the Rolls Royce engine.

The considerations given above should condition our attitude towards the airbus. If they did not exist, we should look upon the operation as a purely commercial one and, on the basis of such estimates as we have, we would not go ahead. It is no use pretending that this is primarily a commercial case. But even having established that there are wider political, industrial and economic objectives, it is important to cost with extreme care the price that we are likely to be asked to pay for pursuing them. That wider considerations are predominant does not preclude us from the most rigorous cost analysis, even though that analysis by itself may not be decisive.

Present estimates show that for Her Majesty's Government to break even on the project would involve selling some 300 airbuses - perhaps 250-275 if escalation can be contained. Orders from the national airlines of the participating countries are unlikely to exceed about 100 and all orders in Europe about 150. To count on sales of more than 200 aircraft in the world as a whole may well be unrealistic. But the Department of Economic Affairs in a submission to the Official Committee, using figures which have not been discounted, has shown that to sell only 85 European airbuses involves, on the worst assumptions, a preference rate no higher than the generally accepted figure of 15 per cent, while no preference at all is involved when 130 airbuses are sold.

On the same basis but looking at it another way, if the probable loss to Her Majesty's Government on sales of 200 aircraft is compared with the foreign exchange benefits which would accrue, the hypothetical export subsidy involved is under 10 per cent.
6. The consequences for BEA must also be taken into account. On any assumption it seems that they require a minimum fleet of about 20 airbuses; the question is whether or not the case for the European Airbus is undermined even if BEA should make only this minimum purchase. A minimum BEA order of 20 would reduce the initial expected commitment from the three national airlines to 75. Such a base is still substantial - greater than that enjoyed by any previous aircraft launched with United Kingdom launching aid. The decision on the Airbus does not, therefore, need to await resolution of BEA's intermediate aircraft problem.

7. I recommend to my colleagues that the United Kingdom should not proceed to the project definition stage unless it is clearly understood with our partners that eventual production could only be contemplated if the five following prerequisites were met:

(i) If there is an assured market for 75 airbuses in the three national airlines, and if as a result of further market research there is a reasonable expectation of at least 50 sales to other airlines.

(ii) If the launching costs do not exceed the present estimate of £130 million and are re-examined at an early stage to see whether a significant reduction can be obtained.

(iii) If the Rolls Royce engine is adopted.

(iv) If there is assurance that the target operating costs of 30 per cent below current types, and the in-service date of 1972-73, will be achieved.

(v) If the manufacturers will take a proper financial participation, i.e. normal production costs and, say, some 20 per cent of development costs.

8. I ask my colleagues to agree that if these conditions are acceptable we should proceed to the project definition stage,

A.W.B.

Ministry of Technology, S.W.1.

13th March, 1967
THE EUROPEAN AIRBUS

Summary of a Report by the Official Committee on Science and Technology

1. It has been forecast that there will be a world market for 700-800 airbuses by 1980, of which about 300 will be for use outside the United States. The airbus to be built by United States industry is likely to have a capacity of 300-350 seats, but an airbus for use in Europe and other parts of the world should have a seating capacity of about 250, as well as a somewhat shorter range than the American machine.

2. Proposals have been put forward for the development of a 250-seat airbus by a consortium of British, French and German firms. The objective is an aircraft with operating costs 30 per cent below those of current types, available for sale to the airlines by 1973 at a unit cost of £3.25 million. The launching costs are estimated at £130 million and 300 airbuses would have to be sold if these costs were to be recovered: this prospect appears to us to be remote.

3. The airbus could have a British (Rolls-Royce RB 207) or an American (Pratt and Whitney JT9D) engine. The choice of a Rolls-Royce engine would entail additional launching costs of £55 million, but this would be recovered on sales of 160 airbuses. We believe the adoption of the Rolls-Royce engine is essential both to preserve the European character of the project and to sustain British engine technology.

4. The total cost to the three Governments of launching the airbus, including the Rolls-Royce engine, would be £185 million, of which the United Kingdom Government share would be about £75 million.

5. We regard an initial assured market for 75 airbuses in the national airlines of the three participating countries as a prerequisite to any decision to proceed to production. In addition, we should wish to be assured of the good prospect of at least 50 sales to other airlines as a result of further market research. It should be noted, however, that neither we nor probably our collaborators will be able to make a firm commitment about purchases by national airlines as soon as the end of March.

6. It is essential that the manufacturers should take a proper financial participation in the project, bearing the normal production costs and, say, some 20 per cent of development costs. We understand they are likely to agree to some such condition.
7. If the European airbus is not built, British European Airways (BEA) is likely to wish to buy some United States equivalent although not necessarily in the same number or over the same time-scale. This point must be borne in mind in considering the financial implications of total sales of fewer than 300 European airbuses. A review of the foreign exchange earnings and the import-saving aspect indicates that the implied preference would be in the range +5/+15 per cent if the total sales of the aircraft were between 100 and 85.

8. The expected losses to Her Majesty's Government alone on the various levels of sales considered in the main paper are -

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9. BEA will almost certainly need to acquire, before the airbus comes into service, an aircraft of intermediate size. The precise nature, implication, and size of this purchase cannot be settled now.

10. The political consequences of a British refusal to proceed with the airbus project to the product definition stage would be unfortunate. It would give ammunition to those who wished to see the United Kingdom excluded from the Common Market, especially in view of our avowed intention to use British partnership in European technology as an argument in support of our case should we decide to apply for entry.

11. The Treasury have reserved their position on the grounds that the chance of an economic return on the project is negligible and a substantial loss seems likely. Furthermore it will involve an increase in the planned level of the basic public expenditure programmes over the next few years.

12. The Board of Trade have reserved their position on the grounds that a decision is being taken before one, more important to BEA, about an earlier aircraft of intermediate size and will have the result of prejudicing any decision on the latter.

13. Should it not proceed, the United States will have a monopoly position in the large subsonic aircraft field, with all that this would entail for the European aircraft industry and the side effects for associated advanced technological industries.
14. The case for the Airbus is presented in greater detail in the report which follows. Granted that we can obtain satisfactory assurances from our partners on the five prerequisites (on an assured market in the national airlines and the expectation of further sales; on control and re-examination of launching costs; on the adoption of a Rolls-Royce engine; on operating costs and in-service date; and on participation by the manufacturers), the Committee (the Treasury and Board of Trade reserving their position) recommend that we should enter into an agreement to proceed with the project definition stage. If the prerequisite conditions are fulfilled, this would in practice involve a commitment on our part to proceed to completion.
THE EUROPEAN AIRBUS

Report by the Official Committee on Science and Technology

Introduction

1. Following their submission to Ministers on 24th February 1967 (ST(67) 2nd Meeting Minutes, Item 1), the Official Committee on Science and Technology were instructed to review their recommendations on the airbus in the light of the interim re-equipment needs of British European Airways (BEA), further consideration of the import-saving aspect of the proposals and the potential of the airbus for use in transporting troops.

2. The Committee believe the airbus project constitutes a watershed in the history of the European aircraft industry. Should no European country now develop a large subsonic aircraft capable of commanding an adequate market, the United States will gain a monopoly position with serious results not only for the European aircraft industry itself but also perhaps for associated advanced technological industries, such as electronics and engines, and may also lead to irreversible losses of qualified and highly-skilled manpower. Only a joint project will have the assurance of a large enough tied market, and it is considered that only the projected airbus will command European support as a joint venture.

Our prospective partners would be able to make political capital out of any move on our part to kill the proposal, especially in view of our avowed intention to use British partnership in European technology as an important means of support for our case should we decide to seek membership of the EEC.

The Airbus Requirement

3. The best prediction of traffic growth that can now be made, combined with forecasts of the likely capacity of airports and the air traffic control system, indicates that there will be a market after 1972-73 for short-haul aircraft with a capacity of roughly 250-300 seats and with seat-km operating costs about 30 per cent below the lowest of present types. Discussions with France and Germany during the last year or more have reached the conclusion that this is about the right size of aircraft to go for. An aircraft of 200 seats or less would encounter severe competition from American aircraft already coming into service; to produce a competitive aircraft of this size would require a big and unpredictable technological advance, for which some two years preliminary research would be needed.

4. The market for airbuses should be as large as 700-800 by 1980, of which some 400-500 would be for use by United States airlines on internal services. The Lockheed Corporation in the United States is known to be keenly interested in developing such an aircraft and is engaged on a project study, the results of which are likely to be known in about five months and which is expected to show a preference in the United States domestic market for
an aircraft with a capacity of 300-350 seats. The aircraft may have two or, less probably, three engines; for a twin-engined version there are two competing engines - the Pratt and Whitney JT9D (44,000 lbs. thrust with development to 44,000 lbs.) and the Rolls-Royce RB207, (47,500 lbs. thrust), for the development of which Rolls-Royce have submitted proposals to Lockheed. Any Lockheed airbus would probably be in service about one year before any European competitor. The economic demand for an aircraft of 300-350 seats is likely to be very limited in Europe until the late 1970s, but if there is no alternative European aircraft, some European airlines will buy it and BEA may then be compelled also to purchase some in order to remain competitive.

Market Prospects
5. A survey of the probable requirements of BEA, Air France and Lufthansa in the mid-1970s indicates that the optimum size of airbus for European conditions would be somewhat smaller than that required for many routes in the United States, and we have concluded that a seating capacity of about 250 is a realistic target. Granted that development could begin in the near future, and that an Anglo-French-German airbus would be available for sale to the airlines by 1973 at a unit cost of £3.25 million, such an aircraft should be competitive with any United States rival in operating costs and might be somewhat better in airfield performance and noise. The development and tooling costs of such a European airbus, including adaptation of an available engine, are provisionally estimated at £130 million (these costs would be increased if a Rolls-Royce engine were used, see paragraph 9); and 300 aircraft plus spares would need to be sold if these launching costs were to be amortised while the selling price was held at £3.25 million in order to compete effectively with any potential United States rival.

6. If these launching costs were to be recovered, the European airbus would therefore have to corner the equivalent of the entire world market (300) outside the United States. Even within Europe itself it is far from certain that all the major airlines would be willing to purchase a European airbus. But if there were an assurance at the outset that the aircraft would be bought by BEA, Air France and Lufthansa this would give a useful basis of orders, building up to perhaps 90-100 aircraft. Outside Europe many potential users of an airbus are in areas where United States influence is strong. Even though the smaller European airbus might appear better suited to their needs, there can be little confidence that all the interested airlines outside the United States would purchase the European product, and we should therefore have to aim also at some sales within the United States.
7. It is recognised that the national airlines at present see a market for only about 120 airbuses in Europe as a whole by 1980. This, however, is believed to be a conservative estimate. If airlines agreed to realign fares on the denser routes so as to reflect more clearly the lower operating costs of the airbus, it seems possible that sufficient additional traffic may be stimulated to create a demand for up to 200 in Europe by 1980, with up to perhaps a further 100 in non-European markets. This estimate takes into account that, on present plans, any airbus being designed in the United States is primarily for their home market (300 seats and 2,000-miles range), and would thus be less attractive to European operators, who are now discussing an airbus of about 250 seats with a range of about 1,200 miles. It is possible that an airbus comparable to that which we are considering may be produced by some other aircraft firms in the United States, but it appears unlikely that this would be cheaper or have an earlier in-service date.

8. The Ministry of Defence have examined the possibility of making use of the airbus on the assumption that it will be available some time after 1973. The military air transport forces currently comprise three elements: strategic; medium-range tactical; and short-range tactical. Short-range tactical requires a comparatively small aircraft, which will probably take the form of helicopters in the future, and is not relevant to the airbus. For the medium-range tactical role the delivery of 66 C130s has now begun and these aircraft should last until about 1980. The long-range strategic force consists of Britannias, Conets, Belfasts and VC10s. Elements of this force will need re-equipping from the mid-1970s, but the nature of the aircraft will depend on decisions on our overseas deployments and commitments. All the indications are that an aircraft of greater range and payload than the airbus would be needed to permit for example the round-the-Cape route, not to mention such other essential military features as rear doors, short airfield performance, airdrop capability, which are not part of the airbus concept. The Ministry of Defence therefore consider that there is no basis whatever at present for assuming that there might be a military case for the airbus and consequently for injecting such an element into the assessment of demand.

Financial Implications of Development
9. The development and tooling cost of £130 million, (of which the United Kingdom would probably bear 37½ per cent or £50 million) includes the adaptation of an American engine (the Pratt and Whitney JT9D). The development of a Rolls-Royce engine instead would cost a further £55 million, which would be recovered if sales reached 160 aircraft and to which the French and Germans might together be willing to contribute 25 per cent.
Taking account of the share to be borne by Rolls-Royce, Her Majesty's Government's liability might be somewhat less than £30 million, falling to £15 million if the engine were also being developed for an American application. We regard the adoption of the Rolls-Royce engine as important both to preserve the European character of the project and to support our own engine technology.

10. Some members of the Committee, taking into account the much lower total figures for the development costs of other aircraft of comparable complexity, feel some uneasiness about the figure of £130 million which they feel may be too high. If it is, its acceptance would encourage wasteful procedures. Other members nevertheless believe, on the basis of earlier experience, that such an estimate is more likely to be increased. In establishing the preconditions for further commitment, it will be necessary, therefore, to pin down our partners to a figure for total launching costs which is in no way inflated. If a decision to proceed to the project definition stage is taken, it is thus essential that during that stage the development costs should be carefully scrutinised with a view to obtaining a sizeable reduction. The eventual figure would have to be considered in the light of the commitment obtained from national airlines and of any other conditions (e.g. United States competition) which might have changed by the time the project definition stage was completed.

11. It is considered essential that, as one of the prerequisites to commitment, the airframe companies should confirm their willingness to bear, say, some 20 per cent of the development costs, leaving Governments a liability of some £100 million. But, in addition, Governments would probably have to help with education costs, adding say £30 million, to give again a total of £130 million. We also expect to get industry to bear normal production costs, given assured orders from the three national airlines. Airframe and engine together might therefore cost Governments some £185 million (United Kingdom share around £75 million). In the very unlikely event of a total technical disaster occurring just before certification, the total at risk for Her Majesty's Government would be up to £100 million. It must be stressed that support for the Airbus project would involve increases in the planned level of public expenditure on basic programmes over the next few years.
Government Loss on Sales

12. On all the levels of sales considered in this report, that is 200 and below, Her Majesty's Government would fail to recover its proportion of the estimated launching costs (£130 million) of the project. The expected losses to Her Majesty's Government alone on the various levels of sales considered are -

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Balance of Payments Implications

13. The balance of payments implications for the United Kingdom of manufacture of a European airbus compared with purchase by BEA of an approximately equivalent United States aircraft are examined in Annex 1. In assessing the worth of these figures the following points should be borne in mind: (a) it cannot be assumed at this stage that BEA would need, or be allowed, to buy an approximately equivalent number of United States airbuses, but this assumption is the only one that we have been able to make for the purpose of calculating and illustrating balance of payments implications; (b) the calculations shown in Annex 1 are in any case based on a large number of variables; and (c) that these figures, and indeed those used throughout this paper, including Annex 2, are not discounted. It has not been possible in the time available to calculate the balance of payments implications of any BEA interim requirements which may be met either by manufacture of a United Kingdom aircraft or by purchase in the USA. There are two aspects to the balance of payments implications of the airbus: import saving and foreign exchange earning. Annex 1 shows both the import-saving and foreign exchange earning for the United Kingdom of various levels of sale of a European airbus on two different hypotheses about the BEA requirement that BEA take 20 or 40 aircraft respectively. The data employed in constructing these tables is set out in Appendix A to Annex 1.

14. Except in the case of sales of only 50 aircraft (preference up to 50 per cent), these calculations show that, in a comparison of a European airbus with United Kingdom engines and a United States airbus with United States engines, it is not necessary to ascribe a high preference in order to equate United Kingdom outlay with foreign exchange saved and earned. Thus, for instance, if 20 airbuses are needed by BEA and only 85 aircraft sold altogether, a preference of 15 per cent must be inferred; if 40 airbuses are needed and 105 sold, the implied preference is 6 per cent. If the comparison is with a United States airbus with United Kingdom engines, however, the implied preference is much lower: nil where BEA need 20 and 100 are sold, and 5 per cent where sales total 105 and BEA need 40. (This is because the resources to produce the United Kingdom engine are required in both cases; the cost is therefore unavoidable. The relevant outlay is therefore the cost of the airframe plus the cost of producing all engines additional to those required for BEA's 20 or 40 aircraft.)
The foreign exchange earnings are entirely dependent on the level of export sales achieved. Taking the case of sales of 100 aircraft (with a "platform" of 85), export earnings would be about £135 million on an outlay of £260 million, an export content of 50 per cent. Sales of 150 aircraft (with a "platform" of 105) would produce exports of £150 million on an outlay of £335 million, an export content of 45 per cent.

Implications of BEA's Interim Re-equipment Programme

BEA envisage using an Airbus, whatever other aircraft are also required, but their immediate interest is in their need for an aircraft of intermediate size which would bridge the gap between those currently in service or ordered and the Airbus. This need could be met in many different ways, and the number of Airbus they would require up to 1980, which may range from 20 to 45, is closely related to the nature of their interim re-equipment programme. We are not here concerned with a decision on BEA's interim aircraft requirements, but only with the implications which the various options may have for the overall cost to the Exchequer of the Airbus project, and for its economic prospects.

A number of possible courses, with a very broad indication of their financial implications, is set out in tabular form in Annex 2. The bottom line of the table in the annex shows the likely net effect on BEA and the public sector combined. These figures, which are not discounted, are subject to considerable margin of uncertainty and the estimates for Courses 5 and 6, made by officials, show almost certainly too favourable an outturn.

It will be seen that, at one extreme, a purchase of 45 Airbus and 15 Boeing 727/200s (course 4) would have a favourable net effect, derived from a BEA surplus of £33 million partly offset by a Government loss on the Airbus of £53 million. But it involves dollar expenditure of about £50 million. At the other extreme, a purchase of 45 Airbus coupled with a refusal to allow BEA to buy any interim aircraft (course 3) would have a highly unfavourable net effect of some £95 million. Compared with Course 4 it would involve a subsidy to BEA in one form or another of £110 million.
19. The general conclusions which we draw from this analysis are:
(a) BEA will almost certainly need to acquire, before the airbus comes into service, an aircraft of intermediate size. The precise nature and size of this purchase cannot be settled now.
(b) It would be wrong at this stage to count on a BEA purchase of more than 20 airbuses, and for the purpose of the forthcoming international discussions we (and probably our collaborators also) will not be able to commit airlines finally on specific figures. The important point is to make it clear that a commitment to specific total purchases of airbuses by the national airlines will be a prerequisite to going forward to the production stage. In pursuing the matter after the Ministerial meeting we should have on the one hand to enter into negotiations with BEA on their commitment to purchase the airbus, in the course of which the Government would be under heavy pressure to guarantee to make good to BEA any dis-economies they alleged they would incur through buying the airbus, and, on the other hand, if BEA are to purchase only 20, it may be more difficult to get commitments by the other two national airlines to make up the balance of the required figure of 75.
(c) It would be prudent to envisage the possibility that the cost of the airbus project to the public sector will be increased by a further charge in the shape of support for BEA, though we cannot be certain that the combined cost will be higher than that of other courses. Nor at this stage is it possible to say whether such further support will in fact turn out to be necessary, and its effect cannot be quantified now.

Collaboration and Industrial Implications
20. The British, French and German firms concerned are technically competent and equipped to produce an airbus. It is a particularly suitable choice for a joint project for the following reasons -
(a) outside the engine (which should be safe in Rolls Royce hands) the aircraft embodies no advanced technology, so that the risks of technical failure are very small;
(b) the airbus taps a new market in which we have the opportunity to compete with the Americans on equal terms (we can no longer do so in long-range jets) and avoid near total American domination of large passenger and freight aircraft in the 1970s;
(c) only as a joint project will the airbus command a big enough market to compete.
21. The Airbus represents an opportunity which may never recur for collaboration in this field. It will help, if successful, to generate the habit in European airlines of buying European aircraft, thus creating a home market of the size essential for any continuing challenge to an American monopoly. It would not be easy to find another project by means of which we could retain our foothold in large subsonic aircraft development during the next decade. The design team at Hawker Siddalmy Aviation would run down, and the British Aircraft Corporation would be left in a dominant position, with unpredictable consequences for an airframe company merger on the lines now conceived.

**Political Implications**

22. We were not able to assess fully the political consequences of a British refusal to proceed with the Airbus project; but clearly such a unilateral decision on a major collaborative project like the Airbus would detract from the argument that the entry of the United Kingdom into the EEC would bring great technological benefit to the Community. While it would hardly be decisive itself (should we decide that we wish to enter the EEC), it would certainly give ammunition to those who wished to see the United Kingdom excluded from the Common Market.

23. If we do not now decline to proceed, we must recognise that it will be difficult to avoid a full commitment to proceed with the project. Deferring a decision for further studies and discussion would put back the timetable, would probably involve forfeiting some of the market to the United States, and might lead to the break-up of design teams of the right size. If we wish to go ahead at all, the next step would therefore be to enter on the "project definition stage" (project study). This would represent the first 9 to 12 months of development work, carried through at the rate necessary to preserve the in-service date. It would include initial design and experimental work, and would yield a full aircraft specification (in consultation with airlines), more reliable estimates of development and production costs and a full plan for industrial collaboration. The United Kingdom share of the cost of such a study would be £2 million. Assuming that the engine work was not in any case going ahead for an American Airbus, there would in parallel be expenditure on the engine, about £3 million of which would fall to the United Kingdom.
24. There is a clear possibility that both the French and German Governments would regard our participation in the project definition study as a commitment to build a European Airbus unless that study revealed new facts which invalidated the decision. There would be scope for disagreement about these new facts and it is likely that politically it would not be a good time to withdraw. If, therefore, it were decided to embark on the project definition stage we consider that it should be made clear, both to the German and French Governments and publicly, that Her Majesty's Government has the clear right to withdraw from the project if the prerequisites they think necessary cannot be achieved.

Summary of Prospects

25. We cannot predict the volume of sales which is most likely to be achieved, principally because of the difficulty of predicting the European penetration of the world market. We are agreed that if launching costs do not exceed £130 million 300 airbuses would have to be sold to achieve a return on the investment. If the project is to have an identifiable chance of success, we are agreed that the United Kingdom should not proceed to the project definition stage unless it is clearly understood with our partners that eventual production could only be contemplated if the five following prerequisites were met -

(i) If there is an assured market for 75 airbuses in the three national airlines, and if as a result of further market research there is a reasonable expectation of at least 50 sales to other airlines.

(ii) If the launching costs do not exceed the present estimate of £130 million and are re-examined at an early stage to see whether a significant reduction can be achieved.

(iii) If the Rolls-Royce engine is adopted.

(iv) If there is assurance that the target operating costs of 30 per cent below current types, and the in-service date of 1972-73, will be achieved.

(v) If the manufacturers will take a proper financial participation, i.e., normal production costs and, say, some 20 per cent of development costs.

It should be understood by our partners that our decision to proceed to production would be contingent on the overall response to these prerequisites at the end of the project definition stage. We are agreed that the prerequisites should be included in the tripartite Memorandum of Understanding. As there is at present no assurance that any of these prerequisites will be met, a full commitment now cannot be recommended.
26. Even if the five prerequisites were met, there would still be no chance of commercial success unless we could be confident of securing sales equivalent to the entire world market outside the United States. The amount at risk in relation to this chance might be as much as £100 million for the United Kingdom.

27. Against this lack of assurance of commercial success there should be set -

(i) the advantages to the balance of payments of co-operating in a European airbus instead of purchasing an American equivalent;
(ii) the advantages of maintaining the capability to develop large civil aircraft, besides Concord;
(iii) the advantages of collaboration with Europe;
(iv) the avoidance of American monopoly;
(v) the unquantifiable political difficulty of withdrawal at the present time.

28. The Treasury have felt bound to reserve their position on the following main grounds -

(a) Given the speculative sales prospects, the chance of an economic return on the project is negligible and a substantial loss seems likely: it will involve an increase in the planned level of the basic public expenditure programmes over the next 5-6 years.

(b) The development cost estimate of £130 million has been arrived at independently by the manufacturers and the Ministry of Technology. While it would clearly be desirable to secure a reduction in the estimate and, more importantly, in the actual outturn, previous experience points in the opposite direction.

(c) The national airlines have in general displayed a lack of enthusiasm for a 250-seat airbus on the time-scale and in the numbers originally envisaged. They cannot be compelled to buy it. In these circumstances the airlines may well seek to secure a high price (e.g. a guaranteed support) from the Government in return for a commitment to buy the airbus.

(d) Not to proceed with this particular project would involve a reduction in the size and capacity of the United Kingdom aircraft industry. But the resources released would have an import-saving and export-earning capability. The alternative seems to be to maintain the industry at a higher level, at the cost of a continuing (and potentially heavy) subsidy.
The Board of Trade also have reserved their position on the grounds that—

(a) While BEA accept that there is an eventual demand for an aircraft of this size, they feel it will be uneconomic until late in the 1970s.

(b) There is substantial doubt whether investment in such an aircraft for use on the domestic routes would be justified, and therefore the economic comparison with purchases of an American aircraft is highly debatable, as is the estimate of the total BEA demand.

(c) A firm commitment by BEA is not to be expected save in return for an equally firm commitment by Her Majesty's Government to relieve BEA of any consequent diseconomy.

(d) A decision on the Airbus is being taken before one, more important to BEA, about an earlier and intermediate aircraft, and is calculated to prejudice any decision made on the latter.

Conclusions

30. Bearing in mind both the financial risks involved and the wider considerations, the Committee recommend (the Treasury and the Board of Trade reserving their position) that, if the five prerequisites mentioned in paragraph 25 above can be firmly agreed with our prospective partners, we should enter into an agreement to proceed with the project definition stage. It must however be recognised that this will in practice imply a commitment on our part to proceed to completion if the prerequisite conditions are fulfilled.
<table>
<thead>
<tr>
<th>Requirement: 20</th>
<th>10</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Airbus (i)</td>
<td>70</td>
<td>100</td>
<td>70</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>European Airbus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange earnings</td>
<td>20</td>
<td>20</td>
<td>100</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net balance of payments (ii)</td>
<td>90</td>
<td>120</td>
<td>170</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total United Kingdom outlay</td>
<td>125</td>
<td>180</td>
<td>180</td>
<td>230</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Implied preference (iii)</td>
<td>+6%</td>
<td>+15%</td>
<td>0%</td>
<td>+11%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requirement: 40</th>
<th>140</th>
<th>200</th>
<th>140</th>
<th>200</th>
<th>140</th>
<th>200</th>
<th>140</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Airbus (i)</td>
<td>140</td>
<td>200</td>
<td>140</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>European Airbus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange earnings</td>
<td>40</td>
<td>40</td>
<td>50</td>
<td>50</td>
<td>150</td>
<td>150</td>
<td>270</td>
<td>270</td>
</tr>
<tr>
<td>Net balance of payments (ii)</td>
<td>180</td>
<td>210</td>
<td>190</td>
<td>250</td>
<td>290</td>
<td>350</td>
<td>410</td>
<td>470</td>
</tr>
<tr>
<td>Total United Kingdom outlay</td>
<td>190</td>
<td>260</td>
<td>200</td>
<td>265</td>
<td>270</td>
<td>335</td>
<td>350</td>
<td>415</td>
</tr>
<tr>
<td>Implied preference (iii)</td>
<td>+6%</td>
<td>+8%</td>
<td>+5%</td>
<td>+6%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(i) The lower figures for the United States Airbus included British engines; the higher figures American engines.
(ii) These figures are the sum of the cost of the United States Airbus and the foreign exchange earnings of the European Airbus.
(iii) That is, total United Kingdom outlay as a percentage of the balance of payments effect.
Some explanations of, or reservations about, the calculations are set out below —

(a) It is assumed that a European Airbus would have a Rolls Royce engine. If a United States engine were employed, the intention would be to produce it in Europe. Some parts of the engine would, however, probably be produced in the USA and the United Kingdom share of European production would be lower than in the case of a Rolls Royce engine. These two factors would diminish the foreign exchange benefits of the European aircraft to the United Kingdom, but are not at present quantifiable.

(b) If only 20 Airbus are required by BEA, there would be foreign exchange earnings for the United Kingdom on all sales above 40 aircraft, because the United Kingdom share of airframe and engine together is approximately 50 per cent. Similarly, for a BEA requirement of 40 aircraft, foreign exchange earnings start at sales above 80+.

(c) Although figures are shown for the sale of only 50 aircraft, such a level of sales would represent virtually complete failure of the project.

(d) Calculations are not shown for sales of 300 aircraft. By this point the project is fully commercially viable. Clearly there is a considerable gain to the balance of payments.

(e) The calculations have not been discounted. Launching costs, but not production costs, would be incurred earlier in time than in the case of a United States purchase; foreign exchange earnings would be spread over a period of time, and credit sales or purchases would affect net present value.

(f) The foreign exchange earnings are also gross. It is highly probable that if we did not make the Airbus, the resources released would produce goods of which a proportion would be exported. We cannot quantify this effect (no studies have been made for this industry).
### Data and assumptions used in the calculations

#### European Airbus

<table>
<thead>
<tr>
<th>Component</th>
<th>Launch Cost</th>
<th>Education Cost</th>
<th>Production Cost</th>
<th>Cost of Initial and Life Spares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airframe</td>
<td>£130 million</td>
<td>£30 million</td>
<td>£2 million per aircraft</td>
<td>£0.6 million</td>
</tr>
<tr>
<td>Engine</td>
<td>£56.5 million</td>
<td>£0.18 million</td>
<td>£0.18 million</td>
<td>£0.29 million</td>
</tr>
</tbody>
</table>

#### Selling Price

<table>
<thead>
<tr>
<th>Component</th>
<th>Airframe</th>
<th>Initial and Life Spares</th>
<th>Engine</th>
<th>Initial and Life Spares (including spare engines)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£2.75 million</td>
<td>£1.325 million</td>
<td>£2.25 million</td>
<td>£4.0 million</td>
</tr>
</tbody>
</table>

#### United Kingdom Shares

<table>
<thead>
<tr>
<th>Component</th>
<th>Airframe</th>
<th>Engine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>37½ per cent</td>
<td>75 per cent</td>
</tr>
</tbody>
</table>

#### Value to United Kingdom of Export Sales

<table>
<thead>
<tr>
<th>Component</th>
<th>Airframe</th>
<th>Engine</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£1.34 million per aircraft</td>
<td>£0.975 million</td>
</tr>
<tr>
<td></td>
<td>£2.315 million</td>
<td></td>
</tr>
</tbody>
</table>

(i.e. approximately 50 per cent of the total value)

#### United States Airbus

It is assumed that the purchase price of an equivalent American aircraft is the same as the selling price of a European Airbus as shown above.
<table>
<thead>
<tr>
<th>Interim aircraft required by BEA</th>
<th>1968-80 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>20 Airbuses purchased by BEA (= total sales of 100)</td>
</tr>
<tr>
<td></td>
<td>50 Trident 3B</td>
</tr>
<tr>
<td>(a) Launching Costs</td>
<td>-17</td>
</tr>
<tr>
<td>(b) BEA Surplus/Deficit</td>
<td>+17</td>
</tr>
<tr>
<td>(c) Net effect on Exchequer and BEA combined</td>
<td>-</td>
</tr>
<tr>
<td>Airbus (with Rolls Royce engines)</td>
<td>-55</td>
</tr>
<tr>
<td>(d) Losses to Her Majesty's Government</td>
<td>-55</td>
</tr>
<tr>
<td>(e) Total</td>
<td>-55</td>
</tr>
</tbody>
</table>

Note: These figures are no more than an indication of the relative merits of various courses. Over the whole period costs and revenues for BEA of the order of £2,000 million are involved.
1. This table does not include -
(a) the possibility of BEA buying BAC2-11 aircraft with the new RB engines. This was BEA's preferred choice but the production of the RB engine at the same time as the Rolls Royce engine for the airbus is beyond the firm's industrial capacity;
(b) the VC10 as an alternative in a BEA purchase of 20 airbuses; it would in any case be more costly than the Trident 3B;
(c) the Boeing 727 as an alternative in a BEA purchase of 20 airbuses; Ministers have already ruled out this course.

2. We have not included balance of payments effects in the table, but it must be borne in mind that alternative 4 (15 Boeing 727s) involves dollar expenditure of about £50 million.

3. The figure for losses to Her Majesty's Government on the airbus assumes that 100 would be sold if BEA take 20, and 150 would be sold if BEA take 45. This is illustrative only; it allows for a relative increase in total sales if BEA take the larger number. The full range of losses on alternative assumptions is as follows -

<table>
<thead>
<tr>
<th>Sales of Airbuses</th>
<th>85</th>
<th>100</th>
<th>105</th>
<th>150</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses (£million)</td>
<td>59</td>
<td>55</td>
<td>53</td>
<td>33.5</td>
<td>12</td>
</tr>
</tbody>
</table>

4. Courses 1, 2, 3 and 4 reflect figures supplied by BEA with some adjustment to the number of Boeing aircraft in the latter case 157 instead of 197 to be consistent with a buy of 45 airbuses.

5. Courses 5 and 6 are based on the assumption that 15 Boeings (Course 4) are replaced by VC10s and Trident 3Bs respectively, giving approximately the same seating capacity. These estimates have been prepared by officials without consultation with BEA and consequently without regard to traffic matching, timetabling and load factors.

6. The figures for Launching Costs assume 100 per cent support from Her Majesty's Government though Government policy is not yet decided. No sales other than to BEA can be assumed for BAC2-11s, VC10s and Tridents.
CABINET

PRICES AND INCOMES POLICY: DRAFT WHITE PAPER

Note by the First Secretary of State and Secretary of State for Economic Affairs

I circulate herewith a memorandum on the future development of prices and incomes policy which I have sent in confidence to the Trades Union Congress and the Confederation of British Industry following the Cabinet's discussion on 9th March (CC(67) 11th Conclusions, Minute 4). I have arranged to meet representatives of both organisations on Wednesday, 15th March, and will report their views to the Cabinet on the following day. Subject to those views, I suggest that we should regard the memorandum as the draft of a White Paper for issue on 21st or 22nd March.

M.S.

Department of Economic Affairs, S.W.1

14th March, 1967
The standstill on prices and incomes, followed by a period of severe restraint in the first half of 1967, was one of the important measures taken in July last year designed to strengthen the economy and to improve our competitive position. The very rapid increase in incomes compared with the increase in productivity in the previous eighteen months, despite the development of the agreed prices and incomes policy since the Joint Statement of Intent, had contributed to the failure of the balance of payments to improve in the first half of 1966, and the standstill and severe restraint were necessary to halt the spiral of incomes and prices.

The July measures have had considerable success. Exports have been advancing strongly and the rapid increase of imports has been checked. The balance of payments has improved considerably and was in surplus in the fourth quarter of last year. Sterling has been greatly strengthened and the gain to the reserves has made it possible to repay a satisfactory amount of short-term debt. Internally, the measures have eliminated the excess pressure of demand and free resources for export production and other essential activity.
3. The success of the standstill and of the period of severe restraint so far has been due largely to the voluntary acceptance by management and unions and the public generally of the national need for moderation and willingness to sacrifice immediate personal benefit in the interests of the whole community. Only in a relatively small number of cases has it been necessary to make Orders under Part IV of the Prices and Incomes Act, 1966, restricting particular prices or the pay of particular groups of workers.

4. In considering the future development of the productivity, prices and incomes policy, the Government have two main objectives:

(i) to ensure that economic recovery and the prospects of sustained expansion are not jeopardised by a renewed upsurge of incomes and prices after the end of severe restraint;
(ii) to work as quickly as possible, consistent with the considerations set out in (i), towards the operation of the policy on a voluntary basis in agreement particularly with C.B.I. and T.U.C.

The Government have therefore welcomed the undertakings given by the C.B.I. and T.U.C. in their recent consultations with these bodies to play their full part in the development of an effective voluntary policy. It is common ground between them and the Government that decisions about prices and incomes should be related to the interests of the community as a whole. It is agreed also that there will be need for continued moderation especially during the 12 months following June, 1967, in order to provide a sound basis for the resumption of sustained economic growth.
II. PRICES AND CHARGES

5. The continuing aim of the policy is to improve the competitive position of the economy and keep the general level of prices stable. More competitive prices will restrain the growth of imports and encourage the substantial increase in exports required to sustain faster economic growth. But prices will not be competitive unless management continue their efforts to keep down costs and prices and actively reduce prices wherever possible. A prices policy is required also to ensure that profits are earned by efficiency and to maintain the real value of wages, salaries and other incomes, particularly small fixed incomes, and thereby reduce the pressure for incomes increases. More immediately the aim must be to avoid any widespread and unjustifiable increase in prices due to pressures which may have been building up during the periods of standstill and severe restraint.

6. These considerations and the criteria set out below are intended to apply to all concerned including wholesalers and retailers in the determination of prices and charges in the private and public sectors alike in the twelve months after 30th June, 1967. It would not be in the interests of economic efficiency to seek to operate the policy in a rigid form involving a very widespread and detailed supervision of individual prices and the aim will be to concentrate on those prices which are of economic significance, including those of importance in the cost of living.

Arrangements for Notification

7. Within this context the early warning system for notification of proposed price increases is an essential element in the policy. Arrangements have been made during the standstill and severe restraint to strengthen and expand it. The Government look to
all those concerned to continue to operate the existing early warning arrangements and they will also be reviewing, in consultation with the C.B.I. and other interested organisations, the possible development of the early warning system in the light of the experience gained during the last twelve months. In the light of this review, it is the Government's intention that the existing general request for advance notification of price increases made in para. 9 of Cmd. 3073 should lapse on 30th June, 1967.

**Price Reductions**

8. The emphasis placed on restraining price increases must not divert attention from the need for price reductions wherever possible. Broad stability in the general price level requires that many more price reductions should be made to offset price rises that cannot be avoided; in particular, prices in the manufacturing sector will need to fall in order to offset price increases in the rest of the economy where there is less scope for absorbing increases in costs by increasing productivity. Appropriate cases involving the application of the criteria for price reductions will be referred to the N.B.P.I.

**Criteria for Price Behaviour**

9. The limited criteria for price increases set out in para. 10 of Cmd. 3150 will be replaced after 30th June, 1967, by the broader criteria laid down in para. 9 of Part I of Cmd. 2639 which were agreed with Management and Unions. Price increases should take place only where they can be fully justified against these criteria and every effort should be made to absorb increases in costs. The criteria are:

1. If output per employee cannot be increased sufficiently to allow wages and salaries to increase at a rate consistent with the criteria for increases without some increase in prices, and no offsetting reductions can be made in non-labour costs per unit of output or in the return sought on investment;
(ii) if there are unavoidable increases in non-labour costs such as materials, fuel, services or marketing costs per unit of output which cannot be offset by reductions in labour or capital costs per unit of output or in the return sought on investment;

(iii) if there are unavoidable increases in capital costs per unit of output which cannot be offset by reductions in non-capital costs per unit of output or in the return sought on investment;

(iv) if, after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand.

10. The agreed criteria for price reductions set out in para. 10 of Part I of Cmnd. 2639 which have applied during the severe restraint period will remain valid after 30th June, 1967. These are that enterprises will be expected to reduce their prices in the following circumstances:

(i) if output per employee is increasing faster than the rate of increase in wages and salaries which is consistent with the criteria for incomes, and there are no offsetting and unavoidable increases in non-labour costs per unit of output;

(ii) if the costs of materials, fuel or services per unit of output are falling and there are no offsetting and unavoidable increases in labour or capital costs per unit of output;

(iii) if capital costs per unit of output are falling and there are no offsetting and unavoidable increases in non-capital costs per unit of output;

(iv) if profits are based on excessive market power.

Rents

11. It is not possible to apply directly the criteria for increases in prices or incomes to rents, but the principle of moderation should apply here also. Moreover, the statutory framework of the Rent Acts regulates the determination of rents by landlords for virtually the whole of the private housing sector and public sector housing, of course, is not conducted on a profit-making basis but is subsidised to an appreciable extent.
12. The Government will continue to keep under review the movement of private housing rents as well as ensuring that the provisions of the Rent Acts are properly observed.

13. With but a handful of exceptions local authorities have given full support to the standstill and severe restraint since 20th July, 1966, within the limits imposed by their statutory responsibilities including the balancing of their housing accounts year by year. The Government recognize that many local authorities will need to review the level of their rents and some increases are likely to prove unavoidable, particularly if the rise in the level of rates is to be kept to the minimum. It is of great importance that where rent increases prove unavoidable local authorities should make the fullest use of rent rebates to protect tenants of modest means.

14. In the case of rents for business premises and land, those concerned are expected to take into account the national need for moderation in the negotiation of higher rents to be applied during the twelve months after June 1967.

IV. INCOMES

15. The continuing objective of the incomes side of the policy is to develop effective arrangements for ensuring a closer relationship between the overall growth of money incomes and the growth of national output and to promote economic efficiency and social justice. The immediate need after 30th June, 1967 is to avoid a widespread and rapid increase in incomes in excess of the rise in national productivity resulting from the pressures which have built up during the periods of the standstill and severe restraint.

Employment Incomes

16. In the present economic situation priority must continue to be given to economic recovery and the strengthening of the
balance of payments. There can be no justification for returning to the norm of 3-3½% per annum which prevailed up to July 1966, or, indeed, to any positive figure for the norm which in practice becomes the minimum increase which everyone expects to receive. Over the twelve months period beginning 1st July, 1967, no-one can be entitled to such an increase; any increase (or other major improvement) will need to be justified against the criteria set out below. As stated in para.40 of the White Paper (Cmnd.3150), the country cannot at present afford any further general reduction in the standard working week or general movement towards longer holidays. Proposed improvements in hours and holidays and other conditions of service likely to add significantly to labour costs, as well as pay increases of all types, will need to be justified in relation to the criteria.

These considerations and the criteria set out below are intended to apply to all concerned with the determination of employment incomes in the private and public sectors whether at industry or company level and including arbitrators, independent review bodies and statutory wage fixing bodies.

Criteria for Incomes Behaviour

17. The limited criteria for income increases laid down in the White Paper (Cmnd. 3150) will be replaced for the twelve months following 30th June, 1967, by the broader considerations of the White Paper (Cmnd. 2639) which were agreed with the C.B.I. and T.U.C. These require that less regard should be paid to such factors as general comparisons with incomes in other employment and changes in the cost of living and provide for increases in the following circumstances:-
(i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices;

(ii) where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose;

(iii) where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living;

(iv) where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved.

These criteria should also in the present situation be read in conjunction with the comments in paragraphs 18-21 below.

The reports issued by the National Board for Prices and Incomes also give valuable guidance on the interpretation and application of the criteria.

18. In their Report on Incomes Policy which was approved by the Conference of Union Executives of 2nd March, 1967, the T.U.C. General Council stated that priority should continue to be given to encouraging settlements which promote productivity and to improving the relative position of low-paid workers. The Government accept the desirability of maintaining these priorities within the overall objectives of the policy. In applying the other two criteria it should be borne in mind by the parties concerned that the most effective way of remedying a labour shortage is to use existing manpower more efficiently and that comparisons should not be used to spread pay increases into areas of employment where the original justification cannot be said to apply.

- 8 -
The Government consider that in applying the criteria to proposed increases (or other improvements) under new agreements two additional considerations should be taken into account:

(i) those groups which have received increases under deferred commitments or under the severe restraint criteria or which are due for increases (or other improvements) under commitments which have escaped deferment should wait at least twelve months after the operative date of the last increase before receiving further improvements under new agreements;

(ii) it would be against the national interest if the parties concerned were to seek to make good in subsequent negotiations increases foregone as a result of the standstill and severe restraint.

Notification of Claims and Proposed Settlements

20. The Government have welcomed the decision of the T.U.C. to strengthen its own system for securing notification and vetting claims and have expressed the hope that the C.B.I. would also develop its efforts to give guidance to members on the application of the criteria to pay claims and offers. Under the "early warning" arrangements described in the White Paper (Cmnd. 2808) the Government receives information about claims and proposals to increase pay from the C.B.I. and T.U.C., from organisations which are not members of either of these bodies and directly from firms and employers' organisations in the case of local and company negotiations. These arrangements and the similar arrangements in the public sector will continue after 30th June, 1967.

21. Information about claims and proposed settlements will continue to be required, whether at national, local or company level, in all cases covering 200 employees or more, and in other cases which are regarded as significant either because of the nature of the claim or because of the possible repercussions on the pay of other groups.

22. As in the period of severe restraint, it will be the aim of the Government in consultation with the C.B.I. and T.U.C., and with the assistance of the parties and of the N.B.P.I. in appropriate cases, to secure the effective and consistent application of the incomes criteria both in the private and public sectors.
Salaries
23. The criteria set out above are intended to apply as far as possible to salaries as well as to wages. It is recognised, however, that many individual salaries and other forms of remuneration are fixed outside the normal process of collective bargaining and tend to be related more closely to individual companies' needs and problems than are the wages of manual workers and salaries of lower grades. Increases in these salaries, like wage increases and increases in salaries generally, have been subject to the standstill and severe restraint, unless paid in the form of regular increments of specified amounts within a predetermined range or scale, as laid down in para.18(iv) of the White Paper (Cmnd.3073).

24. After 30th June, 1967 managements will be free to return to the normal progression within salary scales or ranges. It is important that there should be a proper development of salary structures which provide incentives to improved performance. But any general increase in salary ranges or average salary levels will need to be justified by the criteria.

Self-employment incomes
25. Although the incomes criteria do not apply precisely to the circumstances of self-employed persons, the fees, charges and incomes of such persons should be subject to the same moderation as wages and salaries. In some cases it will be more appropriate to apply prices criteria.
The Government's call for a standstill on increases in company distributions during the twelve months of standstill and severe restraint has been given full support by industry and commerce. Although this standstill will end in July 1967, companies should exercise moderation in distributions during the following year consistently with the principles of this White Paper. The Government have power under section 12 of the Prices and Incomes Act to require notice to be given of company distributions.

As set out in paragraph 17 of the White Paper on Prices and Incomes Policy (Cmd. 2639) which was agreed between the Government, management and unions, the Government will use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits, whether distributed or not, as compared with the growth of total wages and salaries, after allowing for short-term fluctuations.

The Government will stand ready also to refer for examination by the National Board for Prices and Incomes cases where the growth of profits or dividends is based on excessive market power.
The work of the National Board for Prices and Incomes has grown and there have been \( \mathcal{O} \) references to it since the beginning of the standstill; the Board has in the same period completed \( \mathcal{O} \) reports. It was not to be expected that the parties concerned in all these references would find themselves in entire agreement with the Board's recommendations, but there has been widespread recognition of the great value of the Board's reports and of its role as an independent statutory body in furthering the objectives of the productivity, prices and incomes policy. The Board's work will continue to be of great importance. The power to require under Part II of the Act the deferral for a period of implementation of proposed price or pay increases is governed by the process of referring these for examination by the Board.

In consultation with the Confederation of British Industry and the Trades Union Congress and other interested bodies, the Government intend to continue to refer to the Board both appropriate cases relating to the application of the above criteria for prices and incomes and matters of longer term importance in the field of productivity, prices and incomes.

The Government have made clear that it is their firm intention to give every encouragement to the voluntary operation of prices and incomes policy, and attach great importance to the roles of the C.B.I. and T.U.C. in this context. Part IV of the Prices and Incomes Act will lapse on 11th August, 1967.
2. The C.B.I. and T.U.C. have urged that after the end of the period of severe restraint there should be full reliance on a voluntary operation of the policy without either activation of Part II or the enactment of further reserve powers. For their part, the Government fully accept that the availability of limited reserve powers cannot be a substitute for the voluntary co-operation of the majority of those concerned in the determination of prices and incomes. However experience of the standstill and severe restraint has shown the importance of having some limited reserve powers available.

33. Accordingly, the Government intend to propose the activation of Part II before Part IV lapses in accordance with the procedure laid down in section 6 of the Act, including prior consultation with the C.B.I. and T.U.C. The Government will be consulting further with the C.B.I. and T.U.C. about a limited development of the reserve powers over prices and incomes under the Prices and Incomes Act.
14th March, 1967

CABINET

THE EUROPEAN AIR BUS

Memorandum by the President of the Board of Trade

The essence of the argument for a European air bus is that it offers the only prospect of creating a European domestic market for large subsonic aircraft without which market neither we nor the French could hope to compete with the Americans in future. It is argued that it may be worth taking some risks and bearing some costs to achieve this.

2. The report by officials attempts to calculate the economic consequences. But there are so many variables and such insecurity in the figures that we cannot confidently base our decision on the financial factors. The only conclusion that can safely be drawn is that unless British European Airways (BEA) have also an aircraft of intermediate size, there will be a substantial additional cost of supporting operations more uneconomic than they would otherwise be. It is the implications as to the intermediate aircraft that cause me most concern. This aircraft is needed both to bridge a gap in size and to make provision for BEA requirements before and after the air bus is available.

3. The choice of an intermediate size of aircraft, for which I am satisfied there is a need, has been sadly delayed by our refusal last summer to permit the purchase of Boeing, and by the subsequent attempts by the manufacturers, in consultation with BEA, to evolve a British aircraft of roughly competitive characteristics. BEA have now formally asked for authority to order 30 BAC2-11 aircraft with an option for 10 more with a "new technology" Rolls-Royce engine. This aircraft would, in the operators' view, be of the right size, have good operating economies, and, being less noisy, give much better flexibility for use at night. It could, however, be provided at an economic price only at the cost of the Government meeting large launching costs. A good deal more work is required to establish the case for the numbers needed and to make a reliable comparison with other possible aircraft so as to reach an overall judgment on merits.

4. I understand, however, that the Ministry of Technology advise that if we proceed with the air bus it is unlikely that Rolls-Royce could also develop the engine for the BAC2-11. If this is really so, and we proceed with the air bus, we shall once again have to tell BEA that they cannot have the aircraft of their choice, not on merits, but because it does not fit into our policies for the manufacturing industry. We have already denied BEA the Boeing 727. It is extremely difficult to preach efficiency to BEA if we repeatedly refuse the aircraft which they regard as suitable and economic.
5. I should therefore much prefer to arrive at a decision on merits about the intermediate aircraft before reaching conclusions about the longer-dated and less firm requirements for an air bus. I do not feel that the case for the air bus has yet been made out in terms of demand from potential users. BEA as well as the British Aircraft Corporation (BAC) believe that, following the export success of the BAC1-11, a promising market could be secured outside the United Kingdom for the BAC2-11, the development of which would be no less advantageous technologically than that of the air bus.

6. There is one other implication in relation to BEA to which I must draw attention. I have no powers to instruct BEA to order the air bus. If, therefore, they are to be firmly committed, they must be expected to seek an equally firm commitment from us that we will relieve them of any dis-economies which may arise from their acceptance of a fleet conditioned by the necessity of taking a given number of air buses. The undertaking given to them last summer that they would be put in a position to operate in a fully commercial fashion with the fleet they acquired related only to the demand then under consideration; and they may well ask us to extend the guarantee to cover the air bus also if, at the same time, we insist that they take that aircraft while refusing them the BAC2-11.

D. P. T. J.

Board of Trade, S. W. 1.

14th March, 1967
CABINET

THE APPROACH TO EUROPE

MEMORANDUM by the PRIME MINISTER and the FOREIGN SECRETARY

1. At our meeting on 9th March, 1967 (CC (67) 11th Conclusions, Minute 2), the Cabinet approved a procedure whereby the fullest consideration might be given to the conclusions we should draw as to development of our European policy, avoiding alike undue haste or delay. We agreed that we should first have a full and analytical discussion, starting before Easter, of the prospects for British membership of the European Economic Community (EEC), as these appeared in the light of the discussions which we had just completed with the Heads of Government of the six member countries of the EEC; and on which we would circulate a factual report. After Easter we would complete that first stage of discussion before seeking to draw conclusions, for which purpose we should need further papers setting out the alternative courses open to us, both European and otherwise, and discussing their relative merits.

2. This memorandum is circulated as the basis for the first part of our discussions: it is a factual summary of our talks in the capitals of the Six. We are circulating, as an Annex to it, the detailed records of these talks. The report starts from the basis for the talks which the Cabinet agreed in their last full discussions on European policy in October and November (CC (66) 55th Conclusions, Minute 2). This basis was that the object of our talks was “for the purpose of establishing whether it appears likely that essential British and Commonwealth interests could be safeguarded if Britain were to accept the Treaty of Rome and join the EEC”, and with this in view, that we should focus our discussions in the main upon the areas where the Cabinet foresaw the most difficulty, namely the effects of the Common Agricultural Policy on our cost of living, on the pattern of British agriculture, on Commonwealth trade and agricultural products and on our balance of payments; the other problems of Commonwealth trade; the effects of Community policy on capital movements; and on regional economic policies.
CABINET

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3. In all our discussions in the capitals of the Community we have stressed that it was the intention and firm determination of Her Majesty’s Government to enter the European Economic Community if this could be done on terms which would safeguard essential British and Commonwealth interests. We have said that we would be prepared to accept the Treaty of Rome, subject to the necessary adjustments consequent upon the accession of a new member and provided that we received satisfaction on the points about which we see difficulty. We have explained to the Six and sought their views on the principal difficulties which we expected to arise, in the fields of agriculture, capital movements, regional policies, and Commonwealth trade; and we have made it clear to them that there were other questions which would need to be settled in any negotiation but which were not of the same order of difficulty as those upon which we were concentrating. We made it clear that we should need further consultation with Commonwealth countries. We also stated that, although we were not speaking on behalf of our EFTA partners, we were pledged to remain in the closest consultation with them, and it was our belief that if we applied for membership ourselves, many of them would wish to apply for membership of or association with the Community.

4. We emphasised on all our visits that we did not regard our interest in membership of the Community as making a successful outcome to the Kennedy Round any less important. We stressed that the deadline for the conclusion of the negotiations was coming fast upon us. We said where necessary, that we believed our own offers in the Kennedy Round to have been generous by comparison with those of the Community, and that we hoped that the Community would be able to see its way to improving its offers in order that we should not be forced to implement our withdrawals.

5. In paragraphs 6–11 below we set out briefly our general impressions of the attitudes of individual Community countries towards British accession, as they emerged during the course of our talks. In paragraphs 12–22 we summarise what we learnt about the possibility of dealing satisfactorily with the main difficulties we saw as hindering our entry. In paragraphs 23–34 we outline the results of our talks with the Community on the main points which proved to be of particular interest or concern to them.

Our reception in the six capitals

6. In Rome, we made a very good start, given that exploratory talks were a new experience, the Italian Government insecure, and the Paris visit next in line. Italian Ministers said that they were entirely favourable towards British entry to the Community, and would do all they could to facilitate it. They said that they believed many of the problems that had been discussed were easy to solve, others were more difficult, but none were insuperable. The Italians thought, however, that any negotiations which we undertook would have to be fairly short and should concentrate on a relatively small
number of major issues. But there was some disposition on the part of the Italian Ministers to think that further "pre-negotiations" would be desirable in order to pave the way for a rapid negotiation.

7. We believe that in Paris, we convinced General de Gaulle and his Ministers not only that we were entirely serious in our determination to enter the Community, but also that the stock French excuses for obstructing our entry would no longer serve their purpose. There is indeed some evidence that French Ministers may have been somewhat disconcerted by the determination and novelty of our approach. There has been some evidence of this in that, whilst General de Gaulle did not of course commit himself, he recognised that a considerable change had taken place in British thinking over the last few years, and, in his own words, that Britain was now ready to "moor herself alongside the Continent". Changing the ground he took up in 1963, he said that the question of British entry raised the problem of a change in the fundamental character of the Community. He suggested, as possible alternatives to British membership, given that that seemed difficult if not impossible, either a form of association or "something new and different". We rejected both of these suggestions on the grounds that only membership of the Community seemed to provide a sufficient basis for the wider political unity inside Europe and between Europe and the outside world which we felt must be the aim.

8. In Brussels, Belgian Ministers reaffirmed their full support for British entry into the Community. Britain needed Europe and Europe needed Britain. They also favoured the admission of other EFTA countries. Their attitude was helpful throughout, though slightly complicated by their wish to promote ideas for European co-operation in the political and technological fields at the proposed decennial celebrations in Rome in April 1967. We also had a useful discussion with the Commission and the EEC in which Dr. Mansholt supported, with figures, our claim for adjustment of the financial regulations of the Common Agricultural Policy.

9. The visit to Bonn was the subject of a great deal of discouraging Press comment, both before and afterwards. This arose less from what was said in the discussions on Community membership than from some of the circumstances surrounding the trip and the juxtaposition of such other issues as the Kosygin visit, the German attitude on non-proliferation and the difficulties of the offset negotiations. We had never expected that, given the importance which the present German Government attaches to mending Franco-German fences, they would be prepared to exert any intense pressure on the French in favour of British membership. But they reaffirmed that, for political and economic reasons very similar to our own (they too have over 50 million people earning a living by exports), they were in favour of Community membership for Britain and other EFTA countries, and the German Chancellor undertook that they would certainly do what they could to facilitate British entry and hoped there would be a positive outcome to our present initiative. There have been some suggestions since (at second-hand)
that the Germans prefer to think in terms of an extended period of
pre-negotiation before Britain should apply for membership of the
Community. Certainly, in Bonn, they suggested further bilateral
discussions, but there was no suggestion that these should take any
considerable length of time.

10. At The Hague we found the expected enthusiasm for
British entry. The Dutch have always been the principal supporters
of British entry within the Community, and they showed that there
had been no change in their position. They recognised the difficulties
that various aspects of Community policy raised for us but firmly
advocated that in the interests of maintaining momentum and so as
to give the least possible opportunity to the French for delaying
devices we should make an early application to join the Community
and that it should be as simple as possible. Their advice was that
the application should be based on an acceptance of the Treaty of
Rome and, to the greatest extent possible, should envisage only
transitional periods to overcome the difficulties that we foresaw.
There would then, in their view, be no basis on which to reject or
delay our application; but they did not deny it was another question
if the General did make it a choice between Britain and the
Community.

11. In Luxembourg, their Ministers said that their positive
attitude towards British membership of the Community had not
changed over the years since the question was first discussed. They
made a number of references, on social occasions, to the role which
Britain had played during the war and said they believed that the
Community could only stand to gain, both economically and
politically, from Britain's entry. Their advice was very similar to
that of the Dutch, that we should go ahead with a view to early
negotiations for membership; and they did not favour any further
exploration of the position, bilateral or otherwise. They too were
in favour of our making a simple application. In Luxembourg we
also had the opportunity of an informal meeting with the acting
President and members of the High Authority of the European
Coal and Steel Community who suggested that although there were
certainly problems connected with British entry into the ECSC, none
of these seemed likely to be incapable of being overcome within the
framework of the Treaty of Paris, which, in their experience, had
proved to be a highly flexible instrument.

Main problems accession would raise for the United Kingdom

12. We now turn to the individual subjects that we discussed
at varying lengths in each of the capitals of the Six. First, our
hosts wished to hear us expound our problems, and what solutions
we wanted to see for them: indeed, the latter was the best way to
elicit advice as to what we could hope for. In one order or another,
the four main problems—agriculture, capital movements,
Commonwealth trade and regional policy—were the standard
subjects of discussion in all capitals. We summarise below the
substance of our reiterated statements on these subjects, bringing out
comments of particular interest to the Six as these were made in one
capital or another. Since our discussions in each capital of the Six
were closely and accurately reported to the other capitals both by
our hosts and through our own diplomatic channels, the discussions
acquired a continuity and a sense of movement, of increasing
clarification of the issues, which it is difficult to bring out in the
necessarily subject-by-subject summary which follows.

Common Agricultural Policy

13. In all six capitals we stressed the difficulties that would
arise for the United Kingdom if we were required to accept the
Common Agricultural Policy as it stood, with no material changes,
e.g., in price levels or in the financing arrangements. We described
these difficulties under four principal headings: effects on the cost of
living in the United Kingdom; on our farmers and on the
pattern of agricultural production in the United Kingdom; on
Commonwealth trade; and on our balance of payments. We
stressed throughout that an adequate transitional period would be
needed to deal with the cost-of-living problem; that we should need
both a transitional period and some financial assistance to deal with
the disturbance to the balance of our agriculture, and that in our
view the changes in the pattern of production likely to take place
might result in an irrational use of agricultural resources in the
United Kingdom; that there were difficult problems arising on
Commonwealth trade, especially those for Commonwealth sugar
producers and New Zealand; we emphasised that for New Zealand
a transitional period would not be enough unless it were for a
generation, e.g., that arrangements would need to be if not
permanent, at least equal in effect to a permanent change; and we
stressed the importance of the balance of payments problem and the
inequitable burden which would be placed on the United Kingdom
if, as we calculated, we would be required to pay as under the
present arrangements something over 35 per cent of the cost of
financing the Community's agricultural policy and about twice what
any other country would have to pay.

14. The French commented that the areas in which we were
asking for changes were precisely those sensitive areas in which the
Community had had such difficulty in reaching agreement. Both
they and the Dutch thought it unrealistic to expect that price levels
within the Community would be reduced; and we knew already that
the Germans are attached to the present level of prices. But the
point was frequently made to us that world prices might be expected
to rise, so that the adverse consequences which we expect from
joining the Community would to that extent be diminished. There
was general agreement that the balance of payments burden falling
on the United Kingdom as a result of accepting the Common
Agricultural Policy would be inequitable. The Dutch commented
that opinion among all six States of the Community ranged from
the view that effects would be "somewhat excessive" to the view
that they would be "very excessive."
15. We found that the calculations made by Commission and German experts were very similar to our own, at least as regards the order of magnitude of the balance of payments burden which we should be assuming and on the probable effect on the retail cost of food and thus on the cost of living. The French, however, thought we might have under-estimated the amounts we should recoup in subsidies for market support and export purposes; and fainter echoes of this were raised but not pursued in Rome and Bonn.

16. The Italians asked us whether the agricultural problems could be left until 1969, when the Community had to renegotiate the financial regulations. We said that if mutual understanding could be reached as to how matters could be dealt with it might be possible to leave certain agricultural questions for later settlement; but it would be most imprudent, both from the point of view of the United Kingdom and that of the Community, to leave fundamental issues in doubt. The Dutch were much firmer on the desirability of leaving agricultural problems until the renegotiation in 1969. They said they thought that most of our problems could be overcome by adequate transitional periods. They agreed that the effect on the cost of living could be serious if changes had to be made all at once, but pointed out that price adjustments could take place every year under Common Market regulations and that might make the problem easier to deal with. They asserted that from 1962-66 retail food prices in the United Kingdom had risen by 15-1 per cent and they thought 3 per cent rise in the cost of living, suitably spread, should occasion no great difficulty. They pointed out also, on the balance of payments problem, that in May 1966, the Five had agreed that the principle of equitable sharing of burdens within the Community should apply and that the Germans had negotiated a ceiling on their total contribution to the Common Agricultural Policy. Although they thought that we had a fair point in arguing that the effect upon our balance of payments would be inequitable they were firm in reminding us that the only point agreed for application from 1969 onwards was that levies should be transferred to the Community for Community (not only agricultural) purposes. And they thought that if we were in the Community by 1969 we should be able to play a major role in determining the new financial arrangements applicable to agriculture.

17. Luxembourg Ministers said that although they realised the difficulties which the Common Agricultural Policy would raise for the United Kingdom, they did not think it was possible to overturn what they called the "basic philosophy" of the policy. They did, however, suggest both that price levels would be open to negotiation once we were in the Community, and that the Community's policy provided for payments out of the Agricultural Fund to assist members in adapting themselves to the common policies that they would be required to follow.

18. There was little comment from Community Ministers about Commonwealth problems falling within the agricultural sector. We did not pursue this, since the main commodity problems, notably cereals, could not be discussed without trenching on matters now in
the final stage of negotiation in the Kennedy Round, where our interests and those of the Commonwealth are sharply opposed. In all capitals we pointed out the importance of the Common Sugar Agreement and the need to overcome the problems our entry would raise; this was nowhere contested. Most of the discussion was therefore on the most difficult question, i.e., New Zealand. There was general acceptance of the view that something special needed to be done for New Zealand, and the following comments are all subject to that. The Belgians seemed to have some doubts whether a permanent arrangement was desirable or possible. The Germans did not comment on our proposal that the New Zealand problem might be dealt with, e.g., by a Morocco-type protocol, by association, or by a special quota arrangement providing for access to the Community for New Zealand products, beyond enquiring whether we thought that all New Zealand produce needed to be covered in this way—the implication was that they thought it would be possible to deal in one of these ways with at least some commodities. The Dutch said that for their part any one of the types of solution which had been mentioned was acceptable to the Netherlands Government, though they seemed to prefer that we should not insist upon making a permanent arrangement. It is our strong impression that if British entry were conceded, a reasonable settlement for New Zealand would follow so long as we insisted on it.

Capital movements

19. We have throughout expressed our disquiet at the possibility that freedom of portfolio investment within the Community might result in British investment being channelled through the Community to other highly developed areas such as the United States, as an organised traffic. We thought that it was in the interests neither of Britain nor the rest of the Community that much needed Community capital should be able to move overseas without restriction. We said that we would wish for a transitional period to deal with direct investment, but that the problem on portfolio investment was more serious and would need a longer transitional period pending some new Community arrangements to control outward flows of investment.

20. The Italians seemed receptive to the idea that British (and other Community) capital should not move freely to highly developed countries. The French did not comment. The Belgians agreed that portfolio investment presented a more difficult problem than direct investment, but Belgian experience had not so far assessed the risk as a particularly serious one. The Germans made no significant comment probably because the new Government had not had time to look into this specialised subject. The Dutch—much the most expert on this—agreed that if a serious outflow of capital from the Community—a new phenomenon—were to appear some new Community arrangement would be necessary; in the meantime, they thought that if there were a significant effect on the British balance of payments resulting from traffic of this kind, then we would be entitled to operate the safeguard clause provided in Article 70 (2) of
the Treaty. They advised us not to make it a condition of our entry to deal with this question beforehand. The Luxembourgers also recommended us to consider Article 70 (2) of the Treaty as the means of overcoming our difficulties in this field.

Regional policies

21. We nowhere found any disposition to question the acceptability of the regional policies which we at present operate. The Dutch specifically declared that they would present no difficulty; the Italians have also confirmed to us that in their view there is nothing in our policies, either positive incentives or negative controls such as the ability to refuse industrial development certificates, which would be incompatible with the Treaty or subsequent policies. The Belgians gave a practical example just before our visit of how lax the Commission’s control over politically sensitive schemes is bound to be by announcing the Commission’s approval of a new scheme favouring both a needy area with one language and a less deserving area with a different language. Our impression is that provided schemes are non-discriminatory and do not excessively and directly distort competition as between members of the Community, there is little to be feared.

Commonwealth issues

22. In addition to the Commonwealth problems, dealt with under the heading of agriculture, we said that in the last round of negotiations, those conducted by the previous Administration in 1961–63, a variety of arrangements had been provisionally agreed upon or envisaged, which would have provided the offer of association for some Commonwealth countries (in particular those in Africa and the Caribbean) and different opportunities for others (in particular comprehensive trade agreements for certain Asian countries). We said that we assumed that these arrangements to the extent that they were still relevant and useful, could be carried over and the problem of African, Caribbean and Asian Commonwealth countries dealt with in this fashion. We have heard nothing which would suggest that the Community countries would see any difficulty in maintaining arrangements of this kind: they probably feel that, sooner or later, if they do not negotiate such arrangements as concomitants of our entry, they will have to do so on the application of the same Commonwealth countries motivated by reasons of commercial self-interest—Nigeria has set a precedent which East Africa is following.

Problems British accession raises for the Community

23. A number of other questions have been discussed besides the principal ones listed above. Some of these were raised in order to deal in advance with the known preoccupations of Community Ministers; some were raised specifically by them. It is in this field of Community reactions to our approach that our discussions have been most informative.
The British economic position, the international role of sterling and the sterling balances

24. This question has been a prominent feature in the discussions. It first arose as a major issue in Paris, though we had already discussed it briefly in Rome. Throughout our discussions with the Community we emphasised the favourable development of our balance of payments, our intention to maintain a strong balance, and our belief that the sterling balances would not and should not become a drag on the Community if we entered. In Paris we made a long and frank exposition on the position of sterling and offered to discuss constructively any anxieties they might have. The discussion elicited from the French the useful statement that the French believed the devaluation of sterling would have been of no benefit to Britain and would probably have damaged France also; otherwise MM. Pompidou and Couve de Murville were content to point to the extent of our total debts and to sterling’s world wide role as a trading and reserve currency as an example of the difficulties which the import of extra-European interests would bring into the Community.

25. We made clear in all capitals that the sterling balances were not instruments of prestige, but bankers’ obligations which had to be covered by assets, and that ours were so covered. We stood ready to discuss these obligations with other countries before entry into the Community and, if that was what they wished, to discuss with them such possibilities as funding balances against specific assets, e.g., as one aspect of the wider question of the extent to which the EEC might develop a distinctive monetary policy of its own. This is of course an esoteric subject, and it was not until our Dutch friends (who are also the most expert in these matters) for the first time responded to our statements that we were able to separate out the two main aspects of this question.

26. The Dutch, no doubt partly for their own reassurance and partly in order that they could use this reassurance with other members of the Community in our favour, suggested that the Community should be protected from any obligation to “bail us out” if difficulties arose from sterling’s role as an international currency, and were not related to our own balance of payments. They clearly agreed with us that disequilibria involving any major Western currency should be dealt with in the framework of wider international monetary arrangements notably the IMF and the Basle arrangements rather than by the Community as such, whose role under Article 108 should be limited to assistance related to any strains arising from the need to comply with policy requirements of the Community. We confirmed that we did not regard Article 108 of the Treaty of Rome as obliging the Community as such to underwrite difficulties that we might encounter in consequence of the world wide uses of sterling, and we would consider, if they wished, giving them a derogation to this effect. The Dutch said that this would cut the ground from under what the French were saying on
the risks sterling involved for the Community. The Luxembourgers also welcomed our statement that it would not seem appropriate to invoke Article 108 in the event of difficulties arising from the sterling balances and the wider international role of sterling. They thought that it might be desirable for a document interpreting Article 108 in this sense to be worked out during the course of any eventual negotiations for British entry.

27. We cannot claim that we have heard the last of this difficulty as a French objection to membership. But we are convinced that we have gone a long way to reassure those who are prepared to be reassured on this point. The other main doubt which is held with varying degrees of clarity in all six capitals arises from the fact that the strength of sterling depends on the strength of the British economy. We recited the impressive figures of recovery of our balance of payments; but some doubts clearly remain.

Change in the nature of the Community

28. The French placed considerable emphasis on the change which, they claimed, would take place in the nature of the Community if the United Kingdom and other EFTA countries were admitted to membership. Clearly, what the French are worried about is that, if we are admitted, and if other countries come in too, then they can no longer be in so strong a position within the Community and can no longer expect the Community to serve as a backing for French policy. This is not, of course, the argument the French use with us, or with the Five who relayed it to us.

29. Whilst the same doubts about the results of extending the Community were expressed to us by all the other members of the Six, with varying degrees of seriousness, their concern is very different from that of the French. It is that if the Community is expanded to include 10 or 12 members, it may be more difficult to develop the Community further. Moreover, there is a genuine fear, shared also by the Commission, that a Community expanded in this way would, unless majority voting and constructive central institutions were preserved, be reduced to an ineffective organisation incapable of making greater positive progress than for instance the present OECD. We said that it was not our wish or intention to change or to dilute the nature of the Community any more than was inevitable upon the accession of other members. Some change there would inevitably be, but the alternative to change was stagnation, and, in any case, the Treaty itself provided for the accession of new members. Nor was the wider Community in fact likely to be more difficult to operate, either mathematically or politically, than the present one had proved to be. In an analogy based upon the concept of the Community’s having built a railway line towards its objective, we suggested that what we were trying to do was not only to put additional coaches on the train, but also to put a more powerful engine on it; it was no part of our plan to rip up the track or change the signals.
Despite the doubts expressed, all the members of the Community, with the exception of France, said not only that it was their firm wish to see Britain in the Community, but that they wanted to admit other members as well. Whilst there can be little doubt that we reassured the members of the Community as to our own intentions to help in making a success of the Community, their own experience with the intransigence of France makes the Five vulnerable to suggestions that with the Community enlarged to 10 or 12 or more the problems will be at least twice as great. The French will presumably continue to play on these fears of the Five for their own reasons; and the Five will be looking for assurances that in an expanded Community, not only will we be concerned to play our full role in operating the institutions of the Community, but also that the enlarged Community itself will not be too cumbersome to function effectively.

Institutions

In the light of the foregoing discussions, which were somewhat delicate as we were speaking neither as members nor as candidates for membership, we were non-committal about our attitude to majority voting within the Community (in the sense that we said we could accept majority voting to the same extent as the other members), and on the future role of the European Parliament—a point to which the Dutch, who believe in greater democratic Parliamentary control within the Community itself, attach importance. It was a weakness of our exploratory position that we had to base ourselves on saying that we would be concerned, within an expanded Community, to ensure the effectiveness of the Community's operation, when it was clear that the Five are looking to us, inter alia, to make the Community live and work again, while France is not.

Technology

One of the most impressive cards which we had available during the visits to the Community is the advanced technological development of the United Kingdom by comparison with development in Europe, the relatively large amounts of expenditure on research and development in the United Kingdom, and the widespread concern in Europe about the technological gap between Europe and the United States. We have, with, we believe, very considerable effect, made clear that greater technological collaboration can only be expected to take place if the economic and market base is provided in the shape of an expanded economic Community. We have said that we thought it necessary to achieve a strong and independent industrial structure in Europe. This is one of the most telling ways of saying that Europe will not be big enough without us. Only in Paris did there seem to be any disposition on the part of Community Ministers to argue that technological collaboration could be pursued on a continuing bilateral basis, whether or not we belonged to the Community. We emphasised that although it was certainly true that in the field of military co-operation the impulse and orders were given by Governments, in the wider field of civil technological
collaboration, projects could not be imposed by Governments; and that it would be a mistake to assume too lightly that technological collaboration with Europe could continue unimpaired if we remained outside the Community.

ECSC, EURATOM and non-proliferation

33. We have said that, if the United Kingdom joined the EEC she would wish at the same time to join EURATOM and the ECSC, if the separate Communities were still in existence at the time that we came to join. If in the meantime the Communities had merged then, of course, we would wish to join the one, merged Community. We would want to give added impetus to what might be regarded as the technological component of an expanded Community and thought that we were in a good position to do so. These assurances were in themselves well received, but a shadow was cast over the later discussions by the reactions of Community members—in particular Germany—and the EURATOM Commission to the draft Non-Proliferation Treaty. We have done our best to remove anxieties arising on this score; and, as the Cabinet will know, discussions have taken place with both the Federal German Government and the EURATOM Commission on this subject outside the framework of our exploratory discussions concerning membership of the Community. But it would certainly be premature to say that doubts had been set at rest.

Political unity

34. In all the capitals we were asked, in one form or another, for our views on the political development of Europe. We were able to reply that for many years now we had made clear our wish to participate to the full in any discussions with that objective, that this was still our position. In confirmation of this, we also made it clear that we would regard it as tragic if any moves which might be taken by the Six in the near future to bring about closer political co-operation, e.g., at the proposed Rome Summit, should serve as a pretext for deferring consideration of the possibility of our own membership, and we were given assurances that this would not be allowed to happen. These replies were well received, as evidence that our interest in the Community was not solely a calculation of economic and technological advantage, but also a political realisation of the necessity for a Europe strong enough and united enough to speak with the Super Powers on equal terms. But we made it clear that we were concerned that an enlarged Community should both preserve close relations with other North Atlantic Powers and play its full role in the relaxation of East-West tensions; that is to say, that our concept of European unity was designed both to break down the present barriers between Eastern and Western Europe and to result in Europe exerting a more powerful and effective influence in world affairs. In this connection, we would draw attention to the concluding section of the opening statement made by the Prime Minister in Paris to General de Gaulle (see page 30 of the Annex).
General impressions

35. We would conclude this survey of our discussions with what are perhaps the three major impressions of a general character it has left with us, and which are perhaps not sufficiently brought out by the foregoing account of our discussions on specific subjects. First, there can be no doubt whatsoever that, with the exception of the French, all members of the Community retain a strong interest in and desire for British membership. But it would be unrealistic to imagine that any of the present members could be prepared to risk the break-up, or at best the further frustration of the existing Community, in an effort to overbear French opposition to British membership. Some members would be prepared to exert more pressure than others on France; but certainly none would be prepared to confront the General, with all the risks that entails.

36. Second, as the discussion of our major difficulties has continued, with a certain continuity as noted in paragraph 12 from capital to capital, the areas of real difficulty have become increasingly clear and have been substantially reduced; the same is true of the matters which the Six said were of concern to them. It was not possible without crossing the no-man's land between exploration and negotiation to reduce to specific terms the possibilities of agreement on the items of major difficulty for us; but we have no doubt that acceptable solutions to our problems could rapidly be negotiated if France did not act as saboteur.

37. Third, one of our strongest impressions is of the commanding position which is waiting for us in the Community if the difficulties which at present stand in the way of our membership can be overcome. In our discussions we had a generally warm response to what we have said about the potentialities for good of an enlarged European Community, potentialities which are however beyond the separate capacities of the European countries or organisations as they exist today. The exploratory character of our mission, however, naturally obliged us to respond very cautiously to the sincerity of the welcome which so clearly awaits us if we can get in. The fact is that there is, within most of the Community, a clear recognition that, with the entry of Britain, they will be taking into partnership a major European Power, with the economic and technological capacity, the political will and the kind of associates to ensure that the enlarged Community will at last have the strength and the balance to play the role in the world which the importance of Europe warrants.

H. W.
G. B.
Visits of the Prime Minister and Foreign Secretary to the Capitals of the European Economic Communities

January – March 1967
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RECORD OF CONVERSATIONS IN ROME

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE FOREIGN SECRETARY AND THE ITALIAN PRIME MINISTER AT PALAZZO CHIGI, ROME, ON 16th JANUARY, 1967, AT 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Sir Burke Trend
Sir Con O'Neill
Sir Evelyn Shuckburgh
Mr. W. A. Nield
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. T. Lloyd-Hughes
Mr. D. J. D. Maitland
Mr. C. M. MacLehose
Mr. N. Statham
Mr. W. K. Reid
On. Prof. Aldo Moro
On. Prof. Amintore Fanfani
On. Pietro Nenni (for first hour only)
Amb. Egidio Ortona
Amb. Giovanni Vincenzo Soro
Min. Roberto Gaja
Min. Cesidio Guzzaroni
Csr. Walter Gardini
Dott. Corrado Guerzoni
Amb. Gastone Guidotti
Csr. Vieri Traxler
Dott. Gianfranco Pompei
Min. Carlo Marchiori
Interpreter (Mr. Lawrence)

Opening remarks

Signor Moro welcomed the Prime Minister and the Foreign Secretary in the name of the Italian Government. He was happy that their series of visits to the capitals of the Six should begin in Rome. He took this as a mark of respect to the place where the Treaty was signed and as a recognition of Italy's favourable attitude to British aspirations. Europe was not Europe without Great Britain. Italian experience and advice would be placed fully at our disposal. Though Europe would be the main theme of the discussions there might be other questions of a political nature which could be discussed. He would be interested to hear the Prime Minister's explanations of the reasons which had prompted him to start on the present round of discussions which the Italian Government genuinely welcomed.

Mr. Wilson thanked Signor Moro for his warm welcome. The purpose of the meeting was principally to discuss the possibility of British entry into the Community, though if time permitted other questions might also be discussed. He was glad that the Italian Government had agreed to make it convenient for the first visit to be paid to Rome. The Italian Government had always been sympathetic towards our membership of the Community. He had been very much alive to the help constantly given to us by the Italian Government and was grateful for the opportunity of discussing our problems with them at an early stage.

He was not in Rome to begin a negotiation, but to establish whether, as we hoped, conditions might be favourable for a negotiation; he would wish to discuss our problems, and to hear from Signor Moro something about Italy's experience of dealing whilst in the Community with problems similar to our own. We were all interested to see how the Treaty of Rome was working in practice rather than to examine its theory in detail. He did not regard the Treaty of Rome in itself as an inevitable obstacle but would wish to hear something of Italian experience of its implementation.
Background to the United Kingdom initiative

Mr. Wilson then ran briefly over the background to the initiative. He reminded Signor Moro of his statement in the House of Commons on 10th November and the purpose of the present round of visits as then explained. After the series of discussions with the Six was complete Her Majesty’s Government would take its decision whether or not to activate the arrangements for negotiating for entry and would decide, in consultation with the Six, what the appropriate time for such negotiations would be. Briefly, we took the view that Britain and the Commonwealth could only be strengthened if Britain joined Europe, and that Europe would be strengthened too. These considerations applied both in economic and in political terms.

The meetings on which he and the Foreign Secretary were engaged were, in one sense, a logical extension of the discussions we had embarked upon last year. But we had now changed from low gear into top gear. Neither Her Majesty’s Government nor, we were sure, any of our friends in the Six, wanted a repetition of the events of early 1963. Mr. Wilson reminded Signor Moro of his remarks in the House of Commons on 10th November that we were approaching these discussions with a clear intention and determination to enter the Community if, as we hoped, our essential British and Commonwealth interests could be safeguarded; and that we meant business. Mr. Wilson said that that was exactly what he did mean. So in the talks to-day and in other capitals of the Six, whilst the form of our approach would be based on questions and analysis, its inspiration and content would be based on our determination to enter if we could find the way to enter.

He had been encouraged after his statement of 10th November not only by what Signor Fanfani had said in response but by the speed with which he had said it. We had been very happy to see his remarks, which provided confirmation that we could look to the Italian Government for a helpful and constructive approach to the problems.

The debate which had taken place in the House of Commons on 16th and 17th November was principally remarkable for the wide agreement, from all political parties, that membership of the Community was a desirable objective, and that the decision the Government had taken was the right one. The debate had been remarkable also for its progressive tone. It was a forward-looking, not a backward-looking, debate. There was no question that the Government, in its present approach to the Six, enjoyed a very wide measure of support, both in Parliament and the country at large. He referred to the recent study by a Committee of the CBI, and to the results of recent public opinion polls.

Another development since his announcement of the British initiative was the meeting of EFTA Heads of Government at the beginning of December. All the EFTA countries had welcomed the British move as an important step along the road of determining the prospects for a solution of the question of economic integration in which they could all participate in an appropriate manner. Whilst we were not, of course, empowered to speak on behalf of our EFTA partners, it was the Prime Minister’s expression that EFTA countries all would wish to participate in the Community either as members or associates. This was an important positive development by comparison with the situation of 1961-63. It had been agreed that EFTA countries would keep in the closest consultation with each other on the development of their relations with the Community and on any discussions with the members of the Community.

Treaty of Rome

Mr. Wilson said he thought it important to make clear again our position towards the Treaty of Rome. The Treaty was the centre of the matter. It was sometimes suggested that Britain was not prepared to accept the Treaty or that we would wish to negotiate such revisions of it as would fundamentally alter its nature as the basis of the contract between its original members. He described the British attitude in the words he used in Parliament in November. The Treaty of Rome was not in itself or necessarily an impediment; it need not be an obstacle if our problems could be dealt with satisfactorily, whether through adaptations...
of the arrangements made under the Treaty or in any other acceptable manner. In
the House of Commons he had summarised this very important point by saying
that we would be prepared to accept the Treaty of Rome subject to the necessary
adjustments consequent upon the accession of a new member, and provided that
we received satisfaction on the points of difficulty we saw. Some commentators
suggested that our decision was based on a desire to see conditions of entry which
would weaken the Community or lessen the ties which bound the countries of
the Community together. But, as he would hope to say in his speech at Strasbourg
next week, our attitude was that widening the Community would not weaken but
strengthen it.

The United Kingdom economy

Mr. Wilson said that the Government’s present decision, unlike that taken
in 1961, was not being made from a position of economic weakness but from
one of strength. We had had our balance of payments problems, in the same
way as Italy. The Government had inherited from its predecessors a deficit of
£800 million per annum. In 1965 this had been more than halved, and further
reduced in 1966. In 1967 we would be in surplus. This situation was achieved
by an improvement in our trade. In 1964 our monthly trade deficit was £45
million; in 1965 this had been halved to £25 million; and in 1966 it was £12 million.
The progress was quickening to judge from the results of the latest months in
1966. The Government’s July measures had not yet had their full effect on exports
and trade. The measures which Italy had taken had led to the possibility of
sustained expansion; we believed that our own drastic measures would do the
same for us.

So our decision had been taken from a basis of strength and confidence.
We, and Italy, could look forward to a surplus in the balance of payments this
year. There were perhaps some in Europe and elsewhere who would be glad
if they could look forward with the same confidence.

Points of difficulty in British membership of the EEC

Mr. Wilson then mentioned briefly what he believed to be the major points
of difficulty either for us or for the Six, in British membership of the Community.
Briefly, they were the problems arising from the Common Agricultural Policy
as it had emerged over the last few years; Commonwealth questions; problems
related to freedom of capital movements; and problems of regional policy. He
mentioned regional policies not because he thought they constituted a major
difficulty but because we should be grateful to hear of Italian experience in this
field—they had problems in their south as we had in our north. The fact that
he had mentioned certain questions did not mean that there would not be others
to be covered in any negotiation. Such questions might include some agricultural
problems not directly arising out of the Common Agricultural Policy; the timetable
by which we should expect to adopt the Common External Tariff and abolish
internal tariffs with an expanded Community; and so forth. He did not think
that these questions needed to be explored in any detail at this stage. They, and
others like them, could be dealt with satisfactorily at the appropriate stage. They
were problems for negotiations. On the question of negotiations Mr. Wilson said
it was our hope that they would not involve all the details of 1961–63. We had
embarked on a great effort and would not like to see the great issues bogged down
in discussions of such questions as kangaroo meat.

Mr. Wilson therefore thought that the main questions to which the discussion
might be devoted were, the Treaty of Rome; questions arising directly out of the
Common Agricultural Policy; questions arising from the Community’s provisions
and directives on freedom of capital movements; some principal Commonwealth
issues, including New Zealand; and the effects on our regional policy of membership
of the Community. He would be prepared to expand on these questions during
the course of the discussion, and would be happy to learn what the Italians thought
of the possibility of overcoming the difficulties. He would also wish to hear
whether there were any other major problems or difficulties which Signor Moro
thought we should discuss.
Kennedy Round

Mr. Wilson then turned to the timing of the British initiative in relation to the Kennedy Round. Our present initiative did not imply in any way any reduction of interest in the Kennedy Round. We had always believed, as had Italy, in the vital importance of making a success of the Kennedy Round negotiations. We all stood to gain from a successful outcome of them, and we all stood to lose from failure. The Kennedy Round presented the best opportunity there had been to reduce trade barriers, not only within Europe, but throughout the world. We ourselves had never regarded our hopes of joining the Community in due course as making the Kennedy Round any less important.

Mr. Wilson added that he thought the present series of discussions could be of the most far-reaching and historical importance for Europe. He did not think that the United Kingdom would be asking for anything which it was impossible to negotiate. We should be seeking to safeguard our essential interests in the same way in which the Six countries themselves had, in the course of the negotiations which led to the establishment of the Community. If the difficulties could be overcome, a major new opportunity would open out for us all. We should have the potential afforded by a community of nearly 300 million people in Europe, bigger than the American community, with all that that meant as regards economic development and technological potential; and we should thereby have begun a major step towards enabling Europe to play an ever fuller role in the world.

Technology

Mr. Wilson said that two years ago he had discussed with the Italians, at Italian initiative, the question of technological development; and since then we had had an opportunity of studying Signor Fanfani's initiative. In his own Guildhall speech he had said that he would like to see a drive to create a new effort to pool within Europe the enormous technological inventiveness of Britain and other European countries, in order to enable Europe, on a competitive basis, to become more self-reliant, neither depending on imports nor dominated from outside, but basing itself on the creation of competitive indigenous European industries. He could think of nothing that would make a greater reality of the whole European concept; and in this field of technological co-operation no one had more to contribute than Britain.

Political unity

Mr. Wilson said that, as regards political unity, we were ready to play our full part. In Strasbourg he would be speaking on the thought that, if the 19th century was an age of heroic European nationalism, the 20th century would go down to history as an age in which man had had the vision to create, out of these nation States, and out of the destruction caused by two world wars, a new unity, which, so far from rejecting the diversity of nation States, would be the greater and more real because it built on that diversity; so that national characteristics would be enriched by their association in a wider outward-looking unity.

Italy's attitude

Signor Moro thanked Mr. Wilson for his frank and detailed exposition, which had allowed him to see the development of our thought and the prospects as we moved towards the objective. He was impressed by the seriousness and sincerity of the British interest in joining Europe. This impression was not lessened by Mr. Wilson's having said that the present meetings must have an exploratory character; the Italians fully understood this.

Our intentions corresponded to Italy's own attitude. They shared the British vision in Europe of a united Community of 300 million people with the resources, material and intellectual, which could free Europe from the danger of falling under external domination.

He was glad also that the British Government shared the Italian attitude towards political unity. In the Italian view there were two essentials—that the Community should be democratic and that it should offer a genuine prospect of economic and political integration. He was glad to see the United Kingdom working in the same direction, even though the prospect might still be further away than the Italians would wish.
He was glad also to note what Mr. Wilson had said about accepting the aims and fundamental structure of the Treaty of Rome, as they had developed over the years. If his understanding was right, the United Kingdom requirements might be limited to the adaptations which would be necessary to enable the United Kingdom to make an easy transition to membership of the Community. He believed that essential British interests could be safeguarded and that it could so be arranged that no harmful effect to the British economy would result.

He agreed that the present discussions should not go into detail but should seek to establish agreement on the main issues and to show how suitable arrangements could be made to deal with them.

Signor Moro said also that he was glad to hear of the favourable development of the economic situation in Great Britain, both for its own sake and because it would help to ease British entry into the Community. He was also pleased to hear Mr. Wilson’s reference to technology and interested in what he had said on the Kennedy Round. The Kennedy Round was important not only in the interests of world trade but also because a successful conclusion would eliminate certain of the difficulties which had prejudiced our entry in 1961–63. Mr. Wilson would appreciate that in the Kennedy Round a sympathetic attitude between the United Kingdom and the Six would be a significant mark of the understanding between us.

Signor Fanfani confirmed the Italian Government’s favourable attitude to the question of British entry. Four years ago, after the failure of the previous negotiations, he had discussed with the then British Government what should be done next. The conclusion was that nothing should be done to increase the gap between the Community and the United Kingdom, in order that the negotiations might be resumed, when the time was ripe, without difficulty. The Italian Government’s conscience was clear on this point. They had done everything possible to bring nearer the resumption. He noted with gratitude what Mr. Wilson had said about his own reaction to the announcement of the British initiative. Mr. Wilson had said that this initiative was in the interests of the United Kingdom; but it was in those of the Community too. It was said that some of the Six were less interested in British membership than Italy; the Italians believed that, if they examined their interests properly, these other countries should also be in favour. He was therefore comparatively optimistic about the outcome of the present round of talks.

Mr. Wilson had rightly said that Great Britain had a large fund of technological knowledge which could be made available within the Community. Greater cooperation between the United Kingdom and the Community, and indeed within Europe as a whole, in this field would make a very considerable contribution to the well-being of the world. Technology was a new card by comparison with the 1961–63 negotiations; it must be played as skilfully as possible. The Italians would be pleased to make their advice available in order that we might reach our objective.

Signor Fanfani said he hoped that at the end of the soundings we would conclude that the time had come to embark upon negotiations. Italy would approach these negotiations in a positive spirit. They were glad to hear that we did not necessarily see any insuperable obstacles in the Treaty of Rome; but it was quite understandable that our attitude should be subject to certain conditions affecting the modifications and arrangements necessary to allow Great Britain to enter. They believed it right that we should take soundings on our own requirements and those of the Community. The Italians had some points which Mr. Wilson had not mentioned. Others would come up elsewhere in the Six; but he hoped that we would not find these insuperable and that we should be able to move forward into negotiations on timings and modalities.

After the signature of the Treaty of Rome the members of the Community had set out to discover how they could reconcile their own respective requirements. It was understandable that a new country coming in after the Community had been established for 10 years should try to find out about the processes which had taken place within the Community. There had been difficulties in reconciling the economic problems of the Six member countries. We had mentioned the question of depressed areas and would therefore appreciate the problems of the Italian Government when the whole of Italy had been virtually a depressed area by
comparison with the rest of the Community. Often Italy had had to exert pressure on the other members. But they had always raised the question not as one of charity but in order to insist on homogeneity within the Six. The problem had been one of attaining a satisfactory balance between developed and less developed areas within the Community. His own recommendation to Great Britain was that, when faced with problems of securing the right balance of interests for the sake of homogeneity within the Community, great patience and determination were necessary. Even now, of course, not all the problems had been solved.

Turning to the Common Agricultural Policy in which we saw difficulties, Italy had been along the same road before us. Italy's whole position had changed, largely during the negotiations, from that of a net food exporter to a net food importer. Italy therefore understood very well British concern at the prospect of having to pay something like £200 million to the agricultural fund.

Signor Fanfani stated the problems not in order to discourage us. But although there would be thorns on the way, there would be roses at the end of the path.

Signor Fanfani said that it was natural that, as a result of our entry, conditions in the Community would change. The Six would be faced with the prospect of modifying regulations which had been drawn up with great difficulty and, on one occasion, had nearly led to the break up of the Community. It was natural, therefore, that we should seek to reach mutual understanding in the present dialogue before the stage of negotiations. But the fact that, knowing all the difficulties, we nevertheless were making our present attempt to join the Community and that the present initiative had been accepted by the Six, disposed of the argument that Britain was not sincere or that the Six were not animated by goodwill.

Signor Fanfani said that Mr. Wilson had dealt frankly with the British economic position. There were, of course, differences between market and structural problems. He was sure that the former could be satisfactorily reduced, if not eliminated; the experience of ten years within the Community showed that these could be dealt with, including monetary problems, in the spirit of Community solidarity. The question was more complicated with regard to structural problems, and it was necessary to decide what modifications could be adopted.

The modifications which the United Kingdom required seemed to be related to four problems—the common agricultural policy; the Commonwealth; capital movements; and regional policies. Such problems certainly existed and he was glad that they had been so clearly stated. Before adding to the list from the Italian side, however, he would like to say a word on the Kennedy Round. Here there was a delicate position arising out of the British orientation in relation to the United States. He thought that, if we proceeded carefully, especially at this juncture, it should be possible to achieve the success within the Kennedy Round which would help to provide the basis for some of the modifications necessary between the United Kingdom and the Community. He thought it would be desirable to go into some detail on this point, perhaps with experts, later in the discussions.

Italian questions

Signor Fanfani said that he had a number of questions which he thought he should put in order to make the soundings useful. They were as follows:

1. As regards the British economic situation he would like to have our forecast of the length of time needed to eliminate the problems; he needed to be able to meet this objection, if and when it was put forward as a pretext for hindering British entry. What relation in time was there likely to be between our solving our economic problems and the beginning of negotiations, or even the end of our soundings? If our acute economic difficulties continued, and the present round of soundings proved promising, how would this affect the decision to start negotiations?

2. What was the relation in time between the Kennedy Round and the possible opening of negotiations?

3. What were the probable scope, extent and duration of the adaptations which the United Kingdom might ask for? Would they apply only to the...
Common Agricultural Policy or to other sectors as well? And as regards the Common Agricultural Policy, would we be asking for temporary or permanent changes? Must the question be dealt with now; or could it wait until 1969, when agricultural questions would come up again for review within the Community? Would we require general adjustments to the regulations; or could our problems be dealt with by protocols; or would we ask for amendments to the Treaty itself?

(4) How far could we accept the results of the negotiations in 1961–63 as a starting point?

(5) As regards Commonwealth interests what should be the scope of the adjustments needed?

(6) What was our position on the question of adjustments in the social field, affecting such problems as social insurance? This was not an urgent problem. The Community still had two to three years before it had to be solved. But it would become more important as the movement of workers became greater. It ought to be settled by 1st July, 1968, because there should by then, in line with the completion of the Common Market, be completely free movement of labour within the Community.

(7) There was also the question of EFTA. In the event of a successful British negotiation what attitude should we expect our EFTA partners to take? Would they act individually or collectively to obtain membership? Would the EFTA countries be divided into two groups, those seeking actual membership and those, probably the neutrals, seeking only association or special arrangements? He stressed that Italy was very keen to see other EFTA countries join the Community in one way or another.

(8) He turned then to the question of scientific and technical co-operation. He shared the British view that this was a central problem for the survival of our economies. But there were problems of timing involved. If it should prove possible for Britain to join the Community, did we think these technological questions should be deferred until the fusion of the Executives and until EURATOM had been converted into a serious organ of technological research? Had we in fact considered the questions that would arise as the result of fusion? Since the issue of fusion had not been settled, it would be useful to have our views now. Two very important areas were involved, namely energy policy and scientific research. Did we envisage making our technological collaboration available to Europe before we had joined the EEC? Was it our intention to promote discussion on technological co-operation in EFTA in parallel with the discussions which would take place in the EEC? This was a vital question because it was important to get work started in NATO when the next meeting of the NATO Council took place in May or June; and there would be great advantage in EEC and EFTA countries being able to present a combined solution. Any move towards solving these technological questions would be very helpful to the objective of United Kingdom entry into the Community.

(9) Political Unity. The problem was the nature and timing of any contribution by the United Kingdom to discussions on political questions which would affect the vital shape of the Treaties. How could these questions be dealt with without hindering British entry? He thought it fair to say that he did not expect the United Kingdom to be among the fanatical supporters of a supranational political union. For their part the Italian Government hoped that the day would come when a supranational Europe became possible. But they recognised that it should come gradually and quietly; and they certainly did not want to make Britain's negotiations for entry into the Community more difficult on this account.

Answers to Italian questions

Mr. Wilson said that Signor Fanfani's statement had been extremely helpful. He had pointed out the questions that we should be facing over the next few months. Signor Fanfani had listed a large number of questions, but he would try to answer most of them, leaving the rest to the afternoon meeting.

As regards the British economic position he had indicated that we were confident about our balance of payments. We expected a balance, moving towards an increasing surplus, this year; and we should be able to deal with the problems of the international borrowing that we had incurred in order to
pay for the inherited deficit. One factor in the present improvement in our situation was admittedly the restriction of domestic demand and thus of our economic growth. But we were tackling with great urgency the underlying problems which had meant that, for years, expansion in the United Kingdom had been followed by a balance of payments deficit. This question would be solved partly by rapid technological advance and partly by structural alterations. This governed the answer to Signor Fanfani's question about the timing of our negotiations. In Parliament Mr. Wilson had said that we would join the Community only from a position of economic strength. The answer to Signor Fanfani's question was, therefore, that there should be no need, so far as our economic prospects were concerned, to delay our entry into negotiations once the Six were ready.

On the Kennedy Round he agreed that it was necessary to decide the Kennedy Round discussions in the next few weeks; and he agreed further that success in the negotiations could well help with the solution of other problems, such as agricultural, and agricultural trading, questions, which would be central in any negotiations.

On transitional periods he said that they would need to vary according to the characteristics of each problem, and they would need to be carefully negotiated by agreement with the Six. But this question also raised wider issues of agricultural policy, which Mr. Brown would deal with later.

This brought him to Signor Fanfani's questions whether we could wait until 1969 when the Community was due to review its agricultural policy; how far our interests could be safeguarded by adjustments and protocols, or whether there would need to be amendments to the actual Treaty of Rome. Signor Fanfani had asked which problems could be dealt with by transitional periods and which required structural adjustments; and he had asked whether, if the latter were required, they would be adjustments to the Treaty or merely to the Common Agricultural Policy. He would leave the agricultural question to Mr. Brown. But he would like to say that, outside the agricultural field, we were more concerned with the way in which the Treaty worked in practice than with the precise wording. The Community was a living organisation with 10 years' experience behind it; and, although intensive and legalistic study of the text of the Treaty might raise certain doubts, we were more concerned with the spirit in which the Treaty had been operated. He would deal in the afternoon with the question of the Treaty of Rome generally.

As regards the question of starting any negotiations at the point where they were broken off in 1963, we should wish to hear the views of the Italian Government and of the other members of the Six. We did not wish to get bogged down in detail and so lose sight of the wider vision. Some of the earlier problems now seemed easier, as a result of the passage of time. Some, for example those arising from the Common Agricultural Policy, might have become more difficult. Some could, we believed, be better settled after our entry; but not all, and the initial discussions and negotiations should be therefore concentrated mainly upon this limited number of major issues. Some problems affected the Commonwealth, and we should need to consult with other Commonwealth countries.

The question of social insurance involved a major problem of harmonisation; but we saw no fundamental difficulties in this field. The question of free movement of labour would be dealt with by Mr. Brown later.

The question of EFTA, and how individual EFTA countries would proceed, was one for each EFTA country. He was not empowered to speak on their behalf. But he thought that EFTA countries recognised that it would be necessary to follow the rules set by the Community in any application for closer relationships. The general agreement reached at the meeting in December was that EFTA countries should consult with each other, but he thought that negotiations would be separate.

On scientific and technological collaboration he thought it essential that the timing of any discussions should be speedy in this context (because of the fundamental importance of this question to our conception of what the Community should look like in the years ahead) and simultaneous with our main negotiations for entry into the EEC (because Britain would be less interested in discussion of
technology whilst outside the Community than as members of it). An essential feature of the question was the widening of market opportunities for British industries with a high technological content—a process which should go hand in hand with increased exchanges of technological information, just as widening opportunities in the British market for Community industries with a high technological content should proceed pari passu with the same process. He would give two examples. In the field of nuclear power for electricity generation, the United Kingdom could claim to be ahead of the United States and Europe. In know-how on chemical engineering, Italy led most other countries of the world, if not all. In either case, if know-how was to be made available it would be essential to be sure that one was not just handing over blueprints but widening market opportunities at the same time.

Mr. Wilson said that we had considered the problems involved in fusion of the Communities and saw no fundamental difficulty. He agreed in particular that it was necessary to make more of a reality of the work of EURATOM. We had thought that this question of the merger of the Communities was not a problem in which Britain should intervene whilst still outside the Communities; but we should, of course, hope to participate in the process once we were members.

Signor Funfani interjected that within the Community there were many who thought that fusion should not be unduly delayed. If that was right, it would be helpful if we could say that we were not thinking of a long delay before this process could come to pass.

Mr. Wilson said that he believed the worst of all possible positions would result if the Community said, either on this issue, or on the question of political unity, that they wanted to complete their final structure before negotiations with the United Kingdom. But this did not mean that we wanted to hold the process up until we became members. His view would be that the Community should go ahead, while we were still not members, but that the two processes could proceed simultaneously and that it would be realistic, in planning mergers within the Communities, to take account of the possibility that, quite early on, we might be members. We should therefore want to keep closely in touch with the Communities during this period. If the fusion of the Communities were a long drawn-out operation, we should, of course, be negotiating for entry to the three existing Communities. We should certainly not wish either process to delay the other. He very much agreed with Signor Fanfani’s remark about the institutional changes being dictated by advances in the fields of technology, engineering and particularly nuclear power. Things which seemed clear only two years ago in the fuel and energy field had in fact changed rapidly. Our own National Plan of 1965 included a chapter on fuel and energy; but this chapter was now out of date, not only because of the discovery of North Sea Gas but also because of fundamental reappraisals caused by the realisation that atomic power could be generated almost as cheaply as, if not more cheaply than, hydro-electric power in areas where the latter had hitherto been the main source. What was true nationally was equally likely to be true internationally, and this could well mean that the existing division between the ECSC and EURATOM was increasingly unreal.

There were no discussions proceeding within EFTA for the creation of an EFTA Technological Community. But we were having useful bilateral discussions on several technological questions. This week there would be discussions with France on advanced developments in the aircraft field. The previous week the Minister of Technology, Mr. Wedgwood Benn, had had three days’ discussion with his colleague in Germany. He thought it was better to proceed bilaterally in this way until it was possible to generalise the discussion of such questions within an enlarged Community.

Mr. Wilson said that it had always been our desire to discuss questions of political unity with the countries of the Community even while we ourselves were not members. We should certainly be ready to play our full part once we were members. The sooner we were in the Community the sooner we could begin to play our part.

We had thought, whilst outside the Community, that we should not intervene in Community affairs. We had not intervened, nor had we had any status for intervening, in discussions on quasi-political questions within the Six. But, if and when we became members we should be involved in these questions too. In
view of our new initiative, we thought it would be well to be associated with the Six as closely as possible in their discussions on political unity. We believed very strongly that it would be a tragedy if there were any suggestion within the Six that this question must be got out of the way in discussions within the Community before there could be any question of negotiating British entry. There were favourable tides at work in favour of European economic and political unity; it would be a tragedy if we had to wait for the problems to be settled on a restricted basis.

Signor Fanfani commented that discussion on political unity had gone very slowly within the Community. It would be very difficult to get any real movement in this sector. The Italians had never tried to make very rapid progress in this field. The Saragat Plan had been intended merely to open up a dialogue, and the recent initiative taken by Italy aimed not at setting up barriers but at creating a favourable atmosphere for some form of political unity.

It was agreed that nothing of substance should be said to the Press at this stage in the discussions.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE FOREIGN SECRETARY AND THE ITALIAN PRIME MINISTER AT PALAZZO CHIGI, ROME, ON 16th JANUARY, 1967, AT 4.30 p.m.

Present:
The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Sir Burke Trend
Sir Con O'Neill
Sir Evelyn Shuckburgh
Mr. W. A. Nield
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. T. Lloyd-Hughes
Mr. C. M. MacLehose
Mr. D. Maitland
Mr. W. K. Reid

On. Prof. Aldo Moro
On. Prof. Amintore Fanfani
Amb. Egidio Ortona
Amb. Giovanni Vicenzo Soro
Min. Roberto Gaja
Min. Cesidio Guazzaroni
Csr. Walter Gardini
Dott. Corrado Guerzoni
Amb. Gastone Guidotti
Csr. Vieri Traxler
Dott. Gianfranco Pompei
Min. Carlo Marchiori

Interpreter (Mr. Lawrence)

Treaty of Rome and majority voting

Signor Moro said that he understood before the meeting had adjourned for lunch that Mr. Wilson wished to refer to the Treaty of Rome.

Mr. Wilson said that the United Kingdom position on the Treaty of Rome was, he hoped, perfectly clear. He summarised at this point the statement made in the House of Commons in November 1966 by saying that the Government would be prepared to accept the Treaty of Rome subject to the necessary adjustments consequent upon the admission of a new member and provided that we received satisfaction on the points about which we saw difficulty.

What he had in mind in saying this was that the Treaty provided in Article 237 that the conditions of admission and the adjustments to the Treaty necessitated by it should be the subject of an agreement between the existing member States and the new applicant. Clearly there had to be adjustments to the Treaty to cover such questions as British membership of the institutions, with appropriate representation; provision for an appropriate number of British votes in the Council of Ministers; and other changes, such as the percentage contribution to the Community budget and funds. Various consequential matters would have to be discussed as regards the timetable on which we should be applying the various
provisions of the Treaty; and this was bound to differ from the timetable laid down in the Treaty because of the lapse of time since its signature. But the point he wanted to emphasise was that, provided our problems could be dealt with satisfactorily, either through adaptations of the arrangements made under the Treaty or in any other acceptable manner, the Treaty itself would not be an obstacle.

Turning to majority voting Mr. Wilson said that he was aware that there were differences of view within the Community on this matter. The United Kingdom would be prepared to accept majority voting to the same extent as the Six themselves. But so long as the differences of opinion were not completely overcome within the existing members of the Community and so long as we remained outside, it would be inappropriate for us to express a view and thereby take sides in what we had always regarded as a question to be settled within the Community.

Signor Moro said that, if he understood the situation aright, the United Kingdom accepted the Treaty of Rome in respect of its structure and aims, except as regards such changes as were provided for by the text of the Treaty itself (for example, in relation to participation in the work of the Council of Ministers and in the organs of the Community). There was a question whether additional protocols and clauses to the Treaty would be necessary and whether they should be temporary or not. Majority voting was embodied in the Treaty; although there had been differences of view within the Community, no member state had yet asked for the Treaty to be altered on that account. There should be no objection to acceptance of the necessary adjustments to the Treaty; but the safeguarding clauses might present a difficulty. They might be discussed later on.

Signor Moro then invited Mr. Brown to discuss the Common Agricultural Policy.

Kennedy Round

Mr. Brown recalled that Signor Fanfani had referred to the Kennedy Round during the morning’s discussion. The timetable was now so advanced that the completion of the Kennedy Round was in sight. The United Kingdom was faced with problems in relation to the Kennedy Round somewhat different from those described by Signor Fanfani. There was a marked imbalance between our offers and those made by the Community. Since it was in the common interest of the Community and of the United Kingdom to reach agreement at the highest possible level on the offers to be made in the Kennedy Round, he proposed that experts on both sides should discuss how the offers already tabled might be adjusted in order to achieve the best possible outcome. The United Kingdom had made substantial offers, markedly to her disadvantage, by comparison with the offers made by the Community. Experts on both sides should try to harmonise the differences in these offers.

Common Agricultural Policy: Problems for the United Kingdom

Turning to the questions posed by Signor Fanfani about the Common Agricultural Policy Mr. Brown said that the different aspects of the policy presented problems which were not always of the same gravity; nor did they all call for the same answer. One question which had been asked dealt with our general attitude to the policy. It was not of itself an impediment to negotiations; but to adjust our agricultural support system to the existing Common Agricultural Policy would create substantial difficulties for the United Kingdom; unless adjustments could be made, it would distort our present agricultural pattern and affect our prices considerably and worsen our trade and balance of payments.

Mr. Brown suggested that he should take the four main points of the agricultural problem in ascending order of difficulty.

(i) The effect on the cost of living

If the present level of prices were maintained in the Community after 1970, we estimated that the effect would be to increase the cost of our food by between 10 and 14 per cent. This would obviously have an adverse effect on our policy for prices and incomes and on the cost of living. We would therefore hope for a reduction in the present Community price levels; and this raised the question
of the transitional period over which our economy would be phased into the Common Agricultural Policy. This was not the most serious problem concerning us, though it was clearly important.

(2) The results for our own farmers

The effect on our domestic agricultural system was more serious. It was possible—indeed, some would say it was probable—that, as prices stood in the Community, the net income of our farmers as a whole would be the same as, or even greater than, at present. But the real problem was the premium on cereals production which the present arrangements involved. Our farmers would be affected in two ways under the Community's cereals policy; they depended upon buying cheap cereals for feedingstuffs (and the high price of cereals in the Community would therefore hit them hard); and they would be affected by imports from the Community. The result would be to cause a serious disturbance in the agricultural and ancillary industries of the United Kingdom. The northern and western areas of the country had more rain, contained a larger proportion of land of poor quality, and included most of our small agricultural holdings devoted to the rearing of livestock and the production of pigmeat and dairy and egg products. The effect of the Community prices would therefore be to depress the condition of these farmers, while by contrast there would be a considerable accretion of income in the eastern half of the country. Our conclusion was therefore twofold: first, a substantial transitional period would be needed in order to solve the problems which would be created; and, second, since we should have to change substantially the pattern of our agriculture—for example in relation to the size of farm units and the methods of marketing—we should want schemes to facilitate these adjustments, including some of our support grants, to qualify for benefit under the provisions of the Community's Guarantee Fund dealing with "structural improvement".

This problem was a more difficult one than the first; but it would not be insuperable if the present members of the Community were willing to help.

(3) The impact of Commonwealth and third country trade in foodstuffs

In relation to Commonwealth trade it was well known that there were problems affecting Australia and Canada; but the really difficult case was that of New Zealand. New Zealand was almost wholly dependent upon her agricultural exports, over half of which came to the United Kingdom and amounted to nearly half of New Zealand's total exports. It was not necessary at this stage for him to rehearse the figures of dairy produce, mutton, lamb and wool, since they were known to the experts. New Zealand was one area in which he doubted whether a transitional period would suffice as a final answer to our problems. It seemed likely that a permanent arrangement or derogation would have to be achieved in order to cover New Zealand's interests in respect of access to her traditional markets at reasonable prices. He hoped that it would be fairly generally accepted that a special arrangement of this sort would have to be made; but he would welcome the Italian Government's views.

(4) The consequences for our balance of payments

When Signor Fanfani had referred to this aspect of the Common Agricultural Policy in the morning's discussions he had given a figure (which was probably an under-estimate) of £200 million as the extra burden which would fall upon our balance of payments, if prices remained at their present level in the Community and if under the present arrangements we were obliged to make over to the Guidance and Guarantee Fund 90 per cent of the proceeds of levies on all food imports from third countries. It was comforting to have heard Signor Fanfani expressing how clearly he understood our difficulties. It would be altogether inequitable for there to be no change in the present arrangements when the United Kingdom joined the Community. At present the member country of the Community which was the largest importer was Germany, which imported £640 million of leviable products, of which £270 million were drawn from sources outside an enlarged Community (i.e., including Denmark). By contrast we imported £970 million of leviable products, of which £540 million came from third countries. Moreover, acceptance of the present price level would involve us in far greater price increases on our imports than any other member country had had to face. As a result we should be expected not only to pay our national contribution to the Guarantee Fund but also to make from the proceeds of the levies a substantial
payment—more than twice what Germany was paying and approximately equal to what was paid by all the other members of the present Community. And yet, because the United Kingdom had a soundly based agricultural economy, which employed a very small percentage of our labour force whose productivity had increased yearly, it did not seem likely that we should be able to make more than a relatively modest call on the Fund. The problem therefore was to consider, first, what was likely to happen to the level of Community prices after 1969; second, what could be done to alter the level of contribution to the Fund in order to make them fairer on the accession of a new member or members; and, third, to what extent the United Kingdom might be able to retain or have returned to her, a part of the levy proceeds in order to finance “structural” improvements to her domestic agricultural industry.

In raising these points he wished to emphasise that we did not reject the Common Agricultural Policy. The problems which it raised could be met, provided that the other members of the Community accepted that, unless changes were made, the burden imposed on the United Kingdom as a new member would be too unfair as to be politically unmanageable.

When Signor Fanfani asked why the United Kingdom had not accepted the Common Agricultural Policy at an earlier date, Mr. Brown replied that Mr. Wilson and he were not responsible for United Kingdom policy at that time.

Mr. Brown then turned to the particular questions which had been raised.

(1) How long a transitional period was envisaged?

The answer would be different according to the aspect of agricultural policy in question. The period might need to be of one length from the point of view of the increased cost of living, of another length as regards the impact on domestic agricultural policy and different again in relation to the consequences for our balance of payments.

(2) Did adjustment to the policy require only transitional periods or did it require a modification to the Common Agricultural Policy?

He considered that the full statement he had just made had answered these questions adequately.

(3) Could we wait until 1969 when the financial arrangements under the Common Agricultural Policy would have to be re-negotiated or could our needs be met during negotiations for entry now?

At this point, Signor Fontani said that the revision envisaged in 1969 might affect only some, not all, of the problems in question.

Mr. Brown said that nevertheless, these were likely to be the most important problems so far as we were concerned. In particular as regards the impact on our balance of payments it would be imprudent for us and unwise for the members of the Community not to try to get a clear understanding now of the changes envisaged in 1969 when the present arrangements would fall to be re-negotiated. If mutual understanding could be reached in the present talks, it might be possible to leave certain problems for solution during the 1969 re-negotiations; but it would be foolish to leave the whole critical matter unsettled until then.

(4) Did the United Kingdom seek only adjustment to the regulations made under the Treaty of Rome; or a special protocol; or amendments of the actual Treaty?

He understood that a new protocol would in any case be required on our accession, and this might be the most convenient way of settling matters. An amendment of the Treaty itself should not be necessary.

(5) What effect would Commonwealth interests have on any negotiations?

He had already mentioned the particular issues arising in connection with Australia and Canada. The Commonwealth Sugar Agreement would raise another problem. It might be possible for some Commonwealth countries to be considered for association with the Community, if Britain were to join, by analogy with the former French colonial territories in Africa. But New Zealand would continue to present the gravest obstacle, which could probably not be surmounted by transitional arrangements alone.
Free movement of labour

We saw no fundamental difficulty under this head, provided that there was an adequate transitional period for orderly phasing-in of the free movement of workers in order to counter the difficulties which we were bound to meet over immigration from the Commonwealth.

In conclusion, Mr. Brown expressed the view that all these problems could be faced and met without necessarily undermining the basis or disrupting the working of the Common Agricultural Policy. While there would certainly be domestic difficulties in the United Kingdom, these would be worth facing. We should welcome the advice of the Italian Government and the other members of the Community on how best to arrange our affairs in order to adjust to the Common Agricultural Policy; and we would ask that it should not be transformed into a barrier preventing our entry into the Community.

Signor Moro said that he understood from Signor Fanfani that some of the matters which were rightly causing concern to the United Kingdom had in the past presented difficulties to the Italian Government. Since he and his colleagues had been invited to give advice on the basis of their experience, he thought it might be useful to outline the problems that had arisen and the solutions which had been found for them.

Signor Fanfani then offered some comments on remarks made by Mr. Brown before calling upon Signor Guazzaroni to give a brief account of Italian experience in negotiations on the Common Agricultural Policy.

As regards the effect on the prices and incomes policy of accepting the Common Agricultural Policy on its present basis, he suggested that it should be remembered that the present price levels within the Community represented the harmonisation of the various demands made by its members. It would therefore be likely to be a matter of substantial difficulty to meet the United Kingdom's request in full, since the present price levels were the result of a system of checks and balances which had involved lengthy and detailed discussions. Nevertheless, once a country had become a member of the Community, it dealt with the other members in a spirit of mutual co-operation and after the expenditure of great effort, agreement was somehow reached. It was important to remember this in relation to Mr. Brown's account of the changes in the structure of British agriculture which would be needed in order to adjust to the Community's policy. Italy understood the problems facing the United Kingdom and appreciated the reasons for the British request for varying transitional periods for adjustments to the Common Agricultural Policy. But the United Kingdom was perhaps two centuries ahead of Italy in the reform of agricultural land use; and Italy, with its greater area, had still many changes to make. Acceptance of the Community's agricultural policy had therefore required far greater adjustments by Italy than by other members of the Community.

As regards the Guidance and Guarantee Fund, it was necessary to keep clearly in mind the purposes for which the Fund had been created. The United Kingdom's deficiency payments system would have to be changed in order to conform with those objectives. The agricultural problems in connection with the Commonwealth in general and New Zealand in particular were probably less important now than they had been six or seven years earlier. In particular, butter and mutton would not interest Italy greatly, although they might raise more important issues for other member countries of the Community.

The size of the levies on imported products was a substantial problem; and, if Italian experience proved anything, it was the solution would be very difficult to find. It was a great pity that the United Kingdom had been unable to participate in the critical discussions of July 1965. What the Community had endeavoured to do was to keep the policy in this field sufficiently flexible to enable under-developed areas to benefit without at the same time creating conditions which would make it impossible for them to make improvements. Italy had not been very successful in the 1965 negotiations; and he considered that the ratio of contributions to and benefits from the Fund would be one of the most difficult issues to face the United Kingdom.

The question of modifying the United Kingdom agricultural structure should be less difficult, including the issues arising from the regional policies to which
Mr. Wilson had referred in the morning. But we should not allow ourselves to be too optimistic about the possibility of achieving lower price levels, since the Italian Government themselves had experienced some disappointment in this direction.

Mr. Brown had referred to several factors which would affect adjustments to the Common Agricultural Policy in relation to the period of transition. He agreed with those views; but the question of the financing of agricultural policy was of prime importance, since the more intensively it was discussed, the more inevitably it raised questions of the balance of payments and related issues of monetary policy. It was therefore a matter to be treated with some care.

What Mr. Brown had said about the timetable for adjusting to the Common Agricultural Policy was a clear indication of the seriousness of purpose with which the United Kingdom had begun their series of talks with the Governments of the Six. He had been convinced that the United Kingdom Government would not have embarked on their present course without considering all the consequences; and he was very glad to have this confirmation of his conviction. He had gained the impression that the talks had begun on a good basis and with a real sense of purpose.

As regards the question of a special protocol this was envisaged in paragraph 2 of Article 237 of the Treaty of Rome, which covered the admission of new members to the Community.

The question of relations with the Commonwealth was one which appeared capable of solution on the analogy of the arrangements which had been made for the former French colonies in Africa and the successful negotiations which had been undertaken by Nigeria for associate membership.

So far as social policies and mobility of labour were concerned, the Italian Government were satisfied with what Mr. Wilson and Mr. Brown had said.

In conclusion he felt that he was expressing the views of his colleagues when he said that in raising with Mr. Wilson and Mr. Brown the various issues that had been mentioned their aim was not to discourage their British colleagues but to make them aware of likely problems. The Italian Government had experienced problems themselves and hoped to assist the United Kingdom in preparing themselves psychologically for the rest of their visits to the capitals of the Six. If there were questions which Mr. Wilson and Mr. Brown now wished to address to the Italian Government, they would be happy to try to answer them.

**Common Agricultural Policy: The Guidance and Guarantee Fund**

*Mr. Wilson* said that he wished to ask one purely factual question. One of the main purposes of the Guidance and Guarantee Fund was to subsidise exports; but the Fund was also used to make grants to assist structural improvement. Was there any restriction on the availability of such grants? For example, if Italy wished to undertake a new planting programme in an agriculturally backward area or wished to improve a strain of livestock or develop land reclamation or drainage, could grants be made available for such schemes if they were particularly associated with regional development? Would it be possible by analogy to apply for grants for similar purposes in, e.g., Scotland or Wales where there was more land in need of development than in the rest of the United Kingdom?

*Signor Fanfani* said that it was possible to apply for such purposes within certain limits. A country making a request for such assistance had to provide a definite development plan and to contribute itself towards the cost of the improvements, as well as receiving contributions from the Fund. The percentages varied between 25 and 35 in such cases.

*Mr. Wilson* said that, while he did not want to go into the detail of percentages, he would like to know whether it would be possible to apply for assistance as part of a development plan, the effect of which would be to safeguard the inhabitants of a depressed area from having to leave agricultural employment and to move to another part of the country to seek industrial employment. Were there any rules to prevent the recovery from the Fund of an appropriate percentage for purposes of this kind?

*Signor Fanfani* explained that finance could be made available for industrial re-training in a case where workers moved from one activity to another, whether in agricultural or manufacturing industry. But the new employment had, on the
whole, to be of a higher or more developed character than the old; and he was not sure whether the rules permitted the use of the Fund merely to enable workers to continue in the same employment, e.g., in the case of agricultural workers in depressed areas to protect them from the need to transfer to more productive employment elsewhere.

Common Agricultural Policy: Italy's experience

Signor Moro then asked Signor Guazzaroni to give a brief account of the negotiations involved in establishing the Common Agricultural Policy, a matter with which he had been associated for over 10 years.

Signor Guazzaroni said that a brief account of the negotiations relating to the Common Agricultural Policy would demonstrate that Italy had experienced much the same difficulties as those which would now confront the United Kingdom if she decided to apply for membership of the Community. The Common Agricultural Policy reflected certain contradictions inherent in the Treaty of Rome. Thus, Article 39 of the Treaty emphasised the importance of stabilising markets and ensuring a fair standard of living for the agricultural community, whereas Article 110 was concerned with the need to abolish restrictions on international trade. Other examples of contradictions were the fact that Germany favoured low priced imports but asked for the highest grain prices. Italy herself wanted high cereal prices for social reasons but sought low prices for feeding-stuffs. The Common Agricultural Policy had therefore been achieved only by compromise and by efforts to reconcile different, and even conflicting, interests. The Treaty of Rome laid down that for certain products marketing organisations should be set up. These were designed to ensure specialisation and higher incomes for farmers based on single commodity prices combined with a common external tariff designed to give protection against imports from outside the Community. Because of the need to reconcile the economies of the various member countries prices were at present admittedly rather high. There was provision for an annual review of cereals prices starting in July 1967 and of other prices (for example olive oil) from July 1968. But it would be liable to be difficult to secure any more extensive arrangements for price reviews because of the difficulty of satisfying the interests of the various members of the Community. These had not proved easy to reconcile.

As regards the financial regulations of the Common Agricultural Policy, these had occupied a month and a half of day and night consultations in 1962, during which conflicting interests had soon become apparent and the Italian Government had had to express their concern in much the same way as the United Kingdom Government were now expressing theirs.

As the financial regulations had originally been envisaged the proceeds of the levies were to be paid over to the Commission at the end of the transitional period and payments out of the Fund were to be confined to the subsidisation of agricultural export from the Community to third countries. This arrangement would have been in accordance with French policy in so far as it would have reflected the concept that the levies should represent an additional source of revenue for the member States and that the extent to which they benefited from it should depend on the degree to which they co-operated in implementing the new Common Agricultural Policy or, alternatively, continued import products from third countries in a manner which was not in the interests of the Community. The Italian Government, however, had not been in agreement with this proposal because it would have run counter to their efforts to raise the standard of living. They had therefore insisted that, in addition to subsidising exports, the Fund should also be used to some extent for effecting structural agricultural improvements within the Community. As a result the Fund was used partly for subsidising exports and partly (to the extent of about one-third) for structural amelioration. It had been decided that for the transitional period up to 1969 the amount devoted to structural amelioration should not exceed 280 million units of account (dollars). The Italian Government had agreed to accept this arrangement because of their desire to achieve a political objective, although they realised that economically and agriculturally it did not fully serve their interests. Indeed, during the first three years of the Common Agricultural Policy Italy had paid out more to the Fund than she had received from it; and in order to establish equilibrium the Italian Government had sought and obtained a reduction in their budgetary contribution.
As regards Mr. Brown's suggestion that it was necessary to be satisfied about the financial regulations after the end of 1969, he wished to underline two aspects of the problem, one positive and one negative. The positive aspect was as follows: when the possibility arose of making over the levies to the Fund, as was envisaged in the transitional period, reference had also been made to making over the proceeds from the Common External Tariff. These joint proceeds taken together would be so enormous (more than $3,000 million) that consideration had been given to restoring to member countries any surplus not needed to finance the Common Agricultural Policy. The negative aspect was that this situation involved the resources of the Community itself (as distinct from those of the member States), and this had raised the problem of democratic control over the Commission's use of these resources and so of elections to a European Parliament which would oversee the very wide economic authority of the Commission.

At this point Mr. Wilson said that, while he would welcome further discussion on the Common Agricultural Policy, it might be appropriate to adjourn the discussions until the following morning. At that point the discussions might also deal with the movement of capital and the question of regional development.

Signor Moro suggested that the discussions should be resumed at 10 a.m. the following morning; and that the Press might be told, in answer to enquiries, that the two sides had been discussing agricultural problems, without, however, being given any details of the course of the discussions.

This was agreed and the meeting adjourned at 6.45 p.m.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE FOREIGN SECRETARY AND THE ITALIAN PRIME MINISTER AT PALAZZO CHIGI, ROME, ON 17th JANUARY, 1967, AT 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Sir Burke Trend
Sir Con O'Neill
Sir Evelyn Shuckburgh
Mr. W. A. Nield
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. T. Lloyd-Hughes
Mr. C. M. MacLehose
Mr. D. J. D. Maitland
Mr. N. Statham
Mr. W. K. Reid
On. Prof. Aldo Moro
On. Prof. Amintore Fanfani
Amb. Egidio Ortona
Amb. Giovanni Vicenzo Soro
Min. Roberto Gaja
Min. Cesidio Guazzaroni
Cslr. Walter Gardini
Dott. Corrado Guerzoni
Amb. Gastone Guidotti
Cslr. Vieri Traxler
Dott. Gianfranco Pompei
Min. Carlo Marchiori

Interpreter (Mr. Lawrence)

Signor Moro recalled that on the previous day the discussion had centred on adjustments of the Treaty of Rome and on the Common Agricultural Policy. He invited Mr. Wilson to say what other issues he wished to discuss.

Mr. Wilson agreed that a lot of ground had been covered in the discussions on 16th January and that these had dealt effectively with a number of problems. He considered that after the helpful and exhaustive account of the development of the common agricultural policy it would be useful if Mr. Brown drew together our conclusions. Capital movements and regional problems might then be discussed.
Common Agricultural Policy

Mr. Brown said that the previous day's discussion had shown that there was a clear understanding between the two Governments about the problems which would fall to be dealt with in relation to agricultural policy if the United Kingdom acceded to the Treaty of Rome. He was encouraged by the sympathetic understanding manifested by his Italian colleagues. The United Kingdom did not reject the common agricultural policy; nor did she maintain that her own agricultural policy could not be adjusted to it. For their part the Italian Government understood that there were areas of difficulty which would have to be faced; and he thought it would be convenient to restate them.

(1) Our internal cost of living would be affected by the increase in our food prices. This was the least of the areas of difficulty; but it was still an important one because of our attempt to stabilise our own prices and incomes.

(2) The pattern of prices in the Community would have a distorting effect on our pattern of agricultural production. Great efforts would be required to solve this problem which would call for consideration of the extent to which we could use some of the levy payments for the purpose of reshaping our agriculture.

(3) The problem of the effect on Commonwealth food trade of the common agricultural policy did not appear to be insuperable; but he wished to re-emphasise our concern for New Zealand for which we had particular responsibility. He hoped that it would be agreed that something more than transitional arrangements would be needed to cope with New Zealand's problems. This could possibly be done by a multilateral arrangement analogous to the informal butter agreement we already had.

(4) The effect on our balance of payments of the higher prices of imported food and of our contributions to the Guarantee Fund would be the most important of the problems; and the substantial amounts which would fall to be paid by us across the exchanges if the present arrangements for levy payments were not changed would have very serious consequences for us. When Signor Fanfani had mentioned a figure the previous day of £200 million this had appeared to be an under-estimate. Further examination of the problem confirmed that our payments would probably be in excess of £200 million. When we joined the Common Market, we would substantially increase its size and thus the interests of its present members. It was therefore not unreasonable to ask the member States to consider how, within a larger Community, our interests and those of the present members might be reconciled. This was not a matter—as was sometimes suggested in other quarters—of asking the existing members to alter the structure of the Community. We merely asked that what had been done already for the Six should be done for new members of the Community—in other words to make such modifications as might be needed to take care of the interests of the acceding members. The existing members of the Community had taken account of their own interests in the earlier negotiations; it was not unreasonable to ask them to take account of our interests now.

Signor Moro said that he had noted which issues were considered important and where adjustments were likely to be needed under the Treaty of Rome. His British friends now understood the difficulties with which the Italian Government had been faced and had heard an account of Italian experience in surmounting various problems. The Italian Government knew what the essential British interests were and hoped they would be taken into account, if and when negotiations for accession took place. Mr. Brown had mentioned adjustments which had been made in the past and had suggested that similar adjustments would now be required to meet Britain's position. The Italian Government agreed that adjustments were required both because their interests were similar to those of the United Kingdom and because they favoured United Kingdom accession for political reasons. But it was essential to be realistic. He was sure that Mr. Wilson and Mr. Brown would approach the problem of accession realistically. They would find that they would receive different treatment in each of the countries of the Six they listed. The Italian attitude was a very open one; but other member countries for various political reasons might express different shades of view. It was only realistic for Mr. Wilson and Mr. Brown to bear this in mind in their further travels. He noted that it had been suggested by Mr. Brown that the Six and the United Kingdom should draw nearer together in the final negotiations in
the Kennedy Round and that the United Kingdom had tabled more generous offers than had the European Economic Community. The suggestion that experts should discuss these matters together was a delicate matter which he would prefer Signor Fanfani to deal with.

Signor Fanfani said that, if certain special problems could be adequately solved, they could contribute favourably to the success of the negotiations, which he hoped would take place. Certain conditions would have to be fulfilled if the wishes shared by the United Kingdom and Italian Governments were to become a reality. He found it entirely natural that the United Kingdom should state the difficulties she foresaw as she approached each of the members of the Community. No doubt the United Kingdom would take advantage of their soundings to find out the individual difficulties which each of the countries of the Six foresaw in receiving the United Kingdom into the Community. If these difficulties were to be overcome, they must be clearly understood. It was not for him to suggest what difficulties other countries would mention, since he was not briefed to speak on matters which were the concern of the other members.

On the previous day there had been a discussion of certain concrete requirements which would have a psychological importance in negotiations for entry into the Community. He noted that the United Kingdom Government were prepared to take account of the implications for manpower and mobility of labour. He need not therefore stress how important such problems were to the Italian Government, although the question of manpower might become somewhat less important because of certain developments taking place in Italy.

While he would not mention the details of what had been termed “the battle of the oranges”, Italy had to safeguard her interests in fruit and vegetables. It would be wrong to upset the present balance of interests of the Six (which had been achieved only after considerable negotiation) in order to accommodate the United Kingdom’s entry. On the previous day Mr. Brown had mentioned the position of farmers in his own constituency. The Italian Minister of Agriculture, who was a Sicilian, would be present at any negotiations for entry and would certainly re-state the Italian Government’s difficulties at that stage, especially since there was no intention of adding to the United Kingdom’s problems after negotiations had taken place.

The problem of fruit and vegetables had been discussed in the previous negotiations in 1962. He had been reminded that the Italians had not been entirely satisfied with the outcome at that time. He mentioned this not with any intention of taking over the old ground again but merely in order to remind the United Kingdom of the attitude of Italy in future negotiations. The United Kingdom Government should consider carefully the agreement reached by the Six as regards certain areas and zones, since it provided certain opportunities which they might investigate and exploit in the interests of those areas in the United Kingdom which might be adversely affected.

The previous day a reference had been made to happy co-operation between Italian patriots and the British during the 19th century. It he might echo a 19th century saying, he did not remain insensitive to the cry of pain uttered by Mr. Brown on the subject of the prospective additional charge of £200 million on the British balance of payments. The Italians knew from their own experience what expenditure was involved in contributions to the Guarantee Fund. The United Kingdom had made some calculations of the sums involved; so had the Italian Government. Although they were not in possession of all the facts, they considered that it might be possible for the British Government to obtain some compensation for their payments to the Fund in savings on deficiency payments to British farmers.

Mr. Brown interjected that, while the domestic agricultural policy of the United Kingdom would be changed in such a way as to transfer agricultural support costs from deficiency payments paid out of the Exchequer to payments made by the consumers, that would not offset the extra charge on the balance of payments.

Signor Fanfani said that he realised this. But it was necessary to think of a new equilibrium within the economy as a whole; and Italy’s own experience confirmed that the determining consideration must be the overall balance of advantage in terms of resources. Italy had been the guinea-pig in operating the Guarantee Fund and to use a medical metaphor, whereas wounds might be inflicted by the Common Agricultural Policy, there was a salve to be found for
them. The Fund was very much a matter of give and take among the members of the Community.

Finally, with a view to widening the membership of the Community, he suggested that a way should be sought of finding such adjustments of time and such transitional periods as might be necessary to cover the agricultural problems of the Commonwealth and, in particular, of New Zealand. Although New Zealand certainly presented a special case, he hoped that it could be dealt with. In mentioning these problems, he was inspired not by pessimism but by realism. The problems he had mentioned could be solved; and he thought it possible for the United Kingdom to become a member of the Community.

Mr. Wilson suggested that the discussion of agricultural matters might now end. But he assured Signor Fanfani that we had made the calculations which he had mentioned. Our conception of the Common Market went beyond mere calculations, although we had obviously to balance the gains and losses which we would experience under the Common Agricultural Policy. Signor Fanfani had mentioned the use of salves; but it was essential to get the right salve for the right wound. A salve for a sore foot was not of much value if the wound was in the jugular vein.

**Capital movements**

Turning to capital movements, Mr. Wilson said that his Government had attempted to evaluate the effect of joining the Community on capital movements which were likely to occupy an important place in the negotiations. The distinction inside the Community between direct investment and portfolio investment had a particular bearing on the United Kingdom's problem. Given an adequate period of adjustment, we wanted our businessmen to be able to invest in the Community and the Community's businessmen to be able to invest in the United Kingdom. Indeed, this was an essential corollary of technological co-operation. But the question of portfolio investment was a separate matter, which affected Britain rather differently from the other members of the Community. We were traditionally a major capital market, which currently enforced a fairly strict control over portfolio investment. But the liberalisation of such investment as prescribed within the Community, would be liable to expose Britain to the risk of a capital drain via the Community to third countries, not excluding the United States. Whereas we could see advantage in using our capital for developing the industries of Europe, it was less clear that it would be in our interests to provide capital by portfolio investment in Europe which might then be used to finance the growth of American industry through the purchase of dollar securities. It was possible that his own lack of enthusiasm for the development by British capital of United States industry might be shared in one or two other capitals of the Community. He would rather see British and Community capital and technology pooled in order to develop, e.g., a strong European computer industry than have our capital flowing through portfolio investment via the Community to the United States and being used to build up the United States computer industry which might then dominate that of the Community. This was a problem for technical experts to examine if and when we embarked on negotiations for entry into the Community—on the basis of the necessary distinction between direct and portfolio investment which he had outlined.

Signor Fanfani then suggested that Signor Ortona might say something at this stage, since he had consulted Signor Colombo, the Italian Minister of the Treasury, and had both political and technical knowledge of the subject.

Signor Ortona said that the relevant Community Directives distinguished between portfolio and direct investment but did not deal fully with the exchange control implications. Under Articles 63 and 74, the Treaty of Rome provided ultimately for the complete mobility of capital. But in the same Articles were contained certain reservations which had led to moderate control of both portfolio and direct investment. Since no definitive regulations had yet been approved, it was all the more useful to know at this stage the views of the United Kingdom. The members of the Community were naturally concerned to take account of the United Kingdom's monetary position, since, over the next two or three years, there would presumably have to be continuing co-operation between the United
Kingdom and those Governments in support of sterling. He could therefore speak on behalf of the Italian Minister of the Treasury, that very sympathetic consideration would be given to the United Kingdom's proposals in this field. Moreover, while the need for co-operation in the short-term was understood, the Italian Government's experts considered the long-term prospects for sterling to be more favourable. If, as they hoped, negotiations took place for the United Kingdom's entry to the Community, the Italian Government would await a statement of our requirements. He considered that the way in which Mr. Wilson had approached the matter was the correct one and would prevent certain countries from trying to turn the investment argument against Britain and to use it as a reason for opposing British entry to the Community on the ground that the United Kingdom was asking for exceptional treatment in this respect. Italy was ready to co-operate over the details of our proposals on the understanding that the Community would probably have made definitive regulations by the date of Britain's entry. Mr. Wilson asked whether that meant that the definitive regulations would have been concluded before our negotiations began. Signor Ortona said that a lot of work had been done in preparation for drawing up the regulations and it was possible that the work would be concluded before British entry. But he could not be definite at the moment; it might be before or after. Mr. Wilson said that the situation was in some respects akin to the situation in relation to EURATOM as Signor Fanfani had described it the previous day. It was important that we should understand each others' problems in this as in other matters. Mr. Wilson said that it might follow that, in the event of British entry into the Community, or even perhaps independently of it, a useful subject for study might be the question of restrictions on Community portfolio investment in third countries. He thought that the present system might lead, to use a medical metaphor, to a permanent bleeding in that we might all be unnecessarily financing the economic development of rich countries. The problem was difficult to assess at this stage until it was finally known, for instance, what the Swiss attitude to association with the Community might be. Switzerland, a world capital market, could in this respect be a considerable force for good or ill. Mr. Wilson added that while the broader questions of monetary policy were also proper for discussion in the EEC it was of course right that they should be discussed in a wider context—e.g., at the forthcoming meeting between the Chancellor of the Exchequer and certain other finance Ministers (including Signor Colombo and the Secretary of the United States Treasury) and in the continuing discussions between the Group of Ten and the IMF. Signor Fanfani said that he found Mr. Wilson's remarks of great interest, for two reasons. Mr. Wilson had put his finger on the problem of financing rich countries at the possible expense of lesser developed countries. The Italians were also interested because of the position of Milan which had greatly developed as a centre of capital movement. Mr. Wilson concluded that there was a good prospect of Community and British positions being close together on this question. Regional policies Mr. Wilson then turned to the question of regional policies. The Italians had 10 years' experience within the EEC and he would be grateful to hear something of it. Our own development areas were largely industrial, not agricultural in nature, though there were some relatively depressed farming areas also. He would ask Mr. Brown to set out the questions on which we sought information. Mr. Brown said that there were two major economic areas in which we had been able to make great use of Italian experience. They were those of regional policy and industrial reorganisation as exemplified in Italy by the operations of IRI. When Secretary of State for Economic Affairs he had himself visited Rome and following discussions with Italian Ministers had been able to import a good
deal of Italian experience into our own development policy and the IRC. He wanted to enquire what the effects of Community membership had been on Italian handling of these regional questions. In the United Kingdom we had more than one problem. There were regions based on old-style heavy industry, which were declining relatively and needed to be refashioned. There were other areas where the agricultural pattern needed changing to prevent de-population. And, finally, as in other countries, there was an enormous "pull" of activity and population towards a "rich triangle", which in our case was in the South East. When we joined the Community the third of these problems would be accentuated; communications and other factors would increase the attraction of the South East for industry.

We employed a number of measures to counteract this situation. The positive inducements which we offered should, he thought, cause no trouble to the Community since they should be valid under their rules. But we also had one negative control to serve as a backing for the positive inducements. This was our ability to refuse industrial development certificates—the right to set up a new business or expand an existing one—in over-developed areas. It was important to know whether, after entry, we could maintain such a negative control, which was a strong part of our present armoury. If and when we joined the Community, however, a particular problem might arise from industry's ability to circumvent the negative control by moving to other countries. He raised these questions not to suggest that they were obstacles to our joining the Community but to enquire what Italian experience might have been in these or similar respects.

Signor Fanfani said that it was one of the fundamental requirements of the Community to harmonise the development of its different parts and different countries. The Community therefore sought to eliminate the existence of relatively backward areas both in the industrial and agricultural field; and they supported retraining of labour forces for this purpose. Until very recently the Community had set its face against direct subsidisation of agriculture; the general feeling was that agriculture should be made competitive. He mentioned an exception made in the case of olive oil because it had some relation to the question of deficiency payments made to British farmers. But he stressed that this was an exception. It remained the Community's intention and purpose to consider and deal with the question of individual regions and sectors within the Community in the light of the general intention that they should not constitute parasitical elements within the Community. An outstanding example was the Italian shipbuilding industry. This had been not only an economic but a political and electoral question. 10,000 blank votes had been cast in Trieste in the last election because of the measures they had had to take. But, faced with a virtual ultimatum from the Community to eliminate non-profit-making shipyards they were carrying through a four-year reorganisation plan. As a result Leghorn had virtually lost its shipyards; La Spezia was going the same way; there was reduced activity at Genoa and concentration in Monfalconi. There had been some delay and postponement of this programme; and there would be a law permitting some temporary support. But it would be only temporary. Other examples were reorganisations in the coal mines at Carbona and the question of the Sicilian sulphur mines. The Community did not catch up with everything that was happening within its borders. But their policy was opposed to the continued existence of depressed areas and sought to promote the elimination of dead wood wherever possible.

But there was also a positive aspect in Community action. They took action needed to bring about changes both in the agricultural and industrial fields. He had mentioned yesterday the loans made from the Community Guidance Fund to assist structural alteration in agriculture. In the industrial field the Community intervened in the question of industrial polarisation. The Community had made investigations on the subject in the Italian south (at Brindisi, Bari, etc.) and was trying to support the development of these areas. He had already mentioned the EEC policy of retraining to deal with unemployment and to facilitate movement of labour from one country to another. He should also mention the operations of the European Investment Bank, the use of whose funds followed a prior determination of the possibility for development. The Investment Bank was open not only to the Six but to associated countries such as Greece and Turkey.
Mr. Wilson enquired to what extent the regional development policies of the Italian Government were ruled out or circumscribed by the Community. He mentioned that in the United Kingdom there was a differential system of investment grants for development areas, justified on purely regional grounds.

Signor Fanfani said it was the general rule that incentives were excluded; but it was not difficult to justify exceptions. The Community did not intervene surgically but hoped to achieve gradual change from one situation to another. He quoted the prohibition on State aids in Article 92 (1) of the Treaty of Rome; but there were several exceptions provided for by Articles 92 (2) and 92 (3)—in particular the Italian Southern Development Fund was compatible with Article 92 (3) which provided for aid for the economic development of regions where there was serious poverty or under-employment.

Mr. Brown said he thought that Article 92 (3) (a), (b) and (c) covered the positive measures undertaken in the United Kingdom but he wondered what the situation would be as regards our negative control. Could the Italians say whether they had any experience in these questions? Mr. Wilson said he took it that, e.g., measures to discourage investment in Birmingham would be acceptable under the Treaty if there was no discrimination on national grounds. But was it the case that controls of this sort designed to achieve balance within an economy would be compatible with the Treaty?

Signor Moro replied that logic suggested that measures of this kind would be compatible with the Treaty. But Italy had no experience of the question, since they had no disincentives of their own. Signor Fanfani added that the Italian Constitution limited the Italian Government to taking positive action.

Conclusion

Mr. Wilson then summed up. He thanked the Italian Ministers for giving their time and said he was much encouraged by the discussion which had taken place. He thought that the problems which we saw could be overcome by such means as those which had been examined on the previous day either after our entry or by goodwill and co-operation on both sides during the negotiations preceding it. There was a general feeling on both sides that those negotiations, if we undertook them, should be fairly short and should concentrate mainly on a relatively small number of major issues, so as to avoid the risk of getting bogged down in detail. Finally it would be seen that some problems—such as our attitude to the Treaty of Rome and some other questions—which outside commentators had thought would divide Britain from the Community were not likely to do so; the big outstanding problem was the operation of the Common Agricultural Policy, particularly so far as its financial provisions were concerned. The Community regulations had been drawn up for countries which as a whole were food exporters; and this fact must inevitably create a serious problem for a country which, like the United Kingdom, was a food importer on a large scale. The maximum ingenuity and goodwill would be needed to solve this problem.

Signor Moro thanked Mr. Wilson and Mr. Brown for the friendly and constructive conversations, conducted with great frankness and cordiality. He thought it had been possible to subject the problems involved in British entry to a realistic examination. He concluded that many were easy to solve, that others were more difficult, but that none were insuperable. His hope and trust were that the way was open for further progress. He confirmed the great political importance which the Italian Government attached to British membership of a Community which provided the basis for a potentially united Europe. They would do all they could to facilitate British entry.

A Press statement was agreed.

Present:

The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Mr. A. M. Palliser

General de Gaulle
M. Couve de Murville
M. Andronikov

Background to the United Kingdom initiative

After General de Gaulle had welcomed the Prime Minister, he assented to Mr. Wilson's suggestion that it might be useful if he set out quite fully the purposes and intentions of the British initiative towards Europe.

The Prime Minister said that, as he had told the House of Commons on 10th November, Her Majesty's Government had decided on a new high level approach in which they would be meeting the Heads of Government of the member countries of EEC to see whether the conditions existed—or did not exist—for negotiations about possible British entry into the Community. After these six visits were over the British Government would decide whether or not to activate the arrangements for negotiating for entry and the timing of such negotiations.

The Prime Minister wished General de Gaulle to understand that, as he had said in his original statement, “we are approaching these discussions with the clear intention and determination to enter the Community if, as we hope, our essential British and Commonwealth interests can be safeguarded. We mean business.”

As the French President knew, the Prime Minister had asked that a copy of his speech the previous day in Strasbourg should be conveyed before delivery to General de Gaulle. He would not, therefore, cover the same ground.

The Prime Minister said that there were five main points about the British approach to Europe:

1. **The Treaty of Rome.** Her Majesty's Government believed that this need not be an obstacle provided that their problems could be dealt with satisfactorily, whether through adaptations of the arrangements made under the Treaty or in any other acceptable manner. Her Majesty's Government were therefore prepared to accept the Treaty.

2. If the negotiations resulted in Her Majesty's Government's entry, they would fully carry out all the obligations they would assume on entering the Community.

3. In addition to carrying out all the obligations entailed by membership of the Community, Her Majesty's Government wanted to go further. They would hope to strengthen the Community by what they could contribute, not only in the development of existing arrangements for co-operation under the Treaty, but also by doing anything further in their power to develop much closer co-operation, for example, in the field of European technology.

4. Her Majesty's Government did not see British entry, therefore, as in any way likely to weaken the Community: they believed that it would strengthen it. And that was what they meant to see that their entry achieved.
Her Majesty's Government further believed that, from now on, not only in these six visits but still more in the subsequent negotiations if these proved possible, they should concentrate on the big issues raised by the question of their entry, both of those within the Treaty of Rome and existing arrangements under it, and other issues which, though not related directly to the Treaty or indeed to decisions taken under the Treaty, might be regarded by any member of the Community as being raised by their entry. Many of the detailed issues could best be settled after British entry through the usual processes and working arrangements which the Six countries had developed over the past 10 years. Moreover, many of these issues, the discussion of which had taken so much time during the previous negotiations, had changed—some of them fundamentally—since then.

Indeed, the passage of time had frankly made some of the problems a good deal easier for Her Majesty's Government. In the very full study they had made of the whole question before the Prime Minister's announcement to Parliament in November, they had given their attention not only to the actual provisions of the Treaty of Rome, but, no less, to the actual way in which it was working. Her Majesty's Government were conscious of the problems vitally affecting their national interests, as other members of the Six had been throughout. They were impressed by the way in which—whatever the pressures for a legalistic approach—there had been a growing spirit of realism in the actual operation of the Community and much more desire to treat it as a living and growing organism—reflecting the needs and interests of its members—rather than as the formalistic and rigid institution which some people had hoped it would become, and other people—including the British—had feared it might become. They had studied with interest, for example, the issues which had come to a head and the way those issues had been resolved the previous year at the Luxembourg meeting.

United Kingdom economic situation

Her Majesty's Government knew that the entry of a country like Britain raised big problems—for France as well as for other members of the Community; but some of the Press comment on this in several countries had been a little beside the point. There had been widespread concern about Britain's economic position. He was glad to say that this was now very much stronger than before. But there had been two major changes in the British situation over the past two years. First, politically. When the Labour Government came to power in 1964 they had a tiny majority which could have been imperilled at any time by a few deaths or accidents to individual members. But now they had a very substantial majority and the country could look forward to a long period of firm and stable government. This would certainly continue for the next four years and he was confident that it would last well beyond that. Indeed certain commentators talked of Labour rule for the next 10 to 15 years. He thought that many of their allies and partners, whether in the Six Common Market countries or in EFTA, would like to enjoy the political stability now enjoyed by France and Britain, but by few other countries in the world.

Secondly, there had been an equally marked change in the British economic situation. Two years earlier the Labour Government had inherited a balance of payments deficit running at an annual rate of £800 million and a big trading deficit as well. But the payments deficit had now already been cut to a fraction of the one the Government had inherited. They should be in balance in the present year—and indeed moving into surplus. There was a similar situation in the trading position which could most effectively be illustrated by comparison of the situation in the past three years. In 1964 we had an average monthly trading deficit of £45 million, in 1965 this had been cut to £23 million and in 1966 reduced again to £12 million. Indeed, in the past three months Britain had been running a trade surplus such as had rarely been seen in our history.

Many of the difficulties we had had—for example the weakness of sterling, where the French Government and the Bank of France as well as other countries had given valuable assistance—were the direct result of the fact that Her Majesty's Government had not been paying their way abroad. But now they were: and they intended to keep it that way.
(5) Her Majesty’s Government further believed that, from now on, not only in these six visits but still more in the subsequent negotiations if these proved possible, they should concentrate on the big issues raised by the question of their entry, both those within the Treaty of Rome and existing arrangements under it, and other issues which, though not related directly to the Treaty or indeed to decisions taken under the Treaty, might be regarded by any member of the Community as being raised by their entry. Many of the detailed issues could best be settled after British entry through the usual processes and working arrangements which the Six countries had developed over the past 10 years. Moreover many of these issues, the discussion of which had taken so much time during the previous negotiation, had changed—some of them fundamentally—since then.

Indeed, the passage of time had frankly made some of the problems a good deal easier for Her Majesty’s Government. In the very full study they had made of the whole question before the Prime Minister’s announcement to Parliament in November, they had given their attention not only to the actual provisions of the Treaty of Rome, but, no less, to the actual way in which it was working. Her Majesty’s Government were conscious of the problems vitally affecting their national interests, as other members of the Six had been throughout. They were impressed by the way in which—whatever the pressures for a legalistic approach—there had been a growing spirit of realism in the actual operation of the Community and much more desire to treat it as a living and growing organism—reflecting the needs and interests of its members—rather than as the formalistic and rigid institution which some people had hoped it would become, and other people—including the British—had feared it might become. They had studied with interest, for example, the issues which had come to a head and the way those issues had been resolved the previous year at the Luxembourg meeting.

United Kingdom economic situation

Her Majesty’s Government knew that the entry of a country like Britain raised big problems—for France as well as for other members of the Community; but some of the Press comment on this in several countries had been a little beside the point. There had been widespread concern about Britain’s economic position. He was glad to say that this was now very much stronger than before. But there had been two major changes in the British situation over the past two years. First, politically. When the Labour Government came to power in 1964 they had a tiny majority which could have been imperilled at any time by a few deaths or accidents to individual members. But now they had a very substantial majority and the country could look forward to a long period of firm and stable government. This would certainly continue for the next four years and he was confident that it would last well beyond that. Indeed certain commentators talked of Labour rule for the next 10 to 15 years. He thought that many of their allies and partners, whether in the Six Common Market countries or in EFTA, would like to enjoy the political stability now enjoyed by France and Britain, but by few other countries in the world.

Secondly, there had been an equally marked change in the British economic situation. Two years earlier the Labour Government had inherited a balance of payments deficit running at an annual rate of £800 million and a big trading deficit as well. But the payments deficit had now already been cut to a fraction of the one the Government had inherited. They should be in balance in the present year—and indeed moving into surplus. There was a similar situation in the trading position which could most effectively be illustrated by comparison of the situation in the past three years. In 1964 we had an average monthly trading deficit of £45 million, in 1965 this had been cut to £23 million and in 1966 reduced again to £12 million. Indeed, in the past three months Britain had been running a trade surplus such as had rarely been seen in our history.

Many of the difficulties we had had—for example the weakness of sterling, where the French Government and the Bank of France as well as other countries had given valuable assistance—were the direct result of the fact that Her Majesty’s Government had not been paying their way abroad. But now they were; and they intended to keep it that way.
The Prime Minister recalled that at their last meeting he and General de Gaulle had recognised that they disagreed about certain things but agreed about many others; and in particular they were agreed on the need, in a very real sense of the word, to achieve independence for their countries of a kind that was impossible if they were not paying their way. That had been Her Majesty's Government's first objective—all other considerations had been subordinated to it and some very tough and unpopular measures had been necessary to achieve it.

All the monetary and financial problems—including those which he knew were in the General's mind—fell into a very different perspective once Britain had a balance of payments surplus, compared with a debilitating deficit. And they took on a different aspect as well, when looked at from the point of view of a country such as Britain which was determined to stand on its own feet economically and be neither dependent nor a drag on any others. Of course there were problems, financial and monetary, and they were ready to discuss them with France and with her colleagues in the Community. The Prime Minister said he had been into this very deeply. He did not believe there was a problem here that could not be solved.

As regards national economic problems, the Prime Minister recalled that France had been facing these problems too and General de Gaulle had dealt with them. In fact they were still unsolved when France had signed the Treaty of Rome and very tough, stern action had had to be taken shortly afterwards. General de Gaulle had inherited, as the world knew, a problem of internal inflation and a problem of an over-valued currency at that time. Britain for her part had internal problems to tackle and had tackled them. The Prime Minister said that in his statement in the House he had insisted that Britain's economy must be strong—as Her Majesty's Government were making it strong—before entry into the Community and that the pound sterling should be standing no less firm and high than it was on that day. The pound was now standing firm and high; Britain's balance of payments was strong; sterling was strong. Britain was fully competitive in world markets—in some of the toughest of these she had increased her exports by some 25 per cent per annum over the years.

The Prime Minister said that two years earlier he had told General de Gaulle that his aim was to ensure the integrity and independence of British industry from the outside domination that inevitably resulted from dependence on others for the technological processes that determined future industrial advance. He had told the General that the Government's first action had been to prevent a takeover of the British computer industry by the Americans. These had been brave words; but they had meant what was said and had now achieved a viable computer industry. Not only had an American takeover in this field thus been prevented but the British computer industry was now going into the European market in competition with that of the United States. But these problems could only be solved, as the Prime Minister had always argued, on the basis of a larger market than that in a single country with 50 million; or indeed in any other European country.

Technology

Two years earlier the Prime Minister had told the General of his hopes that Britain and France could work together, not only for Britain and France but for Europe as a whole, if they were to achieve a strong and independent industrial structure in Europe. Much useful work had since been done in the aircraft field and in civil technology. He emphasised that, if we did not make this cooperative effort, however much we built up our military defences in Europe, all this would be barring the front door and leaving the back door open. Industrial independence was the pre-requisite of political and, even more, of military independence. Both France and Britain had to pay the price of not building up that rugged industrial independence which could make them proof against humiliating industrial takeovers.

Problems of United Kingdom entry

Of course British entry involved certain problems for us, for France and the other members of the Six. First, the Treaty of Rome itself. He had studied the Treaty and could say that it did not appear to present any major problems.
as far as Britain was concerned. There were problems about agriculture—particularly some of the financial arrangements which would need in any case consequential changes on the entry of a new member, especially one which was a large food importer. But he was not at all sure that Britain could not work out some agricultural arrangements which, while helping to solve some of her difficulties, could be of possible advantage to France. He saw no need for France and Britain to be opposed on this issue. As he had said in his Strasbourg speech, he thought that in certain respects, especially in cereals, agreement between them should be perfectly possible. But that was a matter for discussion and ultimate negotiation. So was the question of capital movements, which was dealt with under the Treaty but where great realism had been shown in practice to meet the special needs of the existing members. There were problems arising out of our Commonwealth trade arrangements, some of which he thought could be dealt with under the heading of agriculture.

The Prime Minister repeated that he believed that these were problems to be settled by discussion; and, again, he expressed the hope that, if Britain and the Six were subsequently to have negotiations, they would be able to keep them short, clear and based on the big issues and not on the morass of detail which had bogged them down before. He hoped that, during the two days of talks in Paris, Britain and France could get to grips with the main problems—though clearly not in a final or negotiating sense—and also that, both in the talks with the French Ministers and in the final talks together on the following day, they should be able to deal not only with the questions arising out of the Treaty of Rome and decisions taken under it, but also with those broader questions which obviously both he and the General had in mind as being raised by British entry into the Community.

France and Britain's role in Europe

The Prime Minister apologised for the length of his opening remarks but said that he felt it had been the President's wish that there should be this full explanation of the British position. (General de Gaulle indicated assent.) What he was suggesting was that the whole issue could not just be considered in bilateral terms or in terms of the detailed economic issues that dominated the discussions four or five years ago. There were far bigger issues at stake. The essential one was whether we could hope to build up Europe, as the General and he understood Europe, with the purpose of breaking down tension between East and West. Both France and Britain had a vital role to play—a slightly different role perhaps—but they had to be able to play it together. France and Britain had very special relations not only with their Western European partners but—unlike some of those in the West—with the Soviet Union. The French Government had had close contact with the Soviet leadership and so had Her Majesty's Government. The General and he knew what problems had to be solved if the Soviet Union was to have the reassurance she needed if the wider European unity that they both believed in was to be achieved. General de Gaulle's two meetings with Mr. Kosygin in the previous year in Moscow and in Paris; the Prime Minister's own two meetings in Moscow; and M. Couve de Murville's talks and those of Mr. George Brown with the Soviet Government had also, he thought, underlined for both of them what this essential reassurance must be, and he had no doubt that Mr. Kosygin's forthcoming visit to London would again re-emphasise this. The President and he were both committed to doing everything they could to make a reality of the unity of Western Europe. But they both knew that this would be an empty achievement unless it led first to an easing of tension and then to an honourable and lasting settlement of the outstanding problems that still divided Europe, West from East. This was something for which they had both hoped and striven for 20 years; and in the case of General de Gaulle, even longer than that. As members of a united European Community they both should be better able to achieve it. But he did not think that this would be possible unless together they pulled their full weight, in the most complete sense of that word, and did so not only within the alliance but also more generally. Europe had an even wider role to play in the world at large; but she would not be able to play it unless she was powerful—and that meant economically powerful. The task of the great European Powers—of France and of Britain—was not to be mere messenger boys between the two Great Powers. They had a bigger role to play—and other nations wished them to play it—than merely waiting in the ante-rooms while the two Great Powers settled everything direct between themselves. That was why France and Britain had to
make effective their enormous potential industrial strength by giving that strength a chance to operate on a European and not a national scale, or series of national scales. Only if France and Britain did this could they exert all that went with industrial strength and independence in terms of Europe's influence in world affairs.

General de Gaulle thanked the Prime Minister for his statement. He had been greatly interested by it and by the way in which it was expressed. First, he was particularly struck by the great difference in what the Prime Minister was now saying about Europe in general and the Common Market in particular, compared with the British attitude throughout the years since he had had the honour of directing French affairs. He remembered Britain's refusal to participate when the Common Market was being negotiated. He recalled Mr. Macmillan speaking about "economic warfare" and making clear his hope that the Common Market would fail. He remembered Mr. Heath involving the European Governments in interminable negotiations in Brussels which had inevitably produced no result. He also remembered the Prime Minister's own statements before he came to office and, indeed, thereafter. He had understood that the British Government were not then favourable to the possibility of economic integration within the Common Market. But now he took note of the very substantial change in the British position and he had listened with great attention to the Prime Minister's exposition of it. He took note with interest of the great difference between the past and what was apparently the present British attitude.

General de Gaulle said that he had also been greatly struck by what the Prime Minister had said—and had implied—in his remarks about independence. For many years—and particularly during the war, when he supposed that it had been an inescapable fact of life—he had observed that Britain appeared to wish at almost any cost to maintain a special role with the United States. This had even been true in regard to Britain's relations with continental Europe; Sir Winston Churchill had expounded the doctrine of European unity but had made it clear that such unity was all right for the Europeans but not for the British. The British attitude had been similar within NATO and particularly in the way that the British nuclear force had been integrated with the nuclear force of NATO—which meant in effect the nuclear force of the United States. For many years this had apparently been a clearly defined British policy and general attitude. Now, as he understood it, the Prime Minister was saying that things had changed and that Britain sought independence in the same way as France sought it and was beginning to practise it; and that this was especially true in the economic field, in regard to industrial development and in the field of capital investment. He had not found the Prime Minister too explicit about the future role he envisaged for the pound sterling, though Mr. Wilson had expressed full confidence in the strength of sterling. France paid tribute to the great effort made by the British Government to restore the nation's economic strength during the past two years. But they were not clear about the British attitude in the financial field. British policy towards sterling still seemed to be very closely linked with United States financial policy. Nevertheless he wished to re-emphasise the great difference that struck him in the Prime Minister's remarks about Britain's attitude towards her own independence; and he warmly welcomed this.

Expansion of the Community

General de Gaulle said that during the years since the concept of European unity had been developed, and particularly since the signature of the Rome Treaty, certain realities, as the Prime Minister would know, had been created. The Treaty itself was not such a reality—it was simply a Treaty. But its application had created certain realities, difficult as that application had been, both in the industrial and economic field and also—and here the difficulties had been very great indeed—in agriculture. But the consequence of this was that a method of working had developed between the six partners in the Common Market which took account of their different economic interests and sought to achieve a process of mutual compensation in respect of those interests. This was a very slow process; it was not yet finished and might never be finished. But the machinery had begun to work.

Of course this was the situation as it had developed at present amongst the Six and without taking account of the possibility of British entry. Such entry was
clearly a matter of major significance, both economically and industrially; its consequence would be profoundly to change, if not the text of the Treaty, certainly its practical application—as indeed the Prime Minister had himself recognised. Moreover, if Britain joined the EEC then clearly others would wish to do the same, particularly members of EFTA. In consequence, it would no longer be a community of six countries but of anything between seven and 13; and its whole nature would be quite different. Naturally, the Prime Minister realised this and he (General de Gaulle) was not suggesting that it was an inconceivable proposition; indeed he did not regard it as such. But it would be very difficult.

General de Gaulle said that this disposed of the problems that Britain's membership would pose for the machinery and the operation of the EEC. But in addition there were a number of practical problems. It was difficult fully to define these at present and would in any case take too much time. Clearly agriculture was one; and coal and steel would be others, since the Community wished to control these too. But perhaps the most important of all would be the financial problem and the problem of currencies. It was undeniable that these were common problems, and that the difficulties of sterling had an impact on the currencies of all European countries. They all hoped that sterling was becoming stronger and welcomed the Prime Minister's statement to that effect. But it could not be denied that sterling was in a different international position from the other European currencies in that it was a reserve currency and, because of the vast size of the sterling balances, presented certain very special difficulties which placed it in a different situation from the currencies of the Six. This was a serious problem; and there were others as well.

General de Gaulle said that the Prime Minister had explained British intentions. He had listened with the utmost consideration and respect. France had no doubt of the great economic and technological capacity of Britain; and it seemed clear that, whether or not Britain joined the Common Market, France and Britain could do much useful work together in a number of fields. The Prime Minister had referred to aircraft: there was also co-operation in the field of space—Britain and France were co-operating with Germany and Italy to produce a space rocket which they hoped would be of considerable value in the future. They recognised that Britain was extremely advanced in the computer field; and in this and in other fields there was great scope for co-operation between France and Britain and also between the two of them and Germany and Italy.

In regard to East/West relations, General de Gaulle agreed that the French and British approaches were very similar and that they were in effect working in parallel—though he hoped that he might be allowed to say that France had played the hand rather more independently of the United States, for example, in regard to such problems as Vietnam, than Britain had seen fit to do. But there was no real disagreement between them on the East/West problem, a subject of capital importance. However, whether or not they achieved economic unity within Western Europe, nothing could be expected to come of this unless they could achieve the complete unity of Europe and the total independence that he sought from the United States. He wished to make it clear that, in speaking in this way of the United States, he did not do so in any spirit of hostility or animosity towards the Americans. But Europe could only achieve something effective in the world if the European countries were completely independent themselves.

General de Gaulle said that he would reflect very carefully over what the Prime Minister had said, over what he had heard about Mr. Wilson's and Mr. Brown's talks in Rome—and the account of those that the French Government had received from the British Government—and he would look forward to hearing from the Prime Minister in due course how his talks in the other capitals of the Six had gone. The French Government would then wish to reflect very carefully on the outcome and to weigh the various considerations involved.

Defence questions

The Prime Minister thanked the General and suggested that he should comment on some of the main issues raised. On certain of them, he thought that complete understanding could be reached; on others there were perhaps at present some misunderstandings which he would try to dispel. General de Gaulle had referred to the difference in the British attitude three to four years ago and that
which now prevailed. He himself had not of course been involved in the previous discussions but he had the clear impression that the Nassau Agreement—perhaps less because of its content than as a symbol—had had a serious effect on Anglo-French relations. The Foreign Secretary and he had then been in Opposition and had attacked and voted against the Nassau Agreement; and they had declared their intention to re-negotiate or “de-negotiate” it on coming to power. In practice, so far as Nassau was concerned, within a month of coming to power they had killed the MLF project which had appeared at that time the main object of United States policy in NATO; the multilateral fleet had been torpedoed by a British finger pressing the switch. We had then put forward our proposal for an Atlantic Nuclear Force. But increasingly from that time onwards we had been seeking a solution within NATO, but equally of a nature that would not imperil the prospects of understanding with the East. The British Government had consistently worked for an agreement on the non-proliferation of nuclear weapons. It was neither a secret nor a surprise for him to say that there were big differences between France and Britain in their approach to NATO, just as there were between France and some of her partners in the Six on the same subject. General de Gaulle agreed.

But the Prime Minister said that we should examine more closely this argument about defence and the nuclear force. It was true that, because of the Nassau Agreement, British nuclear forces took the form of Polaris submarines. His party had criticised that Agreement. But the Agreement existed and it had been impossible to put the clock back and start again, for example with a Blue Streak missile. What mattered was that once we had the Polaris missiles, as we should do shortly, they would belong to us and there would be no question of dependence on the United States for this particular form of nuclear power. The French position was similar. They had bought aircraft from the United States for refuelling the Force de Frappe; but once these had been acquired they belonged to France. Now, however, a further defence question arose in relation to the purchase of military aircraft. As he himself had told General de Gaulle two years ago and before it had been announced publicly in Britain, the Labour Government had inherited from their predecessors—and this was not a critical comment but a factual one—an aircraft that would have been exceptionally costly and would not have been ready in time to meet the needs of the RAF. When they had been obliged to cancel it, the only plane adequate to fulfil British needs was the F-111, and this we should be using in the late 60s and early 70s. But he would ask the General to note the difference in their current planning situation. The major aircraft for the RAF for the middle and late 70s would now be the Anglo-French plane. General de Gaulle assented.

The Prime Minister said that the principle here was of sharing the cost and doubling the market. But the implications went even deeper. By entering this project Britain and France were effectively integrating their aircraft industries. This would be particularly so in the case of aero engines. Shortly we should be jointly producing the most advanced aero engine in the world and the Rolls-Royce SNECMA combination could hope to force Pratt and Whitney out of the European market. General de Gaulle agreed. The Prime Minister said that this did, as the General said, make sense whether or not Britain was in the Common Market; it was a useful bilateral development. But what a different situation it reflected from the days when the Nassau Agreement and all it symbolised had been said to poison Anglo-French relations. We could now hope for a greater development of joint arms production leading in due course to a process of Anglo-French co-operation which could make the two countries into the arsenal of Europe.

General de Gaulle said that all this was very true and he recalled his last conversation with the Prime Minister. Anglo-French co-operation was undoubtedly important; but it could be effective irrespective of British membership of the Common Market. The Prime Minister said that what they had been saying was indeed of historic importance and effectively turned the Nassau Agreement on its head. But it should not be forgotten that, in the field of civil production over a wide range of technological industries (e.g., computers), effective and competitive production required not only integration of production and design but also integration of the market. We could not possibly develop effective co-operation with a continuation of high tariffs between the two countries (General de Gaulle made sceptical motions of the head).
Sterling

Reverting to the question of sterling, the Prime Minister recalled his talks during his last visit with Messieurs Pompidou, Couve de Murville and Rueff. Britain and France did not agree on all these questions but many of the so-called problems of sterling disappeared now that Britain was moving into balance of payments surplus, and some of the other problems of sterling were rather different from the way General de Gaulle appeared to conceive them.

As regards the sterling balances the Prime Minister said he would like to discuss this very fully with France and her partners in the Six; he wondered if an European solution could be found to the problem. The sterling balances were in no way linked to the dollar. There seemed no reason why the problems arising out of them could not be solved on a European basis, if we brought into such a settlement the debts involved, we should not forget that we equally had enormous assets within the sterling area including large investments in the United States. Most of our sterling balances in a sense represented a banker's debt to sterling depositors which could not be drawn on because they represented a reserve for currencies or covered a matching debt to us. But for every pound sterling of debt we held counter-balancing assets throughout the world. There was therefore no danger whatsoever to Europe of a run on the sterling balances, because we had the capital to offset it. But while Her Majesty's Government took a different view from the French Government on the liquidity question or the gold problem, he believed that there was room for much greater financial co-operation within Europe. He wished to emphasise the word "co-operation"—he did not believe that in the foreseeable future a single European currency would emerge or that there would be a supra-national authority telling us all what to do in financial matters. However, the European Payments Union (EPU) had been of considerable value until it was in effect destroyed by the huge German surplus. Again, he and his colleagues did not feel that the well-known differences between France and Britain on monetary and sterling affairs were any fatal obstacle to British membership of the Common Market because equally deep differences divided France and her other partners in the Common Market. Finally, he much agreed with what General de Gaulle had said about industrial co-operation and independence; and the British approach to this certainly involved no form of animosity towards the United States. The plain fact was that without industrial independence there could be no real independence for the countries of Europe.

East/West relations. Africa

Turning to East/West relations, the Prime Minister said that the expression used by General de Gaulle was exactly right—our policies were "parallel" in the sense that we were moving in the same direction but on a different track, a track that he considered appropriate to the contribution each of the two countries could make to this problem. He thought this was equally true in regard to another important area, namely Africa. Here too, British and French policies were working in parallel and both countries had important contributions to make, though it was no doubt preferable that they should not seek to compete too much with each other in individual African countries. Both had created a number of independent countries; both still retained substantial influence in Africa and there was a good prospect of co-operation in the development of the area.

In reply to a question from the Prime Minister the Foreign Secretary said that he did not wish to add anything at that stage; and M. Couve de Murville equally responded negatively when asked by General de Gaulle whether he wished to comment.

General de Gaulle said that he was extremely interested in what the Prime Minister had said. It was true that British and French policies were in parallel in the field of East/West relations and equally in Africa where they were no longer in opposition to each other.

Anglo-French co-operation

The two countries were equally now involved in a number of joint industrial projects—Concord, the eventual development of the variable geometry aircraft and the current development of the Jaguar; and in the European Launcher Development Organisation (ELDO) they were co-operating also with other
countries. On the whole, France found herself far less engaged in bilateral co-operation of the Anglo-French kind with such other European countries as Germany and Italy, even though the latter were members with her of the Common Market. It was clear that membership or otherwise of EEC was irrelevant to the development of this kind of co-operation. The Foreign Secretary said that it might be irrelevant but that was certainly not an argument against British entry. General de Gaulle assented. The Prime Minister said that, whereas in the field of military co-operation the impulse and the orders were given by governments, in civilian technology co-operative projects could be encouraged by governments but could not be imposed by them; and the firms involved were bound to run into substantial difficulties unless the two countries were members of the same market. Where Britain and France were jointly developing a military aircraft, we could be confident that both countries would produce it. But if we entered a joint development project, for example in the field of computers, where Britain had something to offer to France, or equally in the field of chemical engineering where Britain might gain from more advanced French expertise, the successful development of such projects required a guaranteed market for the eventual product. But if we tried to sell the British product of a joint computer project in the French market, we should face there the same tariffs as our American competitors; equally the product of a joint scientific project which might be primarily of benefit to France would face competition in the British market because the tariffs would be the same as those levied against the United States. Really close co-operation in the field of civilian technology was impossible without an integrated market.

Conclusion

The Prime Minister said that he was grateful to General de Gaulle for the courtesy and patience with which he had heard the statement of the British position. It had seemed useful to develop this in depth and at some length. The Foreign Secretary and he noted that the General would wish to study all the issues involved after their visits to all Six capitals had been completed. They looked forward to a discussion that afternoon with some of his Ministers at which they might be able to go in greater detail into some of the more technical questions involved in British membership.

The meeting ended at 11.50 a.m.

MINUTES OF A MEETING BETWEEN THE PRIME MINISTER AND THE FOREIGN SECRETARY AND THE FRENCH PRIME MINISTER AND FRENCH FOREIGN MINISTER AT THE HOTEL MATIGNON, PARIS, ON 24th JANUARY, 1967, AT 3.30 p.m.

Present:

The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
H.E. Sir Patrick Reilly
Sir Burke Trend
Mr. W. A. Nield
Sir Con O'Neill
Mr. A. M. Palliser
M. Georges Pompidou
M. Maurice Couve de Murville
M. Geoffroy de Courcel
M. Jobert
M. Montjoie
M. Gaucher
M. Brunet
M. Lavery
M. Andronikov (Interpreter)

Opening remarks

M. Pompidou extended a warm welcome to the Prime Minister, the Foreign Secretary and their colleagues. He suggested that the meeting should proceed straight to business and should discuss in detail some of the more important aspects of British entry into the EEC.
The Prime Minister thanked M. Pompidou for the welcome which the French Government had extended to himself and his colleagues. In his discussions with General de Gaulle in the morning he had attempted to deal with the main points, both political and economic, arising from the fresh British approach to the EEC; and he had tried to relate this approach to the wider question of the part which an enlarged Community might play in world affairs, with particular reference to the contribution which Britain and France, acting in parallel, could make not only to easing tension within Europe itself but also to making Europe a force in its own right in the wider international context.

M. Couve de Murville observed that the morning’s discussion had been in very general terms. It had been essentially a political discussion, in the broadest sense of that term. Now it would be profitable to try to consider in greater detail the financial, monetary and agricultural problems which would arise from British entry to the EEC.

United Kingdom economic situation. Sterling

The Prime Minister said that it was essential to define the nature of the financial and economic problem which was in question. In so far as it related to the strength of the British economy a great change had taken place since his first visit to Paris. At that time Britain had faced a deficit of £800 million on her balance of payments; now she was in prospective surplus. Similarly, the deficit on the balance of visible trade had fallen from a monthly average of £45 million in 1964 to £23 million in 1965 and had fallen again to £12 million in 1966. There was therefore no longer any question of sterling’s being in danger or of our being unable to maintain the parity of the pound. As he saw it, then, the problem at issue was essentially a problem not of the strength or parity of sterling but of the threat which, it was commonly assumed, the sterling balances and the link between sterling and the dollar would create for the Community if Britain joined it. Was that the right way of defining the issue?

M. Pompidou replied that the question had two aspects. First, did the prospect for the British balance of payments, as the Prime Minister saw it, really justify his assumption that the problems of the British economy could be regarded as finally overcome? And, if so, what reasons had Britain for believing this to be the case? Second, there was the question of sterling balances and the various claims which still pressed on sterling—particularly Britain’s indebtedness to the IMF and the balance of payments problems of the sterling area as a whole.

The Prime Minister said that the answer to the first question was clear, given the improvement in the British balance of payments from 1964 to 1966 which he had just described. As regards the longer term future it was important to realise that ever since they had assumed office in October 1964 the British Government had put the balance of payments first, before all other economic and social objectives; and, although they might feel able to ease the current economic restrictions as time went on, they had no intention of carrying this process to the point at which the balance of payments would once more be in danger. One had to remember also that some of the measures which they had taken in July had not yet made their full impact on the balance of payments, while the technological reorganisation of industry which the Government were actively undertaking would take still longer to bear fruit.

Then there were our debts, especially to the IMF. They amounted to between £900 million and £1,000 million sterling, in two tranches. This year’s repayment would be met without difficulty—ever since last August we had been paying back short term debt. As for the tranche due in 1970, there was no reason to see any special difficulty. These debts to the IMF were gold-guaranteed; this was an extra reason for our not being enthusiastic about raising the price of gold, which in any case was not really a practical possibility.

As regards the sterling balances, these were admittedly liabilities in the banking sense. They had been contracted during the war and they had remained at much the same total level ever since. Their composition, however, had changed from time to time—e.g., at the end of the war Egypt and India had been very large holders of sterling balances, whereas now their holdings were minimal. On the other hand as our investment overseas had grown so the balances had risen pari
Variations in commodity prices—e.g., Australian wool and Ghana cocoa—could affect them considerably. But a large part of them consisted of the currency reserves of other countries, which those countries would have no incentive to run down unless they ran into very serious currency difficulties indeed. This was one of the reasons for the stability of the balances even when sterling was weak. Another element represented provision against maturing debt; and this element also was a factor making for stability in the balances, especially as the relevant redemption dates approached.

In a rather separate category were the working balances of the many categories of traders who financed their operations through the London market—the large international companies, especially the oil companies, who financed their royalty payments in sterling. The same was true of the international banks. It was these working balances which were liable to fall under the pressure of speculation—as had probably happened in the previous July. The holdings of the national central banks, on the other hand, were more closely regulated by co-operative arrangements such as the recent Basle Agreement, so as to neutralise speculative movements. In short, though the balances were large in total, they contained many mutually offsetting factors and the volatile element in the total of the balances was relatively very small.

Moreover, the assets which were held against the balances, in the form of our investments overseas (which we should have mobilised if pressure on the pound had become more severe), were larger than the balances themselves. So far as we were concerned, sterling was not an instrument of prestige in any sense. As a banker M. Pompidou would realise that obligations did not confer prestige! On the other hand they had to be covered by assets; and ours were so covered. If we entered the EEC we would be ready to share these obligations (and the prestige which they were alleged to confer) with its other members. What was it that they really feared? Did they fear that, if new pressures against sterling developed subsequently, Europe would then be forced into deflation in order to protect sterling? But, if Europe were to share these prestigious obligations they would need to share also the assets which backed them. The important thing was that the assets exceeded the obligations in question. There could therefore be no question of sterling's being a drag on Europe; nor did we seek any special position for ourselves in the Community by virtue of having these sterling obligations. We would therefore be quite ready to discuss M. Débré's proposals for funding them, although there were certain difficulties in this suggestion.

The commercial sterling balances—which derived from the simple fact that many traders all over the world had the habit of settling their debts in sterling—were a rather different matter. To some extent they were a function of the availability of capital markets and the facilities which those markets provided. One of the problems which had emerged since the war was the fact that the dollar had developed as a trading currency without having a really adequate capital market to sustain it. To some extent the same was true of the Deutschemark in relation to Frankfurt. We welcomed the French intention to develop an international capital market in Paris; but the French authorities would recognise, of course, that, in so far as they succeeded, the franc would be exposed to new strains and dangers. On balance, however, France could only gain. She had developed new techniques in the management of capital, particularly as regards financing the requirements of the Commissariat du Plan; and we could learn from her. In fact we should like to co-operate with France in this field; and our own experience of managing a major international capital market would be freely contributed. But it was essential to realise that the vulnerability of any currency which was used as a means of international payment depended, basically, on the balance of payments of the country concerned. We had learned this lesson. So would the French. But on balance they should benefit more from their currency was, as it were, "extroverted".

The Prime Minister repeated that, if Britain entered the EEC, she would seek no privileged position for sterling. We stood ready to discuss in more detail the possibility of internationalising the sterling balances as one aspect of the wider question of the extent to which the EEC might develop, as a Community, a distinctive monetary policy of its own. This did not mean that we foresaw any immediate prospect of creating an institutionalised European monetary policy,
which would be binding on all member countries. This would imply a corresponding institutionalisation of their budgetary policies; and it was unlikely that they would be prepared to surrender to this extent the right to manage their own economies. On the other hand there was plenty of scope for greater co-operation, e.g., in relation to the concept of a European Payments Union, which as originally conceived, had much to be said for it. It might be desirable to resume study of a European Payments Union if only in order to reduce the extent to which intra-European payments were now settled in dollars. This was something which we would be very willing to discuss bilaterally with the French authorities—preferably, perhaps, by contacts between the two central banks—if the negotiations for our entry to the EEC got under way.

In short, there was no question in our minds of seeking to maintain some unique prestige for sterling; and we had no thought of seeking any special position for Britain or for sterling within the Community. Nor did we see any necessary connection between the part which sterling might play in the Community and the international role of the dollar. Sterling and the dollar were not linked today, and there would be still less need for any link between them in the circumstances which he had tried to describe. Indeed, so far as Britain and France were able to work together, the stronger sterling became the more problems the dollar would be liable to encounter. But that was inevitable.

M. Pompidou thanked the Prime Minister for his detailed exposition. The French Government had been very conscious of the political difficulties which the British Government had faced when they had taken their measures of the previous July to restore the British economy. They congratulated the British Prime Minister on the courage which had made those measures possible; and they were the more pleased to hear about the favourable prospects for the United Kingdom balance of payments in that they had always opposed a devaluation of sterling, which would have been of no benefit to Britain and would probably have damaged France also.

He also wished to make it clear that French monetary policy—even if it was not endorsed by Britain in every respect—did not require an alteration in the price of gold. What it did require was a recognition that the international monetary system was at present working unfairly. It was therefore essential to try to re-establish one common standard of payment for all countries; and this should obviously be gold. As a result some countries might face problems which could only be solved by an increase in the price of gold; but the increase itself would be only a subsidiary and consequential aspect of the problem.

He had been greatly struck by the emphasis which the Prime Minister had placed on the world role played by sterling at the centre of a system of international trade and capital finance. It was clear that, as a result, Britain was involved in heavy extra-European commitments. He could understand very well that in these circumstances Britain was only too ready to share the so-called prestige of sterling. For their part the French Government were certainly anxious to develop Paris as an international capital market. But they proposed to proceed very cautiously, since they were well aware that, despite the "prestige" which they might acquire, the disadvantages might prove to be greater than the advantages in the long run. Notwithstanding the predominance of the dollar, Britain still carried a great weight of inheritance from the past, which inevitably coloured her image in the eyes of the rest of the world. The French Government were well aware of this and of what it meant.

As regards Britain's entry into the EEC, it had to be recognised that the member countries had now created within the Community a highly complex machine, which determined their individual policies to a considerable extent and might well be unacceptable to Britain. Thus, the Common Agricultural Policy had certain clear implications as regards the monetary and budgetary policies of the member countries. This might not be a very attractive prospect for the United Kingdom; but it was so. The result was a certain solidarity among the currencies of the Six; and they would therefore have to consider very carefully the probable result if the United Kingdom and sterling were injected into the system. Among other things they would welcome some clarification of the British views on the free movement of capital.
M. Couve de Murville said that here, as elsewhere, one must begin with the Treaty of Rome. This entailed, indeed prescribed, freedom of payments, both commercial and other, within the Community, together with free movement of capital. On the other hand it also made provision for certain mutual guarantees of temporary assistance if member countries encountered difficulties on their external payments. In fact, the member countries had no external commitments of the kind, and on the scale, which Britain carried—with the possible but trivial, exception of the link between the French franc and the currency of certain African countries. By contrast the financial implications of Britain's entry into the Community could be very serious indeed, given the international character of sterling and the extent of the sterling area. In these circumstances what would be the commitments which Britain would have to undertake to her partners in the EEC if she entered it; and what would be the commitments which they would have to undertake to her? The recent troubles on the British balance of payments were a British affair and could be left out of account. But there would still remain, if Britain entered the Community, the problem of the nature of the sterling area and the engagements it entailed. There was the problem of the sterling balances, whether they were currency reserves or the working balances of traders. The latter were less important, since they were completely free, were constantly changing and therefore adjusted themselves more or less automatically to the needs of the situation at any given time. But the sterling reserves were a more permanent problem; and they were a political problem as well.

These questions were practical problems, which had nothing to do with sterling's alleged prestige or its link with the dollar, which, despite the necessary interaction between those two currencies from time to time, had no particular relevance to the EEC. Nobody in the Community wanted to share the prestige of sterling; but they were all concerned about the commitments which sterling carried with it. That was what would have to be considered very carefully.

The Prime Minister said that he welcomed M. Pompidou's realistic remarks about sterling devaluation. Sterling was not an over-valued currency, as the franc had been some 10 years ago. Our recent export record alone sufficed to prove this, since it was clear that, although our exports were still handicapped to some extent by long delivery dates and lack of capacity (both of which we were urgently remediating), they were not impeded by uncompetitive prices. M. Pompidou would realise, of course, that, if Britain sought an easy way out of her difficulties by devaluing sterling, other countries would follow and this would touch off the familiar sequence of events leading to a contraction of world trade from which everybody would suffer.

He had also noted M. Pompidou's remarks about gold. The European Payments Union had in fact involved settlements in gold; and this would be one of the things which would have to be considered if we were to embark on any re-examination of the EPU concept. But nobody should be under any illusion that, if the United States moved into surplus, European problems would be eased; on the contrary, they would be aggravated by the Euro-dollar squeeze which would then develop.

As regards the obligations which were represented by the sterling balances, he noted the French reluctance to share sterling's prestige in this context. Nevertheless, we should remain ready to discuss the problem which these balances were said to create and we would be very ready to examine any means of preventing the balances from becoming a drag on Europe, if we entered the Community. It would not greatly matter whether we found the solution by leaving the balances outside the EEC and dealing with them ourselves as a wholly separate problem or by funding them within the Community against the assets, which would similarly be brought within the Community's scope. The main point was that the assets exceeded the liabilities.

Capital movements

The main financial problems of Britain's entry into the Community, therefore, were not the questions of sterling and the sterling balances but the problems of agricultural finance and capital movements. Even these, however, could be solved. As regards capital movements both the Treaty of Rome and the practice of the Community itself distinguished between direct investment and portfolio investment.
It was in the latter case that a problem arose for us in so far as, if we relaxed our exchange control to permit the movement of capital within an enlarged Community, some means would have to be found to prevent it from leaking, via the Community, to, e.g., the United States. It was one thing for us to help Europe to find capital for the under-developed countries; it was a very different thing for us to help Europe to find capital for the United States.

The question of agriculture could perhaps be pursued on the following day.


Present:
The Right Hon. Harold Wilson, M.P. M. Pompidou
The Right Hon. George Brown, M.P. M. Couvé de Murville
Sir Burke Trend M. de Courcel
Sir Con O'Neill M. J. P. Brunet
Mr. W. A. Nield M. Alphand
Mr. A. M. Palliser M. Andronikov (Interpreter)

M. Pompidou said it had been agreed the previous day that there should be a discussion of the agricultural problems in the first part of the afternoon and that the two sides should then adjourn to the Elysée Palace for a final meeting with General de Gaulle.

Other problems of United Kingdom entry
The Foreign Secretary said that before turning to the problems of agriculture he would like to mention certain other problems which, though less serious, would need to be considered at a later stage. The first of these concerned the provision of aid to the less-developed economic regions. France had a similar problem to ours, but our methods of dealing with it were rather different, and it would be necessary to discuss later how far we could continue to use our present methods. Then there were certain agricultural problems not arising directly from the Common Agricultural Policy itself which would have to be resolved, but should not constitute a barrier to British membership of the Community. Third, there was the question of the timetable which we should follow in introducing the common external tariff and in abolishing our tariffs against other members of the Community. Here again, the problem would need to be considered later, but it did not warrant consideration on that very day. Fourth, he felt he should make clear that the United Kingdom did not see the initiative we were taking towards the Community as an alternative to achievement of success for the Kennedy Round of tariff negotiations. We considered success in that venture to be essential whether we joined the Community or not, and in one respect, namely the negotiation of a new International Cereals Agreement, the success of the Kennedy Round might make it easier for the United Kingdom to join the Community.

Common Agricultural Policy
Turning to the problem of agriculture, the Foreign Secretary said that, as with the Treaty of Rome, the Common Agricultural Policy was not in itself necessarily an impediment to our membership, and the comments he would be making should not therefore be construed as a rejection of the system itself. Adapting our agricultural system to that of the Community would indeed raise problems for us, but we should be prepared to fit in with the Community system if we were assisted to meet the four main difficulties it raised for us.
The first, and in a way the least serious, of these difficulties was the effect which the Common Agricultural Policy would have on the cost of living and so on the prices and incomes stabilisation policy of the United Kingdom. Adjustment of our present internal prices to those of the Community would raise the cost of food in the United Kingdom by between 10 and 14 per cent, and the period over which this had to be done was therefore very important, especially as a significant number of our wage and salary agreements were statistically related to the cost-of-living index. Provided, however, a sufficient transitional period was allowed, this difficulty did not constitute a barrier to our entry, and especially so if Community prices did not remain at their present high level.

Our second difficulty arose out of the distorting effect which the present price levels of the Common Agricultural Policy would have on our own domestic agriculture. Whilst the income of our farming community as a whole would probably be at least as high on Community prices as on our present prices, the balance of our agriculture would be significantly distorted. The high Community cereals prices would, in broad terms, benefit the larger farmers east of a line drawn north to south down the United Kingdom. In the wetter areas to the west of this line our smaller livestock farmers currently concentrating upon the production of milk, pigs and eggs would have a strong incentive to increase their cereal production, not only because of the relatively high prices for cereals, but also because they at present depended on feedingstuffs bought at the lower world market prices of the United Kingdom. Again, this was not an insuperable difficulty, but if by 1969 or 1970 the Community’s prices remained as high as they were now, we should need a considerable transitional period for our farmers to adjust to the new structure of prices, and it would also be necessary that grants for structural change in our agriculture should be accepted and assisted within the Common Agricultural Policy. It seemed to us that the Community’s Guidance and Guarantee Fund could be used for this purpose, especially (as he would make clear later) as we should be a major contributor to this Fund. We were not, therefore, asking for assistance at the expense of others, but only that we should be allowed to use some of the funds we ourselves should be contributing, to facilitate the necessary structural adjustments in British agriculture.

The third of the problems with which acceptance of the Common Agricultural Policy would face us was its effect on Commonwealth trade with the United Kingdom. We had considered this problem carefully as it was to-day, as against what it was in the 1961-63 negotiations. As the Community knew from those negotiations, the application of the Common Agricultural Policy would create special problems for our trade with Australia and Canada, and also for our trade with other countries, and for the future of the Commonwealth Sugar Agreement. All these problems would have to be resolved when making arrangements for the United Kingdom to join the Community. But much the most difficult problem in this field was undoubtedly that of New Zealand’s trade with the United Kingdom, and it seemed unlikely that a transitional period would be adequate in this case. Whilst we accepted the necessity of keeping derogations from the Treaty to a minimum, it seemed that a derogation would be necessary to give New Zealand reasonable access to the market on which she was so dependent, and to enable her to live in the new circumstances which British entry to the Community would create. He would emphasise what had been said earlier in the discussions — “soyez gentille à la Nouvelle Zélande”.

The fourth and most formidable of the problems with which the Common Agricultural Policy confronted us, however, concerned the additional burden which would be placed on our balance of payments if Community prices remained at their present levels and if the financial arrangements for the Common Agricultural Policy remained unchanged after our entry. It was not merely that the burden would be so great, but that our contribution to the levy payments, if we had to surrender 90 per cent of the levies, would be so high as to be quite inequitable. This situation would arise because we imported half as much again in terms of leviable food and feedingstuffs as did Germany, at present by far the largest food importer in the Community, and more than twice as much in leviable imports from outside the Community. We should, therefore, if no adjustments were made, be paying in levies more than twice as much as Germany and getting on for as much as the rest of the Community put together. But, because our agricultural
industry was relatively efficient in its structure and cost levels, we should have less occasion to call on the Guidance and Guarantee Fund for financial assistance for ourselves.

He was not challenging in these observations the structure and form of the Common Agricultural Policy but pointing out that, if it was decided that the United Kingdom should become a member of the Community, it would be necessary to discuss pricing and financial arrangements which would make the financial burden which the Common Agricultural Policy would impose on us less onerous and less inequitable. As a new member bringing considerable advantages to the Community we were entitled to ask for such adjustments to be made on accession, as the other members had done. On that basis, and given goodwill, he was sure our problems could be solved.

The Prime Minister said he would like to point out as a supplement to what Mr. Brown had said that the Community's cereals prices were high by both French and United Kingdom standards. Their adoption by us would give a great incentive to our farmers to turn over from livestock to cereals production, for which especially in the West we were not climatically suited. A lower Community cereals price would avoid this distortion of our production patterns and afford more scope for exports of French cereals to the United Kingdom.

M. Couve de Murville asked what would be our estimate of the effect of Community prices on the volume of production of cereals in the United Kingdom? The Foreign Secretary in reply said that we estimated that our current production of some 13 million tons per annum would increase in about five years to over 20 million tons, mainly wheat and barley. Beef production might also be encouraged by higher Community prices, but that of milk, pigs, and eggs would be discouraged by higher feed prices—hence the distorting effect of Community prices to which he had referred.

M. Pompidou said he would like to make some general points arising out of Mr. Brown's clear exposition of the difficulties which the Common Agricultural Policy raised for the United Kingdom. First he was bound to say that those difficulties were not secondary ones, but went to the heart of the Common Agricultural Policy and concerned precisely those points on which it has been most difficult to reach agreement between the Six partners in the Common Market. France would have liked to see a lower and more competitive Community price fixed for those products like cereals and sugar for the production of which her soil and climate were most favourable. But it had been necessary to construct the Common Agricultural Policy on a basis which would enable the Community to become self-sufficient, and to impose penalties on imports of food from outside the Community. Hence the high prices and the system of protecting the least competitive elements in the Community. The farmers' organisations of the Six countries were now so united that any general reduction of Community price levels could be considered unrealistic; indeed at present there were strong demands from them for the attainment of the final price level to be brought forward in time. While noting what Mr. Brown had said about the United Kingdom's difficulties not being insuperable, he was bound to point out that it was precisely the three points he had mentioned, i.e., imports from third countries (e.g., from the Commonwealth), the level of prices, and the financial regulations, on which the Community had found it most difficult to reach agreement. If these issues were reopened, major problems would arise for the Six. To say this was merely to analyse the facts—he would not dispute that the Common Agricultural Policy was not in economic terms a sound policy.

M. Couve de Murville said that he wished to make two points about what Mr. Brown had said. First, the world supply and price situation was very different from what it was when the prices of the Common Agricultural Policy had been fixed; the big agricultural surpluses of the post-war period were now disappearing and prices generally could be expected to be higher. Second, the Community was one of agricultural protectionists and if the United Kingdom were to join, it would not change character, but the economy of the United Kingdom would develop on different lines from those of the last 100 years. Agricultural production would develop to an important extent, the United Kingdom might even find herself an exporter of cereals, and her imports of food would fall. He therefore felt that
the estimates of the cost of the Common Agricultural Policy to the United Kingdom might be excessive and that the higher price levels of the Community might in the end pay for the developments he had indicated.

The Prime Minister, in conclusion, said that the discussion had been a useful one and had brought out in particular the need for the financial regulations to be reviewed if the United Kingdom joined the Community as a new member.

Those present then adjourned to the Elysee for the final meeting there.


Present:
The Right Hon. Harold Wilson, M.P. General de Gaulle
Mr. A. M. Palliser M. Pompidou
M. Andronikov (Interpreter)

Common Agricultural Policy

General de Gaulle said that he hoped the Prime Minister was satisfied with the talks he and Mr. Brown had had in Paris. The Prime Minister said that the talks had been most useful. He had just come from an interesting exchange of views with M. Pompidou about agriculture. He thought that during the two days of meetings all the arguments and the problems involved had been broadly covered. General de Gaulle said that he had seen an account of discussions the previous day of the problems of the sterling area. He asked how the discussion on agriculture had gone.

The Prime Minister said that Mr. Brown had fully explained our position and that we would of course be having further exchanges about this with other members of the EEC. One of the main points of difficulty was the question of the financial arrangements. They had also discussed the possible effect on the British position of the price structure under the Common Agricultural Policy and likely future developments in the field of price levels.

General de Gaulle said he assumed they had also discussed the system of levies.

The Prime Minister said that, as they had told French Ministers that afternoon, the difficulties for Britain under the Common Agricultural Policy included not only those of the financial levies themselves but the whole complex of the financial arrangements. It was clear that if Britain were to join the Common Market there would have to be changes in these arrangements, as would in any event be necessary on the entry of a new member—particularly a major food importer such as Britain. Unless such changes were made, the burden of payments that would fall on Britain would be both inequitable and also excessive in relation to the requirements of the Community's agricultural fund itself.

Commonwealth

General de Gaulle said that he assumed that Britain's obligations to the Commonwealth would also be affected. The Prime Minister said that these problems were largely subsumed under the general heading of agriculture. The French Ministers shared with himself and the Foreign Secretary the recognition that world food prices—and particularly cereal prices—were likely to rise over the next few years, especially if (as seemed probable) China continued to be a large importer of grain and American surpluses diminished. To that extent the problems presented by the Community's price levels might not be as great as had been thought.
Common Agricultural Policy—Cereals

The Prime Minister said that, in general, he had found the talks useful and constructive. He wished the General to know how much he and the Foreign Secretary appreciated the time and attention which General de Gaulle and his Ministers had devoted to them. General de Gaulle said that M. Pompidou had told him of something that had greatly surprised and impressed him, namely, the large amount of cereals produced in Britain. He had never realised that we produced as much as 13 million tons a year; and he repeated how surprised he had been by this. The Prime Minister said that we produced 13 million tons and imported about 7 million tons of cereals. Our present estimate was that, if we succeeded in joining the Common Market, if the Common Market price levels remained unchanged over the next few years and if world price levels rose in roughly the way we expected, we should soon be producing about 20 million tons of cereals and importing a further 3–4 million tons. General de Gaulle assented; these were the figures that had been mentioned to him. The Prime Minister said that we were nevertheless not satisfied that such a development would make economic sense for Britain; it was arguable that, in the longer term, it would be preferable for us to import a larger proportion of our cereals from France and ourselves to concentrate more on livestock production. But all these calculations and the consequences to be drawn from them would depend on internal studies being made about the likely consequence of the Common Agricultural Policy for the member countries and also on whatever adjustments might be made in Common Market prices when the financial arrangements came up for discussion again in 1969. In general, however, he thought that it would make good economic sense both for France and Britain, and for Europe as a whole, if the level of cereal prices were to fall and livestock prices to rise within the Community.

At that point General de Gaulle asked M. Andronikov to see if the other Ministers were ready in the Conference Room. He and the Prime Minister adjourned there for the plenary meeting at 4.25 p.m.

RECORD OF A MEETING AT THE ELYSEE PALACE ON WEDNESDAY, 25th JANUARY, 1967, AT 4.25 p.m.

Present:
The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
H.E. Sir Patrick Reilly
Sir Burke Trend
Sir Con O'Neill
Mr. W. A. Nield
Mr. A. M. Palliser
President de Gaulle
M. Pompidou
M. Couve de Murville
M. Debre
M. Alphand
M. de Courcel
M. Burin des Roziers
M. Brunet
M. Andronikov (Interpreter)

Problems of United Kingdom entry

President de Gaulle opened the discussion by thanking the Prime Minister and the Foreign Secretary for devoting so much time and trouble to their visit to Paris. He had now been informed of their discussions with M. Pompidou and M. Couve de Murville on the previous day on economic and financial issues and of the resumed discussion on agricultural problems that afternoon. The latter were of special importance to the French Government; and it had been very helpful to them to have the British case presented and analysed with such clarity and thoroughness. The exchange of views between the two Governments had necessarily been rapid and concentrated; but it had been of great value. It was accepted that the discussions had been in the nature of preliminary soundings, not negotiations. On this basis was there anything further which the Prime Minister wished to add?
The Prime Minister said, in reply, that he wished to thank the President most warmly for the hospitality which had been extended by the French Government to himself and his colleagues and for the time which French Ministers had devoted to the discussions of the last two days.

He was sure that the President would have judged for himself that our new approach to the EEC was more in earnest and that, as he himself had said in the House of Commons, we meant business. He agreed that the discussions were not in the nature of negotiations; they were rather an initial approach, designed to show that, provided our essential interests could be safeguarded, we were anxious to enter the Community and that we were willing to contemplate those adjustments of policy which membership would undoubtedly entail. But the Treaty of Rome itself need not be a decisive obstacle to our entry on the basis which he had described; nor need the Common Agricultural Policy as such. It undoubtedly created serious problems for us; nevertheless, they might be less serious than we had hitherto supposed. As regards the Commonwealth, the most important issues were those arising in connection with New Zealand and, possibly, the Commonwealth Sugar Agreement. As regards the price levels prescribed by the Common Agricultural Policy, some were certainly higher than either economic sense warranted or the French authorities themselves desired. But, even here, there might be reasons for cautious optimism. The general tendency of world prices of cereals was to rise, as the United States surpluses ran down and the import requirements of countries such as India and China continued to escalate. On the other hand, there was no doubt that the adjustments which we should be compelled to make in our own agricultural policies if we entered the EEC would be very considerable. The most serious burden which we should have to face would be the payment to the Guidance and Guarantee Fund under the financial regulations—a payment which would entail both budgetary and balance of payments problems for us. On the other hand, it was surely beyond dispute that the entry of a new member into the Community would make certain changes in this respect inevitable; if only because a British subscription to the Fund calculated on the basis of the existing formula would raise the Fund's income above its legitimate requirements. Some adjustment would be necessary.

The other basic issue which confronted us was the international character of sterling and the related problem of the sterling balances—though not the sterling parity. He understood that the President had had an opportunity to study the record of his discussion with M. Pompidou on the previous afternoon; and the President would therefore be able to appreciate the reasons why we were convinced that, if we entered the Community, the sterling balances would not be a drag on it.

Expansion of the Community

The accession of a new member—perhaps several new members—to the Community would admittedly involve change. But the Community itself had changed over the last 10 years, even over the last 2 years. The French Government should therefore consider what changes of a different kind might become necessary if, for whatever reason, Britain did not succeed in entering the Community. World affairs never remained static; and we lived in a time of rapid change—as was demonstrated by the evolution of the Community itself between the 1950s and the 1960s. But how would it stand in the 1970s if Britain had been unable to enter fully into membership? Clearly, there would be less scope for the kind of intensified technological collaboration between Britain and the member countries which he had outlined on the previous day; and we should all be weakened in this respect by being compelled to be more dependent on the technological resources of third countries. The effects would be felt not only in terms of the relative standards of living of our individual countries but also in terms of the independence of Europe as a whole and the part which she could play in world affairs. In fact, the strength of Europe's voice in international councils would depend on her technological vigour and independence more than on any other single factor. Moreover, technology apart, the continued exclusion of Britain from the Community would be bound to have far-reaching political results. Because Europe would be divided economically, her political unity would be proportionately diminished; and the world role which she could play would be far less effective than if France and Britain pursued a common policy, as he believed they could. It would be neither wise nor proper for him to speculate on the steps which Britain might have to take in defence of her own interests if her present approach to the
Community ended in failure. But, whatever these steps might be, they would be taken faute de mieux—they would represent very much a second best course for us, indeed, for the Six also. Even more, they would be a second best as far as the whole world was concerned, bearing in mind the contribution which a united Europe could make to a world which needed all the help and counsel which Europe could give from her resources of historical experience, political principles and innate qualities of vision and leadership, which Britain and France had shown so often in the past.

He and his colleagues would return to London in a spirit of deep gratitude to the French Government for the reception which they had been given. He hoped that in the course of their discussions they had dealt with all the major implications of the British approach to the EEC. It was reasonable that the French Government should now need time for consideration and for discussion with their colleagues among the Six. We, for our part, had another four visits to make. Nevertheless, we should leave Paris in the confidence that we had made it clear to the French Government why we felt that our approach was in the interests of both Britain and Europe and that the French Government, for their part, would recognise the strength of the case which we had deployed and would support the conclusions which we ourselves had drawn from the arguments and discussions of the last days. The decision which faced us all was a vital and historic decision; and it was reasonable that all parties should need further time in which to consider it. At the same time it was an urgent decision—in the sense that, although time might wait for a little, the tide in the affairs of men would not; and that tide was now approaching its critical point.

The Foreign Secretary said that there had been a great sense of history about the discussions of the last two days. British accession to the Community would certainly involve change; but it should be possible to face the need for change provided that it did not alter—and we were convinced that it would not alter—the fundamental character of the Community. Our associates in EFTA understood this point as clearly as we did ourselves.

At the same time we must also face, as the Prime Minister had suggested, the consequences if Britain did not succeed in joining the EEC. And we must be prepared to strike a final balance between those results and the results if we did join. It was the more important that we should take this decision seriously in that the monolithic character of the history of the last two decades—particularly the concept of two Power blocs, locked in rigid opposition—was fast disappearing. We were entering a new period of fluidity; and this was the moment at which Europe had a fresh chance to make its influence felt on a global scale, provided that it was not economically divided and provided that Britain and France adopted a common viewpoint from which to consider the great political problems ahead, whether these related to intra-European problems of East-West tension or were world-wide in their scope.

M. Pompidou observed that there had not been time during the two days' discussions to deal with all the problems which arose from the British approach to the EEC; and there was room for further discussion on several issues—e.g., problems of regional development; the question of the common external tariff; the length of the transitional period or periods which Britain might require in different contexts; the need for further clarification of the problem of the sterling area and the sterling balances together with their implications which were political no less than economic; the complicated issue of the link between the Common Agricultural Policy, Britain's Commonwealth commitments and the balance of payments implications for Britain if she endorsed the policy; and so forth. He must emphasise that the Common Agricultural Policy had given rise to very serious problems within the Community itself before the Six finally succeeded in reaching agreement on it; and it would be very unwise, therefore, to underrate the difficulties which would arise if it now had to accommodate British entry into the Community.

In addition, he had been greatly impressed by the Foreign Secretary's description on the previous day of the extent of British interests outside the Community. This suggested that there might be great difficulty in absorbing these interests within a Community which was both more restricted in terms of its geographical horizons and more protectionist in terms of its economic policies.
Monetary co-operation

M. Debre said that some five or six years ago the members of the Community had begun to develop a policy of monetary solidarity and freedom of monetary movements. This was now leading to a common attitude towards international monetary arrangements. This was something which would have to be taken up also in the context of possible United Kingdom entry into the Community.

The Prime Minister agreed that there had been great developments in the monetary field. Yesterday he had dealt only briefly with the problem of capital movements, distinguishing between direct and portfolio investment. In recent years there had been a good deal of United Kingdom investment in the Community; this was, indeed, part of the key to a common technological advance. He hoped that it would continue, and that there would be just as much investment from Community countries in the United Kingdom. He then recapitulated briefly the arguments which he had used in distinguishing between direct and portfolio investment in the meeting with M. Pompidou and M. Couve de Murville the previous afternoon. He concluded that from our point of view time would be needed for adjustment, just as the Six had given themselves time. As to the problems of the sterling area and sterling balances, we were prepared to discuss these fully with members of the Community who wished to learn our point of view. Here, too, the Prime Minister briefly recapitulated the principal points of the argument which he had developed on the previous day.

M. Couve de Murville said that he agreed with Mr. Brown that the political importance of the question posed by the British approach overshadowed the economic problems which it involved, in relation both to Europe and to the world as a whole.

General de Gaulle’s conclusions

General de Gaulle said he now wished to express the impressions which he had received from the meeting. These were impressions not, of course, of results for there could be none at this stage, but of the exchange of views that had taken place.

First of all, he had the impression of a British Government which, as always in his past experience, was acting with the greatest solidity and dignity. He had the impression of an England which had evolved much from the position it used to take, which he personally had known so well in the past. He had the impression of an England which now really wished to moor itself alongside the Continent and was prepared in principle to pledge itself to rules in the formulation of which it had had no part, and which would involve it in definite links with the system which had grown up on the Continent. He had the impression of an England which seemed disposed to detach itself to some extent from the special relationship which it had, or had had, with the United States, thus enabling it to be a European country: for the basic element of his idea of Europe was that it must be an enfranchised Continent (affranchi), as indeed it must be to play its proper part in the world.

If these impressions were correct (and another important aspect of them related to French and British relations with Eastern Europe) then he welcomed this development. But what practical conclusions should be drawn?

The Common Market existed. It was a reality. It had been constructed with the utmost difficulty. Its six members, although their economic interests differed, were countries of the same nature. They were countries whose industry, commerce, finance, currency arrangements, agriculture and technology were, not indeed identical, but very similar. It was this similarity which had made the construction of the Community possible. And now it had been constructed.

But the participation of Britain in the Community presented great problems, given the differences of its economic interests, its monetary arrangements, its contacts with the outside world. To solve all these would be a political as well as an economic problem. Would the presence of the United Kingdom in the Community enable it to remain what it now was? This was the question he asked himself.
If it were to be accepted that Britain could not enter the Community without changing its fundamental character, could some other means of British participation be found? By this he meant some means other than membership, to attain which appeared extremely difficult, if not impossible. What alternatives were available?

Could there be an arrangement? An association? An agreement between Britain and the Six? He asked himself; and the British should know that this was the question the French asked themselves.

He came to no conclusion, except that he noted the evolution of the British position; it corresponded to his own wishes. He was disposed to study fully the question the British had put to themselves—namely, did the conditions exist, or not exist, for Britain to join the Community.

He invited the British to study for their part two alternatives. Either something entirely new; or an agreement for association between Britain and the Community to cover their interests and their exchanges.

[General de Gaulle did not elucidate what he meant by “something entirely new”. But after the meeting Sir Patrick Reilly asked M. Alphand what the General had meant. M. Alphand replied that he understood the General to mean an entirely fresh start ab initio, which would involve dismantling the European Economic Community, and making a new agreement to include Britain.]

The Prime Minister's comments

The Prime Minister observed that General de Gaulle had made a statement of historic importance. He thought the General had correctly understood the determination of the United Kingdom not only to move closer to Europe but to become fully involved in her affairs. He appreciated the General’s image of Britain mooring itself alongside the Continent. But perhaps this went too far in implying movement by Britain only. He felt that the countries of the mainland were moving too. The General had foreseen formidable difficulties in British membership of the Community. For their part, the British saw less political significance than did General de Gaulle in their links, financial and other, with overseas countries. But they remained ready to discuss this aspect of the matter fully, with other members of the Community as well as with the French.

As for what the General had said of Britain and the United States, Britain had never claimed a relationship of a unique character. Certainly she had close relations with the United States; but so had France. The United States, for their part, needed both Britain and France. And, in his experience, the most effective kind of relationship with the United States was based on strength, not weakness. This went for other relationships too; he thought it applied to relations with the Soviet Union. Britain and France did, indeed, have differences of opinion about the Atlantic Alliance; but he felt they could agree that both of them should be strong in their attitude towards transatlantic relationships.

At this point, after interpretation, General de Gaulle seemed to be about to close the meeting; but the Prime Minister continued. He said he had two more points to make.

First, he wished to remind the General of the importance which both Britain and France attached to developing their relations with the Soviet Union. Then approach was in some respects different; but it was parallel, moving to the same end. And he would like to remind the General that Britain had taken a leading part in preserving the option of closer relations with the Soviet Union by rejecting the Multilateral Force.

The second point related to what General de Gaulle had said about the possibility of some new form of relationship between Britain and the countries of the Community, or a relationship of association, presumably under Article 238 of the Treaty of Rome. He did not believe that these provided an answer to the problems which they had been discussing. In particular such solutions would be unable to mobilise the aspirations of all for closer political involvement. Under such a system, the British ship would not be moored alongside the Continent, but would come and go. It would be a commuter relationship, an offshore relationship. M. Couve de Murville had said a few minutes before that the political element in
the process on which the British had embarked was more important than the economic element. With this the Prime Minister agreed. He did not think any form of limited economic association could ever generate the political unity which lay at the heart of the decision he was seeking.

Conclusion

*General de Gaulle* repeated his pleasure at having had these discussions with the Prime Minister and *Mr. Brown*. His appreciation of Britain had been enhanced by them; he could only hope that our regard for France had been in no way diminished. *The Prime Minister* assured the General that he could indeed be confident on this point. He thanked him for his courtesy and the time and attention which he and his Ministers had devoted to the discussions.

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H E Sir Roderick Barclay
Sir Con O'Neill
Sir James Marjoribanks
Mr. A. N. Halls
Mr. C. M. MacLehose
Mr. A. M. Palliser
M. P. Vanden Boeynants
M. P. Harel
M. R. Van Elslande
M. R. Vaes
Baron J. van den Bosch
M. J. Van Der Meulen
Baron X. van der Straten-Waillet
Vicomte d'Avignon
M. A. Camus

"Building Europe"

M. Vanden Boeynants opened the meeting with some words of welcome, and stressed the importance of the visit to both Belgium and Britain. After going over the programme for the following day, he said he wished to use this restricted and informal meeting to talk about the problem of Britain's entry into the EEC seen in the wider framework of how to "build Europe".

First, he thought progress should be made in building Europe whenever an opportunity to do so occurred. It was necessary to distinguish between economic/political Europe, and scientific or military Europe. The Belgian objective remained an integrated political Europe, and he hoped that those present would live to see the day when such a wider comprehensive Europe was achieved. But we had to be realistic and accept that this was not for to-day. Meanwhile, no opportunity for building Europe should be missed. Whenever it was possible we should be ready to take a step forward, whether in the economic, scientific, political or military field. We might find ourselves doing this sometimes with six partners, sometimes with seven partners or sometimes with twelve. There was nothing extraordinary in this. For instance in NATO, Belgium and Britain were playing a full part, while France was only a partial participant. Complete military integration in peace time was only practised by five out of the six Common Market countries. If all potential applications to the EEC were granted, in the economic field there would be 10 to 12. There was still no scientific Europe at all. The partners thus need not always be the same for all purposes.

In developing his second theme, M. Vanden Boeynants referred to M. Harmel's idea of the "Tripod". In essence this was that Europe could only develop healthily if there were a balance between the three Great European Powers, Britain, France and Germany, on a basis of equality between the three of them. Provided this balance was maintained between the three, the smaller Powers like Belgium were prepared to accept a larger measure of influence in the Community for the Great Powers.

It followed from this that Europe must include France. It would do no one any good for France to isolate herself or be isolated, though one could not ignore
the tendency on the part of France to wish to be the dominant partner. It is followed that Europe must include Germany. Germany was one of the founders of Europe, and it was now evident that she had preferred the idea of Europe to that of nationalism. But she could only resist nationalism so long as visible progress towards building Europe was being made, otherwise there was a real risk that she would be affected by French nationalism.

Finally, Europe must include Britain. It was inconceivable for Belgium to be associated with Germany in Europe while Britain remained outside. Likewise it was inconceivable for Europe to develop a policy towards the East except in conjunction with Britain. Western Europe could not succeed in any approach to Eastern Europe without first having consolidated the links between its own democratic members. Moreover, in the Belgian view, it was essential that the country with the greatest democratic and parliamentary tradition should be in Europe so as to ensure that tradition was maintained. In short, the three Great Powers should all be in. If only two of them were there, things would run smoothly during the periods when France and Germany got on together, but when they were at odds, Europe would suffer.

M. Vanden Boeynants' third theme was concerned with whether it was possible for any progress to be made in building political Europe. M. Harmel had suggested that European States might take up common positions on intercontinental or world questions. Some progress had already been made on this and Belgium would do what it could to keep this idea alive. But M. Vanden Boeynants thought that the best immediate prospect of achieving anything would be at the decennial celebrations of the Six in Rome. This was a situation in which everyone present would want to show some result, and it was most important that what came out of the meeting should be right and should succeed. In the circumstances there was a danger that proposals would be made for the sake of appearances only. In strict confidence—and with the request that this should not be recorded—M. Vanden Boeynants then disclosed that Belgium had been working on some proposals which he had reason to believe were acceptable to the Netherlands and Luxembourg, but had not yet been broached with anyone else. Before they were taken any further, the Belgian Government wished to have British reactions because, if these were unfavourable, he would wish to reconsider.

In putting the proposals forward, he had much in mind recent political developments in Germany. He found these disturbing and thought the situation might be improved if some modest step were taken towards political unity in Europe. In this case his idea was that the German Government should itself be induced to propose such a step at Rome. This would be that the Six should choose a short list of subjects, which would be outside the field of defence, and invite Britain, and such other potential applicants for membership of the EEC as were willing, to join in an informal agreement not to take any external action in these defined fields without prior consultation with the other parties to the agreement. The subjects he had in mind were:

- European technology
- Economic détente with the East
- The formation of a solid European front at international conferences

His proposal was that, as soon as the Six had agreed that a step of this sort was desirable in principle, Britain and other potentially interested countries would be invited to join at once in the discussion. He thought this would appeal to all concerned as a limited experiment in the political field, involving no derogation of sovereignty, which would be capable of extension and which included Britain. In concluding his description of his proposal M. Vanden Boeynants emphasised again that he would wish to reconsider if Mr. Wilson saw any objection from the British point of view. He further emphasised that since the proposal had not even been mentioned to the Italians, the Germans or the French, it was extremely important that his confidence should be respected.

Mr. Wilson thanked the Belgian Prime Minister for his remarks which constituted a historic contribution to the debate on the long-term future of Europe. He intended to explain in more detail on the following day the British
position as regards entry into the EEC and the other communities; tonight, however, he would confine himself to commenting on M. Vanden Boeynants' analysis of European affairs in the world context. He wished in particular to make three points:

(1) M. Vanden Boeynants appeared to be thinking in terms of a European community or communities which might consist of 6, 7, 9, 12 or 13 members according to the function and purpose in question. But it was not possible to solve the main problems of Europe by means of disparate communities with memberships which differed from time to time. Those problems could only be solved—and even then only by considerable sacrifices on the part of all concerned, including Britain—on the basis of a single community. Its members might have different problems, which would need to be examined on the basis of, as it were, different terms of reference and from different points of view; but they would not be a mere collection of separate countries—they would constitute a genuinely united Community. A half-hearted membership of Europe would be easy for Britain; but, as he had said in Parliament, the British Government meant business. And, if this phrase was virtually untranslatable into French, an alternative way of expressing the thought behind it was to say that to think in terms of being a member of Europe for some purposes but not for others was far too easy a way out.

It had been agreed that defence was a separate issue, which would not figure in the present discussion. But it should not be forgotten that both Britain and Belgium were loyal members of NATO; and their present exchanges must do nothing to weaken its cohesion. It might be possible in due course to work towards an even greater solidarity of our common defence interests; but for the time being NATO must continue to be the main focus of our combined defence efforts. By contrast, communities which would differ in membership and solidarity according to whether it was industry, agriculture or technology which was in question would imply that we had failed in our purpose at the very outset.

(2) It was true that some existing communities were established on differing bases of membership. But they should not set the pattern for the future. Our purpose henceforward was the realisation of a Europe whose solidarity and momentum would enable it to play a more effective part in world affairs than hitherto. If so, however, there must be change. No institution could exist on a basis of stagnation—except perhaps a cemetery, as he had said in his Strasbourg speech. Moreover, in the great efforts which both the Belgian and the British Governments were making to ensure the economic development of their countries they had to fight against vested interests. The same would be true of their joint attempt to create a united Europe; and a mere refusal to accept change must be regarded as unacceptable in this context. That did not mean that we wanted to change the Treaty of Rome or the EEC itself. What it did mean was that we wanted to join the Community in order to widen it and to strengthen it and so to strengthen Europe as a whole. But this would be impossible if we were only a half-hearted member of Europe—a member of some communities but not of others or half in some but half out of the rest. All of us were committed to change. In NATO it was universally recognised that the posture of the 1940s, even of the 1950s, was already out of date. Indeed, it was this realisation which had prompted M. Harmel's proposal that NATO should now subject itself to a searching re-examination in terms of the functions which it ought henceforward to try to fulfil. But, if this approach was valid in relation to NATO, it was valid in relation to Europe's other problems. The next step in the evolution of the EEC, therefore, should be Britain's entry, which, so far as we were concerned, would be designed to strengthen a Community which we were ready to accept in its essentials.

Turning to the question of the political development of Europe, Mr. Wilson noted M. Vanden Boeynants' suggestion for the initiative which might be taken on the occasion of the 10th Anniversary of the signing of the Treaty of Rome. We would wish the Belgian Government well in this enterprise. But we must make it clear that, as regards the fundamental question of the political unity of Europe, we had not so far intervened in any of the discussions on this subject (including the Fouchet Plan) because we were still outside the Community. For the same reason we had studied the exchanges last year at Luxembourg with

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interest but, here again, had refrained from taking any part so long as we were
not members of the Community. But as soon as we achieved membership—as
he hoped we should—we intended to play our full part; and from inside the
Community we should have a good deal to say. He hoped very much, therefore,
that the momentum deriving from the new British approach to the Community
would not be choked or diverted while the Six discussed the problems of European
unity among themselves and Britain continued to remain outside. The process
of discussion among the Six could be a lengthy one; and the result might well be
that we should all miss the tide for British entry into the EEC, with all the
damaging consequences, both political and economic, which would then ensue.

(3) His third point followed from the first two and was of particular importance.
An expanded and strengthened EEC of the kind which we envisaged was the only
means by which the technological potential of Europe could be released in such
a way that it could match the potential of the other Common Market on the other
side of the Atlantic and so prevent American technology from dominating
European industry. The resources which the United States commanded in terms
of research and development were so great and the American market was so large
that its mere overspill could swamp Europe. The differing histories of the
computer industries in France (where they had capitulated to American penetration)
and in Britain (where they had defeated it) were an example of this phenomenon.
Another was nuclear energy—where Belgium led the world in its application to
marine propulsion and Britain in its application to the generation of electricity.
(At this point, Mr. Wilson commented on the important practical decisions which
the Belgian Government would shortly have to take in this context. In one of
them Electricité de France, in competition with a cheaper and more economical
British project, had made it a condition of their offer that an American reactor
should be built. Surely General de Gaulle could hardly approve of that!) It was
for these reasons that we must seek to mobilise the technological resources of
Europe to meet the American challenge. But there could not be one Europe,
including Britain, for purposes of technological development and another Europe,
excluding Britain, for purposes of trade and industry. The Belgian Government,
if offered this kind of bargain for themselves, would certainly reject it; and so
would we. If we were to share our technological resources, we would do so only
on the basis of a shared market also. Otherwise, we should find ourselves competing
with the United States in the European market from a position outside that market
and on the basis that we should both be facing the same level of tariffs. When he
had spoken of the fourth technological community, it was on the basis that Britai
would already be a member of the other three communities—indeed, of all four of
them, whether they were merged into a single community or not.

Recapitulating, Mr. Wilson emphasised that he was concerned to make three
points:

(a) There must be one European Community, for all purposes.

(b) This Community, as we saw it, would take the form of an enlargement and
a strengthening of the integration which had already been developed
under the Treaty of Rome, an integration which we wished to share
and to carry forward as part of the inevitable process of change.

(c) As regards the technological development of Europe, technology and trade
must go hand in hand as part of the same Community, the same
Common Market.

He trusted that his Belgian friends would forgive him for speaking frankly
and freely; but he had judged this to be right since, to repeat what he had already
said, we meant business.

M. Vanden Boeynants thanked Mr. Wilson for his remarks. He wished to
make one point clear in case Mr. Wilson had not fully understood his original
statement. When he had distinguished, in his opening remarks, between the
different functional aspects of Europe and the different senses in which one could
conceive of a European Community, he had not been describing the objective of
policy—he had merely been stating what was no more than a fact of life. Europe
in the military sense was not the same as Europe in the economic sense; and
Europe in the political sense, in so far as it existed at all, was different again. Both
Belgium and Britain wanted one Europe and one Community. But not everybody shared their views; and, until Belgium and Britain could realise all their common objectives, they must be realistic and be content to proceed one step at a time, even if successive steps were not always taken with the same partners. He must repeat, however, that the Belgian Government's basic purpose was the same as that of the British Government—it was one Community, including Britain, in which the political, economic and scientific functions would coincide—perhaps even eventually the military function as well, though this was beset with difficulties.

At this point, M. Harmel intervened to re-emphasise the point made earlier by M. Vanden Boeynants that the European Community thus outlined by Mr. Wilson must include all three Great European Powers—France, Germany and Britain.

Mr. Wilson thanked M. Vanden Boeynants for clarifying his original remarks. But, even if we had to be content with one step at a time, that step must lead towards, not away from, our basic objectives.

M. Vanden Boeynants agreed. He said that perhaps the discussion might now be adjourned until the following morning. The Belgian Government welcomed the enthusiastic determination of Britain to enter the Community. Perhaps it was paradoxical that it should be the Belgian Government who were now sounding a note of caution. But they were doing so only because they wished to be realistic in their approach to the problem. Fundamentally, they were on the same wavelength as the British Government—certainly as regards Europe's technological development, as he would seek to demonstrate on the following day. It was essential that Belgium and Britain should agree on this subject, which was vital to both of them in terms particularly of their relationship with the United States. Belgium, like Britain, was a friend of the United States—but not an unconditional friend. Belgium, like Britain, preferred to leave unconditional attitudes to General de Gaulle.

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Sir Con O'Neill
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. C. M. MacLachose
Mr. C. O. I. Ramsden
Mr. J. Wright
Mr. T. Lloyd-Hughes
Mr. D. J. D. Maitland
Mr. N. Statham
Mr. B. M. Thimont
Mr. W. K. Reid

M. Vanden Boeynants hoped that Mr. Wilson and Mr. Brown had spent a good, if short, night in Brussels and that the British Embassy had provided them with an indication of the Belgian Press's welcome to them. This underlined the welcome which he had extended on the previous evening. He invited Mr. Wilson to open the discussion.
Background to the United Kingdom initiative

Mr. Wilson thanked M. Vanden Boeynants very warmly for his welcome the previous evening. The Embassy Press Services were efficient but he had so far only read accounts in the British Press of matters which had not even been mentioned in their discussions the previous evening. The Belgian Government would already have had a full account from Her Majesty's Ambassador of the talks which had taken place in Rome and Paris; but it might be useful if he were briefly over the background to the present visit and those to the other capitals of the Six. Their purpose was to ascertain the likely attitude of the Community to our accession to the Treaty of Rome. After the visits to the Six Heads of Government it would be necessary for us to decide whether to begin negotiations for entry into the Community and at what time entry should be made. He need not amplify what he had said in the House of Commons on 10th November since M. Vanden Boeynants had quoted "we mean business" on the previous evening. He was clearly fully apprised of the purpose of the visit.

Since the British Government's decision to undertake these visits two events had occurred. The first had been a two-day debate in the House of Commons in which strong support had been expressed by members of all parties for British entry into the Community. He did not think that recent publicity emanating from London altered the views which had been expressed on that occasion or the emphasis Her Majesty's Government laid on their approach to Europe.

The second event had been the meeting of Heads of EFTA Governments in London at which the initiative being taken by Britain had been warmly welcomed. The visits which were now being undertaken were thus a logical extension of the process begun in the previous summer of determining whether conditions existed for negotiation and whether, if we embarked on a negotiation, if could be brought to a successful conclusion.

A recent study by the Confederation of British Industry had come out in strong support of Britain joining the Community, provided that certain problems could be overcome. He was not empowered to speak on behalf of the other EFTA Governments, who would have to conduct individual negotiations if they wanted to become full or associate members of the Community; but there was no doubt of the goodwill extended to Britain in her present talks by the other members of EFTA.

Treaty of Rome

Before dealing with the questions which would form the substance of that day's discussions, he wanted to make clear again the British position towards the Treaty of Rome. He had said both in Rome and in Paris that the Treaty of Rome was not in itself an impediment to British entry. It need not be an obstacle if our problems could be dealt with satisfactorily whether through adaptations of arrangements made under the Treaty or in any other acceptable manner. As he had said the previous evening, Britain would be prepared to accept the Treaty of Rome subject to the necessary adjustments consequent upon the accession of a new member and provided that we received satisfaction on the points of difficulties we foresaw. We did not believe that the widening of the Community, implicit in the entry of Britain and other countries and the process of change that must inevitably follow, need imply any weakening of the Community or of its economic or political purposes. Rather we believed that the consequence of our entry would be the strengthening of the Community. Certain difficulties had been suggested as impediments to our entry, for example, that our economy was weak. It was true that, when the present Government had come to office in 1964, they had inherited serious balance of payments difficulties. But since then our balance of payments deficit had been reduced. We were now in balance and would be moving into surplus in the present year.

So far as trade was concerned, we had had a monthly trade deficit in 1964 running at a figure of £145 million; in 1965 this had been reduced to £23 million; in 1966 it had been halved again to £12 million. If one recalled that over the last half century Britain had hardly even been in direct trading surplus, the Belgian Government would realise the importance of the fact that over the last six months our trading balance, seasonally adjusted, had been in surplus—and this had been achieved even before the measures taken in July 1966 had worked through fully.
and made an impact on our trading figures. Nevertheless, he would not disguise the fact that there were problems of a monetary nature which he would be happy to deal with during the discussions.

Points of difficulty in British membership of the EEC

In order to provide a factual basis for these discussions, it might be helpful if he were to mention briefly what we believed to be the major points of difficulty, either for Britain or for the Six, in our becoming a member of the Community. They were the problems arising from the Common Agricultural Policy as it had emerged over the last few years; Commonwealth questions; problems related to the freedom of capital movements; and problems of encouraging particular regions—a problem with which the Belgian Government would be familiar and on which Belgium had made substantial progress.

The first two were essentially different aspects of the same problem. Most of the difficulties would arise over agriculture on which he would not expatiate, since it would be dealt with in more detail later. He had commented on the problem of capital movements during the visits to Rome and Paris and he would be prepared to deal briefly with the matter later in the day.

Kennedy Round

As he had said on the previous evening, it was important to link the timing of the present talks with the negotiations in the Kennedy Round. Our present initiative and our interest in the membership of the Community did not in any way imply a reduction of interest or a diminution in our sense of urgency in the successful outcome of the Kennedy Round. If anything, the talks highlighted the importance of a successful outcome in the near future of the Kennedy Round.

In conclusion he considered that in the series of visits to the Six Heads of Government the British Government would not be asking for anything which it was impossible to negotiate. We would be seeking to safeguard our essential interests in the same way as the Six themselves had done in the course of the negotiations which had led to the establishment of the Community. Over the last 10 years, with a great deal of give and take and mutual understanding, the present members had built up their own Community. There were challenging problems to be faced but they could be dealt with. The Community had a great future in Europe with all it meant for technological development, the freeing of trade, the ending of economic divisions in Europe and in the context of the growth and development of Europe as a political unity of which the first stage only had been reached and the future of which it was impossible yet to forecast. In conclusion he thanked M. Vanden Boeynants for his hospitable welcome and for listening to the exposition of the British case.

Belgium's attitude

M. Vanden Boeynants thanked Mr. Wilson for putting the British case so succinctly and so positively. He had told him the previous evening of Belgium's declared views about British entry into Europe. He had now heard a further exposition of Britain's intentions and he could say at once that, although problems confronted Britain in connection with entry into the Common Market, the Belgian Government believed that they could be overcome and that Britain's desire to enter was sincere and incontestable. What was the Belgian Government's position in relation to this desire? He need not repeat what he had said the previous evening. The Belgian Government were in favour of Britain's accession and considered that for the future of Europe and especially for its political unity (the aim for which they all strove) the entry of Britain into the Community was indispensable.

Several months previously the Belgian Government, together with the Netherlands Government, had proposed that no more decisions should be taken in the Community which might have the effect of widening the gap between the Community and Britain and thus of making Britain's entry more difficult. Belgium wanted to see Britain in the Community and welcomed her present initiative in undertaking talks.
Belgium's questions

He was sure that Mr. Wilson would want him to speak directly and frankly. Given the fact that Belgium ardently desired Britain's entry, he felt it right to discuss possible obstacles to her entry. For this purpose he would raise a number of questions or preoccupations which were troubling his Government.

(1) Mr. Wilson had said that Britain accepted the Treaty of Rome, subject to certain adjustments to the arrangements which had been devised under the Treaty. The Belgian Government would like to know what the scope of those adjustments might be and which questions the British Government envisaged as the most difficult to resolve.

(2) The entry of Britain into the Community would pose the problem of the accession of other countries. Mr. Wilson had already said that he was not empowered to speak on behalf of other EFTA Governments; but did Britain consider that her entry would lead inevitably to the entry of one, two, three or perhaps six other countries? It was evident that the entry of other countries would profoundly change the Community as it at present existed. This change the Belgian Government were ready to accept but they would like to know what limits would be placed on such change, since they wanted a real Common Market to continue as it had been created. He had heard it suggested from other capitals of the Six that other formulae had been put forward for the future pattern of the Community if it were to admit new members. What were the British Government's views on this?

(3) The Belgian Government did not want the enlargement of the Community to compromise its dynamism and efficiency. He would like therefore to know the British Government's views on—

(a) The future of the Commission which had played a dynamic role in fashioning the Community.

(b) The Council of Ministers whose workings the Belgian Government would not wish to be jeopardised. (He recalled that a year previously in Luxembourg five out of the six partners in the Community had voted in favour of majority voting.)

(c) The political purpose of the Treaty of Rome which remained the Community's final objective and which should not be jeopardised.

(d) If Britain entered the Community, the possibility that she would also accede to EURATOM and the European Coal and Steel Community.

(4) Mr. Wilson had referred to adjustments which Britain would wish to discuss in the arrangements which had been worked out under the Treaty of Rome. How did Britain see the discussion of this problem and would these adjustments be dealt with before or after Britain's entry into the Community? Were the adjustments permanent or merely transitional? If the latter, how long would they last? Finally, if Britain were admitted to the Community, would she seek to make other additional adjustments once she had gained membership?

These were points on which the Belgian Government would be glad to have elucidation. His questions had been formulated in the hope that a positive solution could be found both in bilateral discussions between the Belgian and British Governments and also in common discussions among the Six.

He suggested that the rest of the day might be devoted to the discussion in the morning of the Common Agricultural Policy, Commonwealth problems, and the entry of other EFTA countries; and in the afternoon of institutional problems, the functions and operation of the Common Market and monetary questions.

Treaty of Rome: Adaptations of the Treaty; Community Institutions; EFTA

Mr. Brown said that there appeared to be some misunderstanding over the question of adaptations. The Treaty of Rome already contained provision for amending the Community's arrangements upon the entry of a new member, and in these circumstances Britain would be able to accept the Treaty as it stood; there would be no question of seeking to rewrite the Treaty of Rome. On the question of accession to the Treaty by other countries, it was the general view—both inside and outside the Community—that this should take place in the interests of the political and economic strength of Europe. The fewer the divisions that existed in Europe the better it would be for the Continent as a whole. Europe could
not be strong, dynamic and influential whilst economic divisions remained; and it was the hope of the British Government that there would be a greater measure of unification in Western Europe and eventually a further rapprochement between Eastern and Western Europe. It was possible that some other members of EFTA would be ready for full membership of the Community while others for political reasons might prefer association. It was for individual members of EFTA to decide on this point and to determine the terms of their own applications. M. Vandlen Boeynants had asked what were the limits which we envisaged for the expansion of the Community. This was difficult to say since it was not at present clear which countries would wish to join; but the objective must be a Western Europe in which economic divisions no longer existed.

Reference had been made to a dislike of upsetting the existing dynamism of the Commission and of the Council of Ministers through the entry of Britain. But if we were admitted, we would not wish to disturb this dynamism and we saw no reason why this should happen. Britain with her external links and influence would constitute an addition to the power, dynamism and influence of the Community and would in no way seek to change its basic institutions. Rather we would wish to play our full part—but no more than our full part—in the working of the Community's institutions on the basis set out in the Treaty of Rome and consistent with the general aims of the Treaty. We would wish to join the ECSC and EURATOM separately, should they continue as at present or if they fused into one, the new organisation.

The question had been raised which adaptations to the existing arrangements under the Treaty would be transitional and which would be permanent upon the entry of Britain into the Community as also had the extent to which we might seek to secure further adaptations after accession. He doubted whether the individual members of the Community at the time of their signature of the Treaty of Rome had given binding undertakings not to raise further matters of this character after accession. Likewise a new member today could not be expected to give any such binding assurance before entry. Experience had shown that the members of the Community had found it necessary to raise a number of issues during the course of the Community's existence; but he could say frankly that Britain had no intention of entering the Community with the clear intention of raising issues subsequently.

Mr. Brown indicated that there were two major issues which raised problems—not insurmountable—where something more than purely transitional arrangements might be required. First, there was the effect on Britain of the Common Agricultural Policy. Acceptance of this policy would raise a number of different problems for which, amongst other things, transitional periods of differing lengths would be necessary. In general, however, if commodity prices were to remain at their current levels and the arrangements for financing the Guidance and Guarantee Fund were to be unaltered, Britain would need to pay in to the Fund 90 per cent of the levies on her imported food; this would constitute a very substantial and inequitable financial burden. Secondly, the problems raised by our membership of the Commonwealth were difficult; but it had been generally accepted that they could all be overcome through transitional arrangements with the exception of our trade with New Zealand where some form of permanent arrangement would almost certainly be required. He believed that the Community recognised that New Zealand constituted a special problem to be tackled. There were, of course, other problems for us, notably the question of capital movements; but this was a question not for ourselves alone but also for the Community whose members would surely be anxious to ensure that capital arising from savings within the Community was not used to build up the economies of countries outside Europe. Only by building up the European economy could the challenge of the two great world Powers be met, in particular the challenge presented by United States technology.

(At this point M. Vanden Boeynants left in order to attend a meeting of the Belgian Parliament.)

M. Harmel said that he had noted what Mr. Brown had said about solving problems in advance of Britain's accession to the Community, about the heavy burden which agricultural levies would impose and about exceptional treatment for New Zealand alone among other Commonwealth countries. Were there any further qualifications he wished to make?
Mr. Brown emphasised that it was adaptations under Article 237 of the Treaty of Rome which we had in mind. Such problems as those presented by the Community's Common Agricultural Policy, our relations with other members of the Commonwealth, notably those in Africa and New Zealand, the Commonwealth Sugar Agreement, and the regional policies which we were pursuing in Britain, could be met by adaptations to the arrangements made under the Treaty of Rome and did not presuppose a change in the Treaty itself. Britain was in no way seeking to change the provisions of the Treaty of Rome.

Expansion of the Community

M. Harmel said the expansion of the Community as it currently existed or might exist in future posed certain difficulties of principle. Even though Britain were ready to accept the provisions of the Treaty of Rome, certain countries felt that with the extension and widening of the Community the problems of the Six would be accentuated to such an extent that the Community might prove difficult to govern and indeed might become non-viable. This was however not the view held by the Belgian Government who agreed that as many countries as possible should join. The EEC had started out as an economic Community but its aim was ultimately to become a political entity. Should a number of countries follow the lead of Britain in trying to enter the Community difficulties would certainly arise; and it might be helpful if the British Government were to give some indication of what in their view these might be.

Mr. Brown replied that the British Government accepted the idea of a political Community implicit in the Treaty of Rome. But there were different views in Belgium, in Britain and elsewhere in Europe about the form which this political unity might take: it might for example be federal or national. On entering the Community we would expect to play our part in working out an answer to the problem of real political unity and securing a form which would be universally acceptable. We were not however taking part in the discussion of this issue yet since it seemed improper for us to do so whilst outside the EEC; once in, we would wish to play our part in giving political reality to the concept of a united Europe. On the question of further countries wishing to join the EEC in the wake of Britain, he was pleased to learn that Belgium did not see this as a problem; he would indeed be surprised if many others saw it in this light. One could not favour dynamism and at the same time be against change. Countries joining the Community would raise new challenges and present new opportunities and this was the answer to those who wished to remain undisturbed in their "cosy little nest". The Treaty of Rome provided for the accession of other European countries and so envisaged the dynamism and progress to which M. Vanden Boeynants had referred.

M. Harmel said that a preoccupation with the possibility of "something new" to replace the existing Community did not exist in Belgium but arose from the information which they had received regarding earlier visits by Mr. Wilson and Mr. Brown to the Heads of Government of the EEC. The Belgian and the British attitude in this respect seemed to be similar and he was grateful to have received the assurance that, despite the problems presented for Britain in acceding to the Treaty of Rome, there would be no question of seeking to alter the fundamental nature of the Community.

Mr. Wilson endorsed what Mr. Brown had said about resistance to change being inconsistent with the concept of dynamism. While metaphors and analogies could be dangerous, he liked to regard the Community as having built a railway line towards their objective on which had been set a train. An extension of the Community meant more coaches and a more powerful engine. It did not mean disturbing either the track which had been laid down or altering the signals.

M. Harmel welcomed Mr. Wilson's analogy as demonstrating the closeness of the British and Belgian positions. He saw the entry of Britain into the EEC as providing the Community with a more powerful engine. But any enlargement of the Community would necessitate a further examination of its rules in order to see whether they were appropriate to a larger Community.

Common Agricultural Policy

Mr. Brown said our attitude to the Common Agricultural Policy was similar to the view we took of the Treaty of Rome. It was not an obstacle in itself. We preferred our own system of agricultural support but we could adjust to the
Community’s system. We were not therefore making an issue of principle out of the Common Agricultural Policy.

But four consequential problems arose, all serious though of differing degrees of seriousness. And we would need the help of the members of the Community to meet them. He would take them in ascending order of gravity.

(1) The first difficulty arose from the effect of the present Community agricultural price levels on the cost of living in Britain. We had said several times publicly that we estimated the retail price of food would rise by between 10 and 14 per cent. Whether or not it did so depended of course on what price levels might obtain within the Community after intra-Community negotiations in 1969. Moreover the degree to which the rises in British price levels would have damaging effects on our prices and incomes and stabilisation policies would be greatly affected by the period over which the new prices had to be introduced. If they had to come all at once then the effect would probably be intolerable. If they were approached over a long transitional period then the effect might be almost unnoticeable. A transitional period would be needed; perhaps it would be between these two extremes.

(2) The second area of difficulty was the distorting effect of Community price levels on the present pattern of agricultural production in Britain. There would be a tendency to greater production of cereals; and the smaller producers of livestock would tend to be damaged. These producers were very numerous and there would be a difficult social problem of readjustment, which might need to be carried out over a considerable period. We should require understanding from our future partners in the Community upon the transitional period necessary to bring this adjustment about. We should also require their understanding in order that we might retain monies for the reconstruction necessary to effect the adjustment. He thought that what we should seek in this field would be well within the terms of the Common Agricultural Policy.

(3) The third area of difficulty consisted of the consequences for Commonwealth trade. Transitional arrangements might be made to cover the problems of Australia and Canada. The Commonwealth Sugar Agreement also raised a problem. But New Zealand was, he thought, the only real and continuing difficulty in this field. He thought that all members of the Community would need to face the fact—and he thought they all did—that a permanent and continuing arrangement might be necessary in order to assure New Zealand of continued outlets for her agricultural produce.

(4) Finally the most grave difficulty arose from the effects on Britain’s balance of payments. There was a problem if we had to pay higher prices for imported food. We were after all the largest importer of agricultural produce, much larger than any of the present members of the Community. If in addition we had to pay across the exchanges 90 per cent of the levies imposed on agricultural imports this constituted a very serious problem and would produce an exceedingly inequitable position. Germany was the largest importer of leviable imports at present—£640 million. We imported £970 million of agricultural produce of which £640 million came from sources outside an expanded Community. If therefore price levels remained as at present and the financial arrangements were not changed, we should be paying more than all the other members of the Community added together. He repeated that this would constitute a very serious burden and would be seen by everyone to produce an inequitable result.

The difficulty was compounded by the fact that we had a soundly based and efficient agriculture; and productivity was rising year by year at a high rate. This meant that we would have no substantial claim on Community funds.

He therefore suggested that on the basis of equity and because of the serious effect on the British balance of payments some changes would have to be initiated in order to produce a different result. To some extent the question might be met by transitional periods, but something more fundamental was also required.

Mr. Brown’s conclusion was that none of the agricultural problems that he had mentioned was unsurmountable and that none suggested that we were not in a position to accept the Common Agricultural Policy, but some changes would be required.
M. Harmel thanked Mr. Brown for his precise exposition of the British position. Of course to consider agriculture entirely separately meant that one was looking at an incomplete and rather inexact picture. There was an industrial counterpart of the agricultural question. Whenever a decision had needed to be taken within the Community upon agricultural problems it had been necessary for the members to bear in mind not only the agricultural burdens but the advantages in other industrial sectors. He was sure that the British Government had this wider picture in mind.

He added that the Community's Agricultural Policy had been further developed than it was in 1963. A philosophy had been built up based on three main ideas—Community preferences, the free movement of goods, and Community responsibility for the marketing of surplus agricultural produce. It was on these three principles that the Community regulations had been built. He thought it would be difficult to fit new ideas into a framework which had already been so fully elaborated.

He turned to the four points which Mr. Brown had raised.

(1) His understanding was that the question of the cost of living in the United Kingdom was one capable of solution by a transitional period. This was for negotiation.

(2) He understood also that the distortions in the pattern of British agricultural production might require some structural conversion. As he understood it, we were merely asking for the understanding of our prospective Community partners, and for a transitional period.

(3) As regards the Commonwealth problem he understood that the only problem of a persistent nature was that of New Zealand. He would like to ask for some clarification on this point. Did we intend to ask for special treatment for New Zealand, and if so how long would it be expected to last? Any mention of permanency was a frightening concept to the Belgian Minister of Agriculture.

(4) Finally, Mr. Brown had said that the most important area of difficulty was that involving the balance of payments. In our calculations we had based ourselves upon a continuation of the present trends and currents of trade. If we produced more cereals we should import less and fewer levies would fall to be paid. He understood that we would require a transitional arrangement and some adaptation. He would ask M. van Elslande to put further questions on this point. It was his understanding however that we would want a modification of the key by which national contributions were paid for agricultural purposes. If we wanted more fundamental modification he would be grateful if we could elaborate our position further.

Mr. Brown said he had two comments at this stage. First, as regards reconstruction of British agriculture, he had mentioned more than just a transitional period. He would like the Community to consider the question of the special grants to farmers in certain regions which we made at present; they might be a pattern for the wider changes that would be needed upon our entry to the Community. He felt sure that this concept was within the scope of the Common Agricultural Policy; he would like to use for this purpose some of the levies we should otherwise leave with the Community.

His second point was that we had not consulted New Zealand at this stage. In theory there were however a number of ways in which the New Zealand problem could be overcome—perhaps by a Morocco-type protocol, perhaps by an association agreement with an enlarged Community under Article 238, perhaps by levy-free or reduced levy quotas. It was not necessary to use the word permanent to describe whatever was done. He felt sure however that it was possible to produce a satisfactory result which would in practice permanently take care of the New Zealand problem without prejudice to the Community's Common Agricultural Policy.

Mr. Wilson said, in expansion of Mr. Brown's remarks about the adaptations which would be needed in British agriculture, that at present we had a programme of assistance to remoter areas of the country to grow beef and mutton, of which we were large importers. We paid substantial grants for this purpose. To the extent that the Agricultural Fund could be called on to support such operations the balance of payments problem would be limited.
On the broader question it was, as M. Harmel had said, true up to a point that more attractive prices would result in greater production and smaller imports into Britain and this would reduce levy payments, but the danger was that, if Community prices stayed as at present, we would secure a wrong use of agricultural resources both in Britain and in the Community. We were already large producers of cereals. If there were an incentive to produce more cereals in Britain one result might be that we should actually export cereals. We certainly had no ambition to be the granary of Europe. He thought that resources might be better used in concentrating on livestock production, but this would be difficult because of the present price relationships within the Community.

On the financial regulation M. Harmel had said that there were industrial gains to be set against the agricultural disadvantages. We had indeed tried to consider the pluses and minuses together. There would of course be changes in trade in industrial products. It would be easier for us to sell to the Community. But equally it would be easier for the Community to sell to Britain. These changes would certainly be very healthy. Most industrial experts believed that there would be increased trade in both directions but it was impossible to say quite how the balance would lie. But if we had to pay over £200 million as a result of the Common Agricultural Policy this would involve the acceptance of a crippling burden to make possible the changes in industrial trade. The way we looked at this question was that in the difficult and protracted negotiations within the Community the present members had produced a system of providing the necessary income to the Guarantee Fund to meet calls upon it. British entry, together with the entry of some other EFTA countries, would double the income of the Fund. But Britain, as a major importer of food, would have to pay levies equivalent to those paid by the existing members of the Community. There was therefore a case for a change resulting from the entry of a major food importer; but it would still be inequitable if the contributions to the Fund were merely scaled down proportionately, leaving Britain still to meet half the cost.

M. Van Elslande said that there were two points which he would like to raise in connection with what had just been said by Mr. Wilson. The first was the question of levies and the second the reconstruction of British agriculture. He considered that levies should be looked at as part of the whole complex of financing the Common Agricultural Policy, although he could appreciate the concern which Britain felt about the impact of the levy system. At present only 40 per cent of the Agricultural Fund came from levies, the other 60 per cent coming from contributions from the member States of the Community. The key or breakdown of the 60 per cent was as follows:

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<tr>
<th>Country</th>
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<tbody>
<tr>
<td>Belgium</td>
<td>8.1%</td>
</tr>
<tr>
<td>France</td>
<td>32.0%</td>
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<tr>
<td>Germany</td>
<td>31.2%</td>
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<tr>
<td>Italy</td>
<td>20.3%</td>
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<tr>
<td>Luxembourg</td>
<td>0.2%</td>
</tr>
<tr>
<td>Netherlands</td>
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This apportionment would remain effective until 31st December, 1969, but the assessment thereafter would be open to negotiation.

If he understood the position aright, Britain expended in all £250 million in deficiency payments and in subsidies for structural changes in British agriculture. The £100 million which was spent on the latter would be eliminated as soon as Britain entered the Common Market; she would also have access to the Guarantee Fund. This meant that the Community would be helping to pay for the reconstruction of agriculture in Britain. He thought this was a point to be kept in mind. It was not possible to say at present that the financial burden on Britain of adopting the Common Agricultural Policy would amount to £x. The adoption of the Common Agricultural Policy had to be seen in a global context in relation to the 40 per cent levies and the 60 per cent contributions. If Britain were to join the Community, the apportionment of the 60 per cent would have to be reviewed and discussed; and since Britain would save £100 million per annum on reconstruction grants and would have the benefit of access to the Fund she stood to gain rather than to lose by acceding.

Mr. Brown said that he would like to think that what M. Van Elslande had just said was the case. It did not, however, follow that all our production grants
to farmers would lapse if we adopted the Common Agricultural Policy. It was not necessarily the case that the present members of the Community did not pay production grants to their own farmers. Moreover, even if there were any domestic budgetary saving, this would not help the balance of payments since payments would still have to be made across the exchanges into the Guarantee Fund. It was the question of exchange payments rather than the amount of the payments which was inequitable. Although the percentages were at present 40 and 60, if Britain entered the Community and the system remained unchanged the 40 per cent in levy payments would be likely to increase and the 60 per cent in contributions from members would come down. Britain would be prepared to pay her fair share but would still have to pay over the exchanges an amount equivalent to the contributions of all the other present members of the Community. His conclusion was that, despite the encouraging words spoken by M. Van Elslande, further examination of the problem was required.

Mr. Wilson said that, although M. Van Elslande had said that there was no guarantee that Britain would have to pay substantial amounts across the exchanges to the detriment of our balance of payments, there was equally no guarantee that we would not have to pay such amounts.

M. Harmel said that the question of the figures had better be left in view of the need to bring the morning session to a close. The questions his Government had raised were not intended to complicate the problems facing Britain. He noted that the effect on the balance of payments of adopting the Common Agricultural Policy was the most important of the difficulties envisaged in Britain’s accession to the Community. Study of the problems involved should continue and understanding of them should continue to be shown on both sides of the table.

Mr. Brown said that he also wanted to put on record the question of arranging a form of association for Commonwealth countries in the Caribbean and in Africa if Britain joined the Community. He did not think that associated status for them would present a real difficulty.

Mr. Wilson said that the discussion on the Common Agricultural Policy had been useful; further aspects of agricultural policy might be discussed in the afternoon, although most of the ground had been covered and it would not be necessary to go into details over the Commonwealth Sugar Agreement.

The meeting adjourned at 11.45 a.m.


Present:

The Right Hon. Harold Wilson, M.P
The Right Hon. George Brown, M.P
H E Sir Roderick Barclay
Sir Burke Trend
Sir Con O’Neill
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. C. M. MacLehose
Mr. C. O. I. Ramsden
Mr. J. Wraight
Mr. T. Lloyd-Hughes
Mr. D. J. D. Maitland
Mr. N. Statham
Mr. B. M. Thimont
Mr. W. K. Reid

M. Vanden Boeynants said that M. Harmel had given him an account of that part of the morning’s proceedings at which he had not been present. He then invited M. Harmel to speak further.
Community institutions

M. Harmel said that the greater the number of members of the Community the more perfect its institutions must be. It would be inadvisable in these circumstances to regard the Commission as no longer possessing active responsibility—it must be allowed to function both de jure and de facto and know what its mandate was. With an increase in the number of states represented in the Council of Ministers, the proceedings for the conduct of their deliberations became more important. This was a question which had been considered at Luxembourg where the importance of the principle of majority voting had emerged. It was essential that this form of procedure should continue since, with the greater the representation on the Council, the greater would be the difficulty of securing unanimity in a vote. On the other hand, questions which had already been decided on the basis of unanimity could not be changed by a majority vote. For the future it should be the aim for all decisions to be taken unanimously, but where this was not possible, there would have to be a strict application of the provisions of the Treaty of Rome. The entry of a great State into the EEC, followed possibly by a number of others, would make it even more important to specify the institutional procedures which should govern discussions within the Community.

Mr. Brown said that it must be recognised that the accession of new members to the EEC presented not a problem but a challenge to the rest of the Community even though the mechanics of its operation might become more difficult. Britain fully appreciated the argument for majority voting, although we considered it wrong for us to express a view on the subject while still outside the Community. If we entered the Community, we would be willing to operate any system of majority voting which was acceptable to the Community as a whole.

M. Vanden Boeynants thanked Mr. Brown for his important statement of attitude and proposed that the discussion should now turn to monetary problems, capital movements and technology.

Capital movements

Mr. Wilson said that on the matters discussed in the morning relating to the Common Agricultural Policy and the position of our partners in the Commonwealth he had nothing to add. He now proposed to turn to the question of capital movements which raised certain difficulties for Britain if one looked at the precise terms of the Treaty of Rome. But we were more interested in what had happened in practice in the past than in the strict letter of the Treaty.

The Treaty of Rome drew a distinction between direct and portfolio investment. As an example of direct investment, Mr. Wilson cited the example of a German firm setting up a subsidiary to carry out manufacturing on its behalf in France, Italy or possibly in Britain after entry into the EEC and providing the necessary capital. This was a situation which it was a corollary of the existence of the Community to permit and encourage. Upon entry into the EEC Britain might need a little time to operate the system as had some of the six at the outset of the Community: but we saw no real problem here. Freedom of portfolio investment, on the other hand, constituted a different question. At the present time Britain exercised a tight control over portfolio investment by its citizens in non-scheduled territories, i.e., those outside the sterling area; some countries in the EEC had no controls whatsoever over investment moving outside the Community and there was no general control such as that currently exercised by ourselves. Many people in Britain wished to invest in the United States and Latin America and were unable to do so now except under stringent rules. Freedom for British investors of portfolio investment in the EEC countries would enable money to go outside the Community, for example, to the United States. He did not regard it as a European task to provide investment capital for property deals in America—a country which could hardly be regarded as under-developed. Complete freedom from controls in this context could result in a very substantial drain of funds from Europe across the exchanges with a particularly adverse effect on Britain's balance of payments.

There was a clear distinction between direct investment which encouraged trade and exports and portfolio investment which was of a purely financial character and sometimes highly speculative in nature. In his view the whole problem was capable of solution but only if the distinction between direct and portfolio investment were maintained.
M. Vanden Boeynants replied that Mr. Wilson's outline of the position went some way towards meeting many of the anxieties which had been felt in Belgium on this score and which had aroused considerable interest. He proposed to ask M. Harmel, who had already had some discussions with the Belgian Minister of Finance and other specialists, to explain how the Belgian Government saw the problem and what were their ideas regarding possible solutions.

M. Harmel said that reports had been received from the Belgian Embassies in Rome and Paris on the economic situation in Britain with particular reference to the balance of payments as these subjects had been developed during the visits of Mr. Wilson and Mr. Brown to those capitals. The Belgian Government greatly admired the energy of the British Government in tackling these problems and they welcomed the prospect of Britain achieving equilibrium on its external account in the near future.

The problem which had been raised by Mr. Wilson and which had now been passed to him by his own Prime Minister related to the question of investment. On this the Belgian Minister of Finance would wish to consider the matter further; but in the meantime he proposed to put forward some views which would reflect those of his financial colleague. He welcomed the distinction which the British Government made between direct and portfolio investment. He welcomed especially the fact that we saw little difficulty over the question of direct investment since this was vital for the expansion of engineering and technology, particularly in relation to the computer industry where Britain was currently in the lead. He appreciated that portfolio investment presented a more difficult problem in which both the Belgian Government and others were particularly interested since the Treaty of Rome provided certain specific safeguards. In his experience, however, such activities tended to be rather limited and not likely to produce effects injurious to national economies. Admittedly there was a risk in this for all, but Belgian experience so far had not assessed the risk as particularly serious. This was also a two-sided question; in addition to the situation which Mr. Wilson had described, there was the possibility of EEC monies being invested through Britain in the rest of the sterling area. He was, however, confident that a solution to the problem could be found.

Mr. Wilson echoed M. Harmel's confidence that a solution could be found but noted that the problem existed despite the very clear exposition of the Belgian Government's view. He had already provided figures of Britain's current trade balance and the financial columns of reputable newspapers showed the present state of sterling and the general confidence in it. He expressed our appreciation of the help given by the Belgian Central Bank (which he was sure reflected the goodwill of the Belgian Government) during the first two years of his administration. The Labour Government had inherited in 1964 a balance of payments deficit of £800 million; this had been reduced to £320 million in 1965 and had been cut substantially again in 1966. The prospect for 1967 was that the British economy would be moving into surplus on external account. Any pressure on sterling normally arose from weakness in the balance of payments and for that reason it had been his Government's first priority to correct Britain's foreign exchange position. With this objective they had accorded priority to exports, had sought to avoid inflation by adopting a firm prices and incomes policy, and had imposed a control over excessive capital movements.

The provisions of the Treaty of Rome, and the EEC arrangements generally, indicated that the Community were aware of the difficulty originally encountered by the Six in the liberalisation of capital movements. M. Harmel had suggested that that was a two-sided question and that investors in the Community would not want their thrift dissipated in third countries; but there was not really a parallel, since Britain controlled portfolio investment. It would be necessary for Britain to maintain controls over direct capital movements to countries outside the Community but only over a transitional period.

Portfolio investment presented a more intractable problem. Our present controls meant that a British citizen who wished to sell his sterling shares and transfer the proceeds across the exchanges for the purchase of non-sterling securities could do so only by acquiring such shares already held by another British citizen through the investment currency market which operated at a discount against.
normal exchange rates. The discount served as a deterrent. To free the movement of portfolio investment would create a channel for British investment via the Community to third countries and Belgian experience did not provide a complete answer to the potential difficulty which he foresaw. Britain possessed a well-developed capital market; France was currently developing one and to this end had recently liberalised her capital movements. Mr. Wilson gave as an example of the kind of difficulty he had in mind the position of a British financier, linked with a United States company and with connections in the various monetary centres of Europe. Without strict controls money could flow out quickly from London via the EEC to the United States by virtue of the normal banking arrangements. This was a problem which the Community had not yet tackled. A solution might be found by providing, in agreement with the Community, that investment currency should be obtainable at a lower rate of discount or through a control of portfolio investment in EEC countries. But these were problems for discussion by experts in financial matters.

M. Vanden Boeynants recognised that a real problem existed here both for Belgium and for many other members of the Community, although not on the same scale as for Britain. It was too technical to discuss in further detail at the present meeting although it was clearly necessary for it to be looked at by the Community whether Britain were to join or not. In his view the problem would be no more difficult to solve if Britain were a member than if she were not. It was a matter for experts and should be left to be dealt with accordingly.

Mr. Wilson, in agreeing with M. Vanden Boeynants, added that the risk here to Britain was open-ended; at the same time, however, it must be recognised that there could well be an inflow of funds from the Community into Britain as was currently the case although the continuance of this situation could not be relied upon. Article 70, sub-paragraphs (1) and (2) of the Treaty of Rome provided for the Council of Ministers to co-ordinate action to prevent undue capital movements between members of the Community and third countries. In view of these provisions the question would be one for discussion between the British and Belgian Governments and other Governments in the Community; the Commission should also be associated with the discussion.

Sterling

M. Harmel then invited Mr. Wilson to discuss the question of sterling as a reserve currency, as he had apparently done during the talks with General de Gaulle in Paris. In the opinion of the Belgian Government there were both advantages and disadvantages in introducing a reserve currency into the monetary arrangements of the Community. Although they did not in any way feel the need for a reserve currency in the Community they considered the two main advantages of introducing sterling lay in (a) the international role of sterling with its monetary, trading and commercial emanations, and (b) the sophisticated financial techniques of London together with London itself as a great financial centre. These constituted the two positive aspects of sterling as a reserve currency.

He then said that Mr. Wilson had been reported as having said in Paris that there could be burdens and charges as well as privileges and honours in having a reserve currency. Could Mr. Wilson amplify what he meant by burdens? For his own part M. Harmel regarded a reserve currency as also imposing a dual burden, one aspect serious and one less troublesome. Article 108 of the Treaty of Rome provided a remedy for a national currency in difficulty; but the Article was not drafted with a reserve currency in mind since none of the members of the Community maintained a reserve currency in the full sense of that term. Should difficulties in relation to sterling arise either in a Commonwealth country or in the sterling area generally, if Britain were a member of the EEC, it would be presumably incumbent upon the other members of the Community to help to shoulder the burden. It was therefore important for the British Government to indicate at the present stage how they envisaged that such a situation might develop. Secondly, if in the long term a single currency were to become a desirable feature for an integrated Community, the existence of sterling as a reserve currency within the Community might be a factor complicating this development. There appeared therefore to be a basic difficulty about introducing a reserve currency into the Community on which the views of Her Majesty's Government would be welcome.

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Mr. Wilson said that his remarks on sterling should not be treated as views of an expert. To say that sterling was a privilege and an honour which had to be paid for was an incorrect report of what he had said in Paris. He had said that there might be some members of the Community who would think that there would be prestige in having a reserve currency. Britain did not think so. We looked on it as a banking problem with assets and liabilities. Bankers found themselves in difficulties if their liabilities had all to be met at one time. He did not think that he was betraying any confidence (since the series of talks was a continuing one) in saying that President de Gaulle had not taken a stand on the prestige argument.

It might be useful if he said something about the role of sterling and sterling balances. In the first place, sterling was the currency of Britain and of her trade as the franc was of Belgium. Sterling was liable to be weak if the United Kingdom balance of payments was weak, and it was to the balance of payments of member countries that Article 108 of the Treaty of Rome referred.

Sterling was also a reserve currency—but that was not a matter of prestige or honour. Sterling had acted as a reserve currency for members of the Commonwealth just as, in a similar way, the French franc had been a kind of reserve currency for former French territories in Africa. He supposed—though he did not know—that the Belgian franc had played a similar role in relation to the currencies of Belgian former colonies. The fact that a currency was a reserve currency was usually a stabilising factor. Several countries still kept in London substantial sterling balances for the purpose of guaranteeing their own currencies.

Sterling was also a trading currency. When confidence in sterling had been low, some international financial and trading organisations, firms and currency speculators had run their sterling balances as low as possible but, with the renewed confidence in the pound, they had been increasing their sterling balances. Some speculators who had sold sterling in the summer of 1966 were now obliged to buy it back at a higher price. Sterling was used not only by those who needed working balances in order to settle their trade accounts but also by those who accepted sterling for settling third country transactions in which neither Britain nor sterling area countries were involved. For example, an enterprise in an Eastern European country might buy goods from South Africa and settle its account in sterling. Sterling was used in this way as a trading currency like the dollar and like certain other European currencies which were coming to be used more regularly as trading currencies. It was no secret that the French franc was being developed as an international trading currency.

It might be suggested that, if sterling balances were reduced because trading countries and large enterprises ran down their working balances of sterling, this would create dangers for the Community, if Britain had been admitted as a member, since, under Article 108 of the Treaty of Rome, something might have to be done to support sterling. There might be a fear that Britain would have to deflate and, as a member of the Community, drag the other member countries into deflation. But an analogy with the case of Italy when the lira had suffered from Italy's weak balance of payments was inexact for the following reason.

Even in periods of currency crises, sterling balances remained remarkably stable. Since the last war they had remained at a figure of around £4,000 million. It did not suit the convenience of countries with large sterling balances to run them down: indeed, in July 1966 sterling balances had risen instead of fallen. Moreover, protections were afforded by the Central Banks who worked together in order to avert sterling crises. In 1966, the Central Banks of Europe, including the Belgian Central Bank, had helped to keep the sterling balances very steady.

Under the Basle Agreement, to which Belgium subscribed, pressure on sterling could be dealt with by pooling arrangements. This was a matter of regular monetary co-operation which was quite distinct from the Common Market. Furthermore, if sterling area countries reduced their sterling balances, we still had substantial assets; our overseas assets substantially exceeded the level of sterling balances.
It was impossible for him to forecast the nature of any arrangement that might be reached with the Community on the future of the sterling balance system. He saw no cause for anxiety on the part of the Community in view of the substantial overseas assets we held. But if our friends in the Community invited us to join, we could discuss the matter of sterling balances with them, although no problem arose because our assets exceeded our liabilities.

Various proposals had been made to fund the sterling balances and pay them off over a period of perhaps 50 years. That was a proposition which could be further considered although there were some inherent defects in M. Debre's suggestions. Other suggestions included one that the International Monetary Fund (IMF) should take over liability for the sterling balances. This was a question which could not be examined at the present meeting but might be looked at by the Group of Ten and the IMF. If the question of assets and liabilities could be put in a European context, the British Government would be prepared to discuss the matter with the Community.

As regards the question what would happen if, in the longer term, the Community were to create a single European currency, the answer was that this was not ruled out by the British Government. Indeed, it might be more acceptable to Britain than to certain of the present members of the Community. It was possible that a way could be found of combining a single European currency with funding the sterling balances which might put an end to anxiety about their future for the rest of the 20th century. The fundamental point, however, was that the sterling balances could not be said to be a threat to the stability of the Community if Britain were to join it.

M. Vanden Boeynants said that Mr. Wilson had given a very clear exposition on sterling. The Belgian Government had noted the explanations he had given and the stand he had taken on matters of principle. It should now be easy to refer the matter of sterling balances to the experts for further consideration if need be. M. Harmel had mentioned certain questions but he should add that there were other possibilities and other arguments being deployed in Belgium about the place of sterling in the world which had not been touched on in the present discussions. Mr. Wilson had given clear answers and the result had been substantial progress towards understanding. Unless there were experts present who wished to comment on sterling, he proposed that the discussion should now turn to questions of technology and Europe's lag behind the United States in technological development.

Technology

In Belgium the Prime Minister was responsible for the co-ordination of scientific and technological development. He had therefore been glad to read the statements on technology made by Mr. Wilson a few months earlier and a few days before the present meeting. In technological and nuclear matters the structure of European development was disappointing. There was great difficulty in doing things in common because of the individual interests of France, Britain and Germany, who preferred bilateral to multilateral co-operation. At present, a number of separate initiatives were under discussion. For example, President Johnson had established a commission charged with the task of looking at the reasons for the backwardness of technological development in Europe by comparison with the United States. A second initiative had been provided by Signor Fanfani's proposals for European or NATO collaboration in technology. The third initiative came from Belgium. He proposed that there should be a meeting at the end of February or in March of European Ministers of Science to discuss the problems of disparity in technological development and "know-how". The lag between the United States and Europe was becoming more and more disquieting. In 1966, M. Harmel had proposed in Paris the establishment of European co-operation, separate from the United States, in technology and space research. But Mr. Mulley, who had then been the British Minister of Aviation, had not given the proposal a very warm welcome. In July 1966 he had himself proposed the establishment of a European group for the exploitation of space satellites; again the British reply in November 1966 had not been very encouraging. Britain had a great contribution to make to European
technological development and it could only reinforce the position of those who wanted to see her in the Common Market. He would like to know what the British view would be of the proposition Belgium would make at the meeting in February. If the Six had agreed on a co-ordinated policy, they would invite Britain to join them in developing this initiative. He would therefore like to know whether Britain would regard a technological community as distinct from, or the same as, the Economic Community.

Mr. Wilson said that he had noted with interest that M. Vanden Boeynants was personally responsible for the co-ordination of science and technology. When he himself had formed his Administration in October 1964 he had established a new Ministry of Technology. Its task was to be responsible not for pure science but for the application of science to industry. It controlled the Atomic Energy Authority and was responsible for such industries as engineering, electronics, machine tools, motor cars and, most recently, aircraft. Its direct employment of industrial scientists and technologists was about the largest in the free world outside the American Department of Defense. As Prime Minister, he himself chaired a committee of Ministers concerned with science and technology.

Turning to the initiatives which had been mentioned, he said that Britain welcomed Signor Fanfani’s initiative because, like M. Harmel’s it put the question of technology on the European map; technology had been neglected for too long in our international arrangements. But Britain doubted whether NATO was the right place for this initiative for reasons which it was not necessary to go into at the present meeting.

As regards M. Vanden Boeynants’ own initiative, he thought that it would be a good thing and that Britain would like to participate in it if it bore fruit and if it led to further scientific and technological discussions between the Six and Britain. Co-operation on space research and satellites must, like all other expensive projects, be properly evaluated for cost effectiveness. Britain played a full part in ELDO and ESRO, but in satellite technology Europe could only hope to limp a long way behind the United States and the Soviet Union. Expenditure on such costly projects must necessarily be a matter of priorities.

European backwardness had been mentioned. If there was one area in which Europe was backward in relation to the United States, it was in the application of science to industry. He believed that, in pure science, Europe had as fine a record as any country in the world but fell behind in applying it to industry. He had often referred in his speeches to the tragedy of discoveries worked out in British laboratories (and he had no doubt that the same applied to European laboratories) being applied to practical use in the United States. As a result, Britain and Europe had to pay the United States royalties for the development of their own ideas. With this in mind he had established the Ministry of Technology in order to modernise British industry and to apply science to industrial processes.

Both in his speech at Strasbourg and at their morning discussion, he had referred to the computer and aircraft industries which were costly in research and development; if the results of the research and development could be sold only in a small national market the expenditure involved would not be worthwhile. Two years earlier, the British computer industry faced destruction at the hands of the United States computer industry. He had therefore asked the Minister of Technology to ensure that the British industry should be saved. It had now become viable and was indeed launching itself into Europe in competition with the American computer industry. By contrast, France, as he had mentioned in Paris the previous week, now had no independent computer industry. The same would be true of many other industries. Co-operation between Europe and Britain would be needed if we were to be competitive with the United States. If we did not co-operate, we should be second-class producers turning to conventional out-dated tools and machines and depending increasingly on the United States for the modern tools of industrial advance which it would be impossible for us to develop independently in our limited market. 180 million consumers in the Common Market could become 280 million if Britain and certain other countries joined the Community. These greater figures would
allow us to compete on equal, indeed on more than equal, terms with the United States. Britain for her part was ready to engage in talks on technological co-operation—but at the end of the day technological co-operation would not succeed if the countries involved remained economically independent. Co-operation could only be effective if we had a joint market without tariff barriers.

During their discussions in Paris, Mr. Brown and he had been told that bilateral collaboration would still be feasible even if Britain did not join the Community. The costs of research and development would be halved and the markets would be doubled—but in respect of collaborative projects on aircraft there was an assured market in the French and British armed forces. The same did not apply in the civil field. Willingness to co-operate in bilateral technological projects would lead to very little, unless there was an enlarged market for the results of collaboration. In other words, technological advance and the development of the Community went hand in hand.

The question posed by M. Vanden Boeynants whether there could be a fourth community devoted to technology was a matter for those charged with the direction of the three existing Communities. There might be a case for superimposing it on EURATOM, which had been a slight disappointment. If the three Communities became fused into one, it would probably not be sensible to have a separate technological community: instead there could be a technological arm of the fused community. Just as in Britain the Ministry of Technology aimed to integrate technological development and industry, so in a Community that included Britain there would be advantage in technology being integrated with the rest of the work of the Community.

M. Vanden Boeynants said that he was particularly happy at what Mr. Wilson had just said because it coincided with his own policy on technology. He agreed that, if technology were to be applied profitably to industry, a market bigger than a national one was essential. For this reason, technological co-operation was a very live issue in Europe. He agreed that a market of 280 million consumers would give Europe a chance to compete with the United States and the Soviet Union. If Britain gave a favourable answer to the proposal that she should examine, together with the Six, the problem of the technological lag behind America, the discussion would not necessarily be limited to a mere exchange of views but could include the possibility of integrating markets. If Britain were a member of the Community, much of the preliminary work in creating a technological community would have been done in advance.

Mr. Wilson observed that Britain and the United States worked together for technological advance, and the American President's and his own Chief Scientific Advisers collaborated closely. Nevertheless, our interests differed from those of America in building up European technology.

Conclusion

M. Vanden Boeynants observed that God helped those who helped themselves. Before adjourning to a more restricted session in order to continue the talks held after dinner on the previous evening, he wished to say how grateful the Belgian Government were to Mr. Wilson and Mr. Brown for visiting Brussels and exchanging views so frankly; he thanked all those who had taken part in such a positive, if brief, discussion. It had been a pleasure to welcome Mr. Wilson to Brussels for the first time and he hoped it would not be for the last time.

Mr. Wilson thanked all those who had helped the progress of the talks and expressed his gratitude to the Belgian Government for their hospitality and for making so much time available for discussions. The talks had been brief but very thorough and represented an important stage in the series of talks with the Heads of Government of members of the Community. At the end of the tour, Britain and the Six would have important decisions to take. Britain would have to consider the experience of the present members of the Community and when, as he hoped, negotiations for entry to the Community took place, Britain would be well prepared and many of her problems would have been eased as a result of these informal talks.

The meeting adjourned at 6 p.m.
"Building Europe": Further discussion

M. Harmel said that he would like to pursue a little further the suggestion which M. Vanden Boeynants had mentioned to Mr. Wilson and Mr. Brown in their private discussion on the previous evening. The feeling which had prompted this proposal was that, if there was mere stagnation so far as the development of European political "construction" was concerned, this might create, or aggravate, an internal problem in Germany. This was something to be prevented, if possible; and the Belgian Government therefore wanted to be assured that any step which they took to advance the development of some kind of political structure in Europe would not be in a direction of which the British Government would disapprove. It was for this reason that M. Vanden Boeynants had asked whether the British Government would see any objection if the Belgian Government ventilated with the rest of the Six the idea that, as regards a limited list of subjects (which would exclude military questions), it might be possible to promote between all the countries with a European "vocation" some understanding or agreement that they would take no action as regards subjects in this list without prior discussion and, if possible, agreement between themselves. The possibility of economic collaboration with Eastern Europe was one example of the type of subject which might figure in a list of this kind.

If this idea was to be launched, however, it must be a serious idea, in the sense that the understanding or agreement which it envisaged must be serious in intention and the subjects on the list must be serious in nature. Subject to this proviso, however, the proposal could be a valuable test of the goodwill of those invited to take part—whether they were members of the EEC or not—towards the concept of a further move towards political unity in Europe. But, if the British Government had doubts about the whole project, the Belgian Government would think very carefully before they took any action. Meanwhile they had consulted Holland and Luxembourg; but they had said nothing to the Italians or in Bonn or in Paris.

Mr. Wilson said that he noted and appreciated the confidential nature of M. Harmel's remarks. He would like to ask two questions:

(a) Would the subjects on the list be exclusively European in nature; or would some of them extend beyond Europe, to include issues arising in, e.g., Africa or the Middle East?

(b) Had the Belgian Government any inkling of the probable French reaction to their proposal?

M. Harmel replied that, as regards Mr. Wilson's first question, the Belgian Government had not yet defined the list of subjects with any precision. All that they knew was that it must be short—the whole enterprise would be an experiment and must therefore not be too ambitious at the outset. But another example of the type of subject in mind would be the preparation of a European position on some issue to be discussed at an international conference. In this sense the subject matter need not be exclusively European.
Mr. Wilson intervened at this point to add a third question. Would the countries who would be associated with the EEC in this enterprise include, or exclude, those European countries which were politically neutral and were not members of NATO?

M. Harmel replied that he could perhaps answer Mr. Wilson's second and third questions together. So far as the French attitude was concerned, the Belgian Government had long since stopped consulting the crystal ball. He could say, however, that on a recent occasion in Paris an idea of this general character that he had put forward had been reasonably well received by M. Couve de Murville. That was the only olive branch to which he could point; he could not forecast the final French attitude.

He continued that all progress towards greater European political unity must be on a coherent basis aiming at a total result. Because it must be coherent, it could today include only Western, and not Eastern, Europe. But, if it was to be total it must to some extent cover defence. It followed that all taking part in progress towards such unity must be prepared to play their part in the common defence. This meant in turn that neutral States, if they wanted to play their part, must give up their neutrality. The conclusion he reached was that the process would have to be started more or less on the basis of the European members of NATO.

Mr. Brown said we would like to think about the Belgian proposal. His immediate feeling was that the kind of project M. Harmel was contemplating might offer too many people too much opportunity for delay. But he would like to think it over.

Mr. Wilson remarked that to some extent what M. Harmel was proposing was, in spirit, like the Belgian Prime Ministers recent proposal on technology. Part of the purpose, it seemed, would be that not only the Six but others too should begin working together to prepare for the day when they could all act together from within a single organisation. This seemed in principle a good idea. Meanwhile he would be grateful if the Belgian Foreign Minister could give him some idea of what he expected the results of the meeting of the Six in Rome to be. He had indeed said the night before that he hoped this meeting in Rome would not lead to an agreement to embark on a search for political union which might delay our entry, perhaps for a long period. For some people might want delay. Mr. Wilson concluded that the British Government must think over what M. Harmel had proposed. They would no doubt meanwhile want to go ahead; and he hoped they would keep us in touch.

Mr. Brown enquired whether M. Harmel thought his rather limited plan would really have much appeal to the German Government. But yet, if a more ambitious plan were evolved which might appeal to them, would it not risk opening up too many complications?

M. Vanclen Boeynants summed up with three points. First, whether these proposals would appeal to the Germans only they could say. Second, it would be most unwise to put forward such an initiative unless it was sure of success. It was for this reason that the Belgians thought of trying to persuade the Germans to put the idea forward, since they thought it would have a better chance of success if the Germans did so. Therefore, all Six, including the French, must be agreed before the meeting in Rome to move ahead on this basis. Third, Mr. Wilson's analogy with his proposal on technology, was not quite exact, though pretty close. The Belgian Government's objective with this political proposal was to give both Germany and Europe a psychological shock. But the motive underlying his technological proposal was present, too; for, if the Six passed on their proposal to Britain, and Britain accepted it, then this would constitute a large positive factor in favour of British accession to the Community. He could in any case assure Mr. Wilson that the Belgian Government were determined not to allow an enterprise of this kind to develop in such a way as to threaten delay to the possibility of British entry to the Community.

M. Vanclen Boeynants concluded that it was natural that the British Government should wish to think over the Belgian Government's proposal. But he hoped that they would be able to give a reaction very soon. For he did not think it was likely that the Belgian Government would wish to go ahead without British approval. That was why they had not yet mentioned their ideas to the Germans, Italians or French, but only to their Benelux colleagues, the Netherlands and Luxembourg.
RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE FOREIGN SECRETARY AND MEMBERS OF THE EEC AND EURATOM COMMISSIONS, AT 21 AVENUE HENRI PIRENNE, BRUSSELS, ON WEDNESDAY, 1st FEBRUARY, 1967, AT 2.30 p.m.

Present:
The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Sir James Marjoribanks
Sir Burke Trend
The Hon. Sir Con O'Neill
Mr. A. N. Halls
Mr. C. M. MacLehose
Mr. A. M. Palliser
Mr. N. Statham

M. Pierre Chatenet
Dr. Sicco Mansholt
M. Robert Marjolin
M. Jean Rey
M. van der Groote
Dr. Axel Herbst

Form of negotiation

Mr. Wilson said he would welcome the opportunity of a more general discussion to follow up the separate discussions which he and Mr. Brown had had with the Commissioners during lunch. He wished to enquire what the Commissioners thought of the desirability of an eventual resumption of our former negotiations as opposed to our making a new application. Mr. Brown added that if, when Her Majesty's Government came to decide their next move in the light of the discussions currently taking place, they took a decision to go ahead, the tabling of a new application would be a matter of some considerable importance. We would not wish to risk a second veto. To resume the suspended negotiations might be an alternative. He did not say that Her Majesty's Government would wish to do this but merely enquired whether they could do so. Dr. Mansholt said that this was a juridical rather than a political question but, in his view, speaking politically, he thought it would be difficult merely to resume negotiations. He personally would be against a resumption; the political decision taken by Her Majesty's Government in these circumstances would, he thought require a new start.

Mr. Wilson agreed that a major political decision would be involved but he would like to know what the juridical position would be. If we were to join the Community we should carry out our obligations to the full. We would not therefore wish to start off in a bad juridical position. But he thought that Mr. Brown was right in that, if a new formal application were made and we were rebuffed once again, it would be very difficult to contemplate a third attempt. Would it not therefore be better to resume the suspended negotiations?

M. Marjolin agreed with Dr. Mansholt. If we said we wished to resume negotiations he was not sure that the psychological reaction would be good on the part of all the Six. Each of the Six would wish to have a say in the decision.

Mr. Wilson suggested that perhaps his purpose in raising the question had been misunderstood. Certainly we would only negotiate if we thought there was a good prospect of getting in. But we would like to be able to start the negotiation without stumbling over the juridical objection that we had taken the wrong decision as to resumption or a new negotiation. Mr. Brown said that much would depend upon what we knew of the real intentions of the Six by the end of the current round of discussions. We knew generally the attitude of the Five. We were less certain of the French attitude. If we could be certain of that, then Her Majesty's Government could take their decision and it would perhaps not matter greatly whether a resumption or a new negotiation were asked for. If there were however a large area of uncertainty, then we might have to choose between a form of pre-negotiation, which he personally would not like, and risking an application which might be turned down. The point was that if we made a new application and were turned down, we might be driven into other courses.
Dr. Mansholt repeated his view that a fresh start would be better since he thought that to resume negotiations would bring out all the old files and dossiers, even though, he agreed, not everything in them still had to be regarded as applicable.

Mr. Brown agreed that perhaps, since we did not wish to go into the same detail as in the 1961-63 negotiations, there might be some advantage in starting afresh; much would however still depend upon what one knew of the probable outcome. Mr. Wilson enquired whether the Community had any legal advice indicating whether a resumed or a new negotiation was more appropriate.

Mr. Chatenet said that both possibilities were open from a juridical standpoint. It was quite clear that in 1963 the negotiations had merely been suspended. The decision was therefore a political one. M. Rey added that certainly the 1961-63 conference had only been adjourned, and could be resumed. If resumed, it would probably have to begin immediately at varying levels, both of experts and Ministers. But he wondered whether at the end of the present round of discussions, if it seemed that a reasonably satisfactory solution could be expected, we would find everyone ready to negotiate immediately. There might still be some problems requiring further discussion before a proper negotiation could start. Mr. Wilson said that this brought us back to the question of a pre-negotiation. We would certainly not wish to embark on a formal negotiation if the spirit of any of the Six suggested that at the end of the day we would still not be able to enter the Community. We had made clear that we wanted to treat this question as a matter of high political importance. His own and Mr. Brown's visits to Community capitals showed that we had it in mind to deal with the question on a political level without becoming involved in minor technical detail. We wished to maintain the political momentum and did not want long technical negotiations at any level. If some things still remained to be overcome, he and Mr. Brown might need to renew their approach. He was sure that General de Gaulle recognised that we were treating the question as a political one.

M. Marjolin said that he could see no significant difference between a resumption and a new negotiation. In either case, if we failed, there would be extreme discouragement. If we resumed and failed it would be difficult to envisage a second resumption. The big question was whether after Her Majesty's Government had evaluated the present round of discussions we could apply for a negotiation or whether further conversations might be required. Dr. Mansholt added that, even though Her Majesty's Government might say that they wished to resume negotiations, the Community might prefer new negotiations. This question could conceivably be discussed in a pre-negotiation.

General problems

Mr. Wilson said that we were still not half way through the round of visits to Community capitals. The problems however seemed to be—

(a) agriculture and the Commonwealth, which had many aspects, but the central difficulty in which was the financial regulation. Among Commonwealth aspects New Zealand was perhaps the most important;

(b) capital movements;

(c) problems which we ourselves did not see as difficulties but which were in the minds of other members of the Community, such as the sterling balances and the role of sterling as a reserve currency. He felt sure that the difficulties here resulted from a misunderstanding of the real position; and

(d) possibly, regional policies.

But in addition to all these he thought there was a feeling among some of the Six that the Community was now a cosy, nicely arranged organisation, the serenity of which could only be disturbed by the advent of ourselves and some other EFTA countries. Their thought was that to widen the Community would be to weaken it. We contested this view. If the Community were regarded as a train, it was our intention to add more coaches and provide a more powerful locomotive. We certainly did not intend to tear up the tracks or change the signals. He wondered whether the Commissioners would care to comment on this aspect.

Mr. Brown added that the issues were clearly narrowing. He agreed that the sterling problem still required to be fully understood and that, as understanding...
grew, it would be seen to be less of a barrier. Finance arrangements under the
Common Agricultural Policy were also a difficulty. But the problem which
Mr. Wilson had mentioned was perhaps beginning to bulk largest in importance.
Some in the Community perhaps felt that the accession of new members would
only present fresh difficulties. The question was really whether the Community
should be open to new accessions or whether the Community was frightened of
additional members.

Dr. Mansholt commented that there were different points of view within the
Six. The Six had had plenty of difficulties in the past but they were now bound
together. But his opinion was that if the Community were not expanded then
the only alternatives open to it were to make association arrangements with other
countries or to establish a kind of free trade area. These alternatives seemed
to him to present a greater danger than the expansion of the Community.
Certainly the accession of new members would bring with it the need for a new
running-in period. After that the political development of the Community might
perhaps proceed. His own attitude was therefore that the Community should
expand; he thought there was no real choice.

Mr. Wilson enquired whether Dr. Mansholt implied that perhaps a period
of associate membership might be necessary as a transition to full membership.
We ourselves thought this would be totally wrong. But he judged rather that
Dr. Mansholt felt that the Community would be weakened by a number of loose
associations not by a number of additional countries becoming full members.

Dr. Mansholt confirmed his view that a series of associations would be
extremely dangerous to the Community. Thought there were some cases where
association would be necessary, e.g., Switzerland and Sweden.

M. Rey added that the Community had faced the same problem in 1961; the
Council of Ministers had taken a favourable decision to negotiate, not only with
ourselves but with Norway, Denmark and Ireland, for full membership. But he
thought the most important aspect was the strength of the Community’s institutions.
If a community of ten members or more worked on the basis of unanimous voting,
then the Community must become like the OECD. If, on the other hand, the
Commission were able to continue the exercise of the power provided to it under
the Treaty of Rome, and majority voting were the rule, then the Community could
continue to develop.

Mr. Wilson commented that whatever obligations we undertook we should
certainly carry out within the Community.

M. Rey repeated that, compared with all the other European organisations—
OECD, Council of Europe, WEU, even Benelux—the Community was only one
able to carry our strong policies; this was because of their strong institutions. It
was necessary to maintain the dynamism of the Community.

M. Marjolin said he thought that if Britain established links with the
Community it should certainly be in the form of full membership and not
association. The Community would certainly be strengthened by our accession.
He was sure his colleagues would agree. But there was a problem arising from
the mechanical difficulties of running a larger Community including not only
ourselves but Ireland, Norway and Denmark. These difficulties increased in a
geometrical progression as the number of members grew. On top of this there
would be the difficulties of making arrangements for the association of all other
European countries. Once Britain was in it would be impossible for the
Community to discriminate against anyone in Europe. Arrangements would have
to be made for Austria, Switzerland, Sweden, Portugal and Spain. Any association
in turn limited one’s freedom of movement, and he thought the danger of the
Community’s degenerating into something like the OECD—which had been able
to deal only with trade and commercial problems, but to make no further significant
progress—was a real one.

Agriculture

Mr. Wilson said he thought that, as time was drawing on, it would be as well
to discuss the agricultural question.

Dr. Mansholt said that, although the Commission had had definite views in
1964 on the shape of a definitive arrangement for Community agricultural financing.
grew, it would be seen to be less of a barrier. Finance arrangements under the Common Agricultural Policy were also a difficulty. But the problem which Mr. Wilson had mentioned was perhaps beginning to bulk largest in importance. Some in the Community perhaps felt that the accession of new members would only present fresh difficulties. The question was really whether the Community should be open to new accessions or whether the Community was frightened of additional members.

Dr. Mansholt commented that there were different points of view within the Six. The Six had had plenty of difficulties in the past but they were now bound together. But his opinion was that if the Community were not expanded then the only alternatives open to it were to make association arrangements with other countries or to establish a kind of free trade area. These alternatives seemed to him to present a greater danger than the expansion of the Community. Certainly the accession of new members would bring with it the need for a new running-in period. After that the political development of the Community might perhaps proceed. His own attitude was therefore that the Community should expand; he thought there was no real choice.

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Mr. Wilson said he thought that, as time was drawing on, it would be as well to discuss the agricultural question.

Dr. Mansholt said that, although the Commission had had definite views in 1964 on the shape of a definitive arrangement for Community agricultural financing,
an agreement had only been made to the end of 1969. This was the arrangement
under which 90 per cent of the levies were transferred by member States to the
Community, and the short-fall made up according to a fixed key. From 1970
onwards the only thing decided as regards the financing of the Common Agricultural
Policy was that the levies would be part of Community funds to be used for
Community purposes (Community regulation No. 25). There was nothing decided
about charges on member countries. All that was firm was that levies had to go
to Community funds and member countries could not retain them themselves.
This was partly because it was obviously impossible for example for the Dutch
Government to retain levies on imports into Rotterdam destined for consumption
in Germany. The Community would have to negotiate in 1969 (perhaps starting
in 1968) the post-1969 regulation. He hoped that the Community would in any
case bring Britain into any negotiation. It would not be wise of the Six to make
a further regulation and then have a subsequent negotiation with Britain.

He would give some figures based on a Community expanded to include not
only Britain but Denmark, Norway and the Irish Republic. He calculated that
on the basis of contributing 90 per cent of levies our payments would amount to
$685 million. But the 90 per cent limit had been agreed only up to 1969. If all
levies were transferred our contribution would be $750 million. The Commission
calculated for a budget of $1,800 million for the Guarantee Fund. To this would
need to be added about $100 million for interventions in Denmark, Norway, etc.,
$285 million for the Guidance element of the Fund, and some expenditure in the
area at present covered by the European Coal and Steel Community—say a total
budget of $2,200 million.

He calculated that Britain would pay 35 per cent of the total budget, Germany
20 per cent, France 20 per cent, Italy 12 per cent, others smaller amounts. [It is
not possible to build up a coherent picture on the basis of the figures Dr. Mansholt
quoted, but his figure of 35 per cent for the British share of the total fund seems
to relate to levy payments alone, and to exclude any additional payment under a
fixed key; though this is hard to square with what follows.] His own calculation
also showed that if 90 per cent of levies were transferred and we paid nothing under
the fixed key we would still be paying 34 per cent. He did not want to draw any
conclusion from these figures; but anyone could easily draw their own.

Mr. Wilson said that we would not be likely to get much back from the
Community's Agricultural Fund, so that there would be little compensation in the
field of balance of payments. He would be interested to know how far we might
expect to get help from the Community for production grants for hill farmers.
But surely a split of 35 per cent, 20 per cent and 20 per cent between the three
main contributors produced an intolerable situation.

Dr. Mansholt nodded his assent and commented that the arrangement of 90 per
cent transfer of levies plus a fixed key was suitable only for the Community of Six.

M. Marjolin enquired what would be the proceeds from the levies once Britain
and the other EFTA countries were inside the Community.

Dr. Mansholt replied that at present levy income from the Six was calculated
to amount to $590 million. Because some of their present imports came from
Denmark, Britain and Ireland, and these would not be leviable after the entry
of these three countries into the Community, there would be a reduction of around
$70 million in the amount raised in levies by the Six. Britain would produce about
$760 million in levies, Denmark and Norway each about $20 million. This produced
a total of $1,300 million towards the estimated budget which he had mentioned
earlier of $2,200 million. The figure of $760 million which he had quoted for
Britain took into account the fact that some imports which Britain currently took
from third countries would be switched to Community sources.

Mr. Wilson said that we already produced 13 million tons of cereals and
imported 7 million tons to cover our consumption of around 20 million tons. We
calculated that by 1971-72, as members of the Community, with prices at their
present levels, we would need about 23 to 24 million tons of cereals (some of the
addition attributable to increased requirements for feeding stuffs) of which we
would produce about 20 million tons, importing only 3 to 4 million tons.

The meeting concluded at 3.20 p.m.
RECORD OF CONVERSATIONS IN BONN


Present:
The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
Mr. Lederer (Interpreter)

Dr. Kurt Georg Kiesinger
Herr Willy Brandt

Opening remarks
Dr. Kiesinger welcomed Mr. Wilson and Mr. Brown. He considered it a good omen that Mr. Wilson should be the first head of Government to visit Bonn since he had taken office as Federal Chancellor.

Mr. Wilson expressed his thanks and suggested that there were one or two questions other than the Common Market—in particular his conversations with the Russians the previous week—which could be discussed perhaps after dinner.

Herr Brandt suggested that representatives of both sides might meet and discuss two other matters at some point during the day: (1) non-proliferation and (2) tripartite talks between the Federal Government, Britain and the United States on the offset problem.

Mr. Wilson agreed. The main object of the talks would of course be the Common Market issue, and on this he wished to raise a question of procedure. Should he first give an exposé of the problems as he saw them and talk about the previous visits which Mr. Brown and he had made and should there then be questions and comments on the German side, particularly on the more important problems and on the likely reactions of Germany's partners in the EEC? He would like to have the advice of the Federal Government on tactics, particularly as regards timing and method of approach.

Mr. Wilson then rehearsed his view of the issue. With the full authority of the Cabinet, he had set out the British position in the House of Commons on 10th November, and he had said that we meant business in our approach to the Community. This statement had been very quickly welcomed by the Federal Government. There were some difficulties, but these could be overcome; he felt that the first three visits which had taken place had reduced these difficulties. Some still existed, but these were not as formidable as they had seemed previously. Some of the biggest problems to which answers would have to be found were in the agricultural field; the Common Agricultural Policy's financial regulations would probably present the greatest difficulty. Regional policies in Britain provided another but less worrying problem. There were still big Commonwealth problems, but there was a will to solve them and there was a great deal of understanding on the part of the Commonwealth countries. Public opinion in Britain backed the Government's policy and the EFTA countries were also at one with the British Government, although he was, of course, not speaking for the other EFTA countries. There were admittedly some reservations on the part of some EFTA countries, but in general they were in full agreement with the British initiative. Over the past three or four months the emphasis in Britain had shifted from the economic to the political aspect of joining the Community, which he had stressed in his Strasbourg speech and which could be summed up in three words: unity, strength and independence. The order of these words was of no particular importance because they all went together. If Britain joined the Community, she would not weaken it but would strengthen it. If she proved able
to join, Britain intended to carry out the obligations of the Treaty of Rome; the Treaty of Rome as such offered no obstacle to us. The British Government felt that their own adhesion to the Treaty of Rome and that of at any rate some of the other EFTA countries would deepen and widen the cohesion of Europe; it would certainly not weaken Europe either economically or politically. On the contrary it would be a source of strength, by creating a larger market and widening technological knowledge. This was something which Britain could contribute and which Germany also contributed. Mr. Wilson instanced the scope for the development of technological co-operation in the field of civil and military aircraft, which would also make Europe economically more independent of the United States. Politically Britain had the same feelings towards the United States as the German Government had. We were just as attached to the Atlantic Alliance as the German Government, but we drew a distinction between the United States Government on the one hand and American business on the other.

We believed that, if we could build up Europe, this would help to reduce East-West tension. The German Government had recently taken important initiatives in this direction. If we could achieve this détente Europe would be able to play a bigger role in world affairs and in the United Nations.

The British Government had not yet taken a decision whether to negotiate to join the Community nor would they until the visits to European capitals were completed. We knew that there were various difficulties in the minds of some Governments of the Six. But so far he and Mr. Brown had been encouraged by the results of their visits, including the one to Paris. They had not hoped to open the door there but they felt that they had managed to dispel some of the difficulties and misunderstandings that had existed there previously.

Mr. Brown said that there had emerged a few areas in which Britain would need to ask for more than a transitional arrangement. One case was New Zealand where some permanent arrangement would have to be made; another was the amount of the agriculture levies. The transitional periods would differ in length according to the issues involved. We should feel easier if we could be assured that there would not be a veto on our application for membership of the Community.

Germany’s attitude

Dr. Kiesinger said that his Government’s attitude was well known. They had made it quite clear in Paris that they desired British adherence to the EEC for a variety of reasons. But they felt obliged to ask the question which all those must ask who wanted full European union, in economic, social, agricultural and other fields, namely whether Britain had the same will as the others to advance the European Economic Community to full economic union and to all that that implied. Matters had developed beyond the letter of the Treaty of Rome and it was the firm intention of the Six to move on from the stage of a customs union to that of an economic union and finally, although this was not a matter of active discussion at the moment, to political union. It was still open whether such a union would take on a federal or confederal character. The question therefore was whether Britain was as fully determined as the members of the Community to reach this goal. He repeated that Germany wanted Britain to join the EEC and wanted her to join with the will to reach a full implementation of European economic union.

Mr. Wilson said that the answer to that question was clear. He had said in Paris that we envisaged joining a developing Community. Nothing was static and he believed that General de Gaulle recognised that a static Community implied death and decay. Therefore we must go forward. Our position was that we wanted to join the Community as it was and to go forward with it. The Community was still in a transitional stage, being in effect a free trade area with many aspects of a Common Market, but it was not yet complete. As regards the merger of the three Communities, our position was that, if by the time we negotiated to join there were still three Communities, we would join the three; but if the three Communities merged at an early stage, we would join the merged Community.

We would contribute to it our technological knowledge. By this he did not mean that a separate technological Community should be set up. A case might
be made for adding a fourth Community or perhaps modifying EURATOM accordingly; but it would obviously be more sensible to have one Community with a technological bias. The Communities must move forward and Britain would not be amongst those who would be trying to hold them back. Logic and history taught us to recognise that, wherever there had been close economic union, it had led on eventually to political union of one form or another. Just as the speed of a naval convoy was regulated by the slowest ship, so the progress of the European Economic Community would depend on the slowest member. We did not propose to be the slowest member. However it was too early to envisage what the situation would be in 10 years' time. By then the tension in Europe might have eased. Both Britain and Germany had recently made strenuous efforts to reduce tension. If their efforts bore fruit, it would make people more politically conscious of the European idea. Britain wanted to get on to the Community train, wanted to make sure that it was going in the right direction and wanted to help to drive it.

The French attitude

Mr. Wilson said that, speaking very frankly, he could say that, at the half-way mark in the tour of Community capitals, much would depend on the German Government's influence in Paris. Britain did not want to put any strain on Franco-German relations (to which she attached great importance). We all had too many memories of the past to forget the importance of those relations. He believed that France was now anxious to have Britain close to Europe but was probably not yet ready to go all the way. Germany's influence could be decisive. In Paris President de Gaulle had said that he had been much impressed with the earnestness of our desire and he felt that we were now ready to moor the British ship alongside the European quay. This was an important move forward from 1963 when General de Gaulle had said that Mr. Macmillan's Government was not ready to do so. At any rate there seemed to have been a development in General de Gaulle's conception of our thinking. The idea of mooring a ship to a quayside did not convey the idea of full integration but at any rate it seemed to be a step in the right direction.

All those to whom Mr. Brown and he had talked so far, including the European Commission, had been very helpful. But they felt that perhaps in the Commission and in one or two of the Member Governments there might be a feeling that after 10 years of development the Community had turned into a cosy family home which newcomers might upset and which, if they were admitted to it, might never be the same again. Perhaps that was why General de Gaulle talked of a new house. Some of the difficulties over Britain's admittance might be due to a resistance to change rather than to anything else.

Mr. Brown intervened to say that the Federal Government could help us in discouraging any search for some new solution. General de Gaulle had suggested association, but we had clearly rejected that idea and we felt that, if we could enter the Community during the present flexible world situation, this might enable Europe to have a greater impact on world events.

Dr. Kiesinger said that his Government had had long discussions with the French about Britain's desire to join the EEC. He had himself raised the subject, had drawn General de Gaulle's attention to our declarations of policy, and had informed him that he had received a letter from the leaders of German industry urging him to support Britain in her initiative. He had also told General de Gaulle that it had always been Germany's objective to include Britain in the EEC. General de Gaulle had then put forward his point of view firmly and energetically and had repeated all his arguments against Britain's entry at the present moment. He had spoken with great friendship and with respect of Britain but had said that Britain and some of the countries she would bring in her wake might well destroy the essence of the Community which might be reduced to no more than a free trade area. This was admittedly possible but France, like her European partners, wanted a real Community, and General de Gaulle did not believe that Britain would accept all the implications of that. Since then Dr. Kiesinger had learned with great interest that, as a result of Mr. Wilson's visit to Paris, General de Gaulle was now convinced of Britain's serious will to join Europe. This was decidedly a step forward. As to the possibilities of the influence which...
Germany might bring to bear on French policy, and especially on General de Gaulle, he had explained German opinion on these matters to the General. It had been his intention from the beginning that nothing should be left vague between France and Germany as had unfortunately been the case in the past. There were differences of opinion between the French and German Governments over NATO, the stationing of troops on German territory, and the entry of Britain into the Common Market. On these three issues the French and German Governments had noted that they were not in accord in the communiqué issued at the end of their talks. Nevertheless the French and German peoples could work together politically despite these differences of opinion. This was a significant development because, since the conclusion of the Franco-German treaty of friendship, a great deal of misunderstanding had arisen because their relative positions had not been made sufficiently clear. Revived Franco-German friendship was a tender plant which had to be treated with great care, not only because of the importance of their relationship to the two countries themselves, but also because these relations were of importance to the whole of Europe. It remained to be seen how the French and Germans could set about the questions on which they did not agree. The issue of British entry into the EEC was one which he hoped would not last for ever.

How could the Germans exert an influence in Paris? He did not believe that they could impress General de Gaulle by attempting to bring pressure to bear on him, for they knew his personality and how strongly he felt about certain things. Nor did he think that it would be good for Germany to exert much pressure so soon after overcoming the unpleasantness which had existed between France and Germany. But his Government could try to convince the General by producing good arguments in support of the British initiative, and by examining with the French whether their genuine anxieties were justified or whether they could be dispelled; and whether a way could be found for Britain’s accession without destroying the Community (as the General seemed to fear that it might). The more Germany could fulfil the hopes which the French placed in improved co-operation with her, the better would be the chance of her arguments succeeding.

On the other two points of difference with France, namely NATO and the stationing of troops on German territory, there was no need to negotiate because the facts had been established and there was no more to be said. But this third problem of Britain and the EEC would be more difficult because a genuine agreement with France must be achieved. Nevertheless the German Government were ready to do all they could in this direction with the necessary insistence and patience.

Mr. Wilson agreed that an attempt to exert pressure either in public declarations or in private contact might prove counter-productive. The important thing was to convince General de Gaulle on the points about which he was concerned. We had found him to be receptive to new facts. The fact that Britain produced 13 million tons of cereals per year and imported only 7 million tons had impressed him, since he had thought that our production was far smaller. He realised that, if Britain joined the Community with prices at their present level, we would probably produce 20 million tons by 1971; but we would still import about 3 million tons because of livestock development.

On technological co-operation General de Gaulle hoped that bilateral arrangements such as we had in the field of military aircraft would continue; but Mr. Wilson had told him that there was a difference between military co-operation (when Governments agreed to buy certain equipment) and civil technological co-operation where private business came into play. The General had seemed impressed when Mr. Wilson had explained to him that technical co-operation and market integration must go hand in hand, and that there must be no barrier between markets. General de Gaulle did not seem to feel that our military situation was as difficult a problem as it had been in 1963. He still had some reservations on this score but there was a big difference between his present and his former attitude largely due to the fact that in the next few years the Royal Air Force would be using Anglo-French aircraft and helicopters. The present situation was thus very different from what it had been at the time of the Nassau Agreement.

Dr. Kiesinger said that the position was clear but it worried him a little. The German impression in Paris had been that French resistance to British entry had
been very strong; since Germany was only now beginning to get back to normality in her relations with France, it would be difficult to get deeply involved in controversial matters. On the other hand he realised that Mr. Wilson and Mr. Brown had started their round of visits with a great deal of energy and that British public opinion would expect to see some results. Therefore they must together try to devise some means of filling any gap which might arise between the end of the visits and any further development, in case French resistance were to continue. Perhaps some sort of European committee could be set up to ensure that there would be no hiatus. It would be intolerable, not only for as great and important a country as Britain but “for all of us, and I repeat all of us”, if the experience of 1963 were to be repeated. Something should therefore be devised for the period after the end of the visits to the Six which would give the impression that things were being kept on the move.

Mr. Wilson agreed that it was very important to consider seriously what to do after March. The ideal would be to begin negotiations for entry. Eut if this did not prove possible, the momentum must be kept up. Britain must certainly not be barred again, because to be barred twice might well have fatal consequences. At present public opinion in Britain was very largely in favour of our going into Europe; but, if we were to find the door barred again, great pressure might be brought to bear on us for some alternative solution, perhaps the Javits Plan or some Atlantic and Pacific Community. We had naturally considered all these possibilities but had come to the conclusion that we preferred the European solution. If we were now made to abandon it, it might well be difficult ever to launch the idea again.

Mr. Wilson said that even worse might happen. The existence at the present moment of the EEC and EFTA side by side meant that there was a certain division or barrier in Europe but there was no hostility. It might be that a spirit of competitiveness—he would not use the term “trade war”—might enter into the relations between the two groups. Some of the EFTA countries were already suffering to a certain extent from the Common Agricultural Policy which was not strictly in accord with GATT; but because it was understood that a wider, fuller economic union was the ultimate aim nobody had so far raised any objection. This situation, however, might change.

Proposed “Summit” meeting of the Six—Fusion

Herr Brandt said that Mr. Wilson and Mr. Brown should know about two events which might cause some anxiety in London. The first was the meeting to be held in Rome to celebrate the tenth anniversary of the EEC. It had been suggested that this might give rise to certain developments which might render more difficult the present British initiative. He did not think that that would be so. The most that was likely to result was a series of inter-governmental meetings which would not prejudice anything. The second was the proposed merger of the three European Executives which would probably take place in 1967, even before the summer. If it did, two more years would be needed to bring about the fusion of the Treaties, even leaving aside the problem of British entry. Therefore in preparation for German talks with the French and for the talks of the Five with the French it would be important to get as many points as possible cleared that afternoon in order to produce a sound basis for further talks especially on agriculture.

Dr. Kiesinger said that General de Gaulle had told him that he was not anxious to attend the impending meeting in Rome simply to participate in a birthday party. Something of real political substance would be needed to justify his attendance. Later he had said, on a suggestion from M. Couve de Murville, that it might be possible to discuss various matters informally and without an agenda, perhaps with a view to Foreign Ministers continuing these talks later. General de Gaulle had agreed to a rapid merger of the Executives either as a result of the meeting in Rome or soon after. This merger, and the timing of the British negotiations, were important because even outside France there were those who said that it might be better not to allow this merger and the British negotiations to overlap. If it were a question of the Communities merging, rather than the Executives, that would take much longer.
Mr. Wilson said that it was important not to expect all the final details of decoration of the house to be completed before we moved in. We could do much of it together and, if we were in the Community, we could help in many ways, especially in the technological field.

Kosygin's visit to the United Kingdom

Mr. Wilson then asked how the Federal Government felt that his talks with Mr. Kosygin affected the common purpose—i.e., entry into the Community—which had brought them together in Bonn that day. It was his impression that the German Government desired to bring about détente in their relations with Eastern Europe, provided that none of Germany's vital interests were impeded. That being so, relations with the Soviet Union were all important. France had good relations with the Soviet Union, different but parallel to our own. Both possessed a special nature and British-Soviet relations could be helpful to Germany. On several points Mr. Kosygin had been rather more flexible in private than in his public statements, although perhaps not so much on Germany. Britain had now established extremely good relations with the Soviet Union but in so doing had not given away one single German interest: and in achieving this the Foreign Secretary had played a great part. How far did German Ministers think that Anglo-Soviet rapprochement could be either an obstacle or a help in our approach to the Common Market? We had established ourselves as a kind of intermediary between the United States and the Soviet Union on certain matters on which it was difficult for them to talk directly (e.g., on Vietnam). We therefore felt that on the German question we might be able to explain the Federal Government's attitude to the Soviet Union. This might not impress them the first time but perhaps by the twentieth it would have made a certain impression on them. He had talked at length to Mr. Kosygin about our Common Market problems and had found him most relaxed about them, by contrast with the Soviet attitude in 1962 when the Common Market was regarded in Moscow as an invention of the devil. Mr. Kosygin had not indicated that he had any grave misgivings about our accession, although he had said that on the whole he was against the Common Market. He had hinted that the Soviet Union might encourage Finland to establish closer relations with the EEC, but on Austria his attitude had been different.

Dr. Kiesinger said that he had not had time to study reports on Mr. Wilson's talks with Mr. Kosygin in this respect. Any step towards a relaxation of tension between the West and the Soviet Union accorded with the Federal Government's wishes, provided that the German problem was not lost. He was not sure whether the Soviet Union's previous hostility to the Common Market might not have been based on misgivings about the future stage of a political union and possibly a defence community. The advent of the non-proliferation treaty might have removed some of the Soviet Union's anxieties, because they felt that, once such a treaty existed, the Community would be only a Common Market or an economic unit and would never become a military or political entity, constituting a threat to the interests of the Soviet Union. It was possible that the Soviet attitude to the Common Market would be different if there were no non-proliferation treaty.

The meeting ended at 11.35 a.m.
Dr. Kiesinger welcomed the Prime Minister and his party. Ministers had had a full and fruitful exchange of views in the morning, and would now continue their discussions with experts present.

Background to the United Kingdom initiative

Mr. Wilson agreed that the morning discussion had been fruitful; several questions had been discussed which might now be examined rather more fully. It might perhaps be helpful if he were to put on record some of the points he had made in the morning and then to amplify what he had said about the British Government’s intentions in making the current series of visits to the capitals of the Six and about the problems which they foresaw in considering applying for entry into the EEC.

The German Government were already aware of the statement he had made in the House of Commons on 10th November, 1966, since they had made a friendly and speedy reply. They would have had reports of the discussions during the visits Mr. Brown and he had paid to Rome, Paris and Brussels. Their purpose in visiting Bonn was threefold:

1. they wanted to enquire whether Britain’s essential interests could be safeguarded if she joined the Community;
2. the British Government would have to decide whether to activate negotiations and, if so, what timing should be adopted for their approach to the Community; and
3. the British Government looked to the German Government for advice on how to overcome the problems which existed in the minds of the German Government and of the other Governments which were members of the Community.

Behind all these enquiries was a firm intention to enter the Community if our essential interests could be safeguarded.

Mr. Brown and he spoke for the British Government, for the great majority of those in Parliament, in industry and in Britain as a whole. Although they
naturally did not base their views merely on public opinion polls, it was a fact that recent polls showed a substantial majority in Britain in favour of entry into the Community. A recent study made by the Confederation of British Industry had reached the same conclusion.

Although he was not empowered to speak for other EFTA Governments and would certainly not wish to give the impression of speaking on their behalf, the British intention to undertake soundings had been welcomed at the December meeting of EFTA Governments in London.

As he had made clear in previous speeches both in Strasbourg and on other visits to Community capitals, Britain's motives were both political and economic. There was no doubt that it would be to our advantage economically for us to join the Community. He thought there would be little doubt that it was to the economic advantage of Europe to have Britain in the Community. Both sides would wish to see the deep division of Europe healed.

He wanted to set out the main reasons why the problems of entry confronting Britain, the Six and Europe had to be overcome. Their common objective was the unity, strength and independence of Europe. These were all closely linked and he would not give them in any order of priority. Independence did not mean cutting Europe off from other parts of the world. If the Community admitted Britain and other members of EFTA, Europe would have strength to assert herself in such international groupings as NATO or the United Nations or in any other international forum. Like Germany, Britain was a strong believer in the Atlantic Alliance. If Britain joined the Community, the European side of the Atlantic Alliance would, in economic terms, become more independent. A stronger economic Community would be created, since the membership of the present Community of 180 million would become 280 million if Britain and the other members of EFTA were to join. This would provide the biggest single market in the world.

An enlarged Community would provide opportunity for the industries of all its members. If Britain entered, she would bring not only consumers, but also producers with a wide range of expertise in science and technology. But the opportunities for technical progress this would open up would only be fully realised if there were a single market. It was possible that some Governments might suggest enlarging the number of bilateral co-operative projects without bringing Britain into the Community. But in the view of the British Government technological co-operation implied having an integrated market in which the technological achievements of all the member countries would be pooled and through which their products could be marketed.

The unity, strength and independence of an enlarged Community would moreover be of great political advantage in easing international tension. He had deployed this argument the previous week during his discussions with Mr. Kosygin. Mr. Wilson added that Dr. Kiesinger and his Government had in a few weeks made strides towards achieving a détente in Europe. It was true that the German Government's overtures had not always been received in the spirit in which they had been made, but they should not worry about being rebuffed in certain quarters since real progress had been achieved. France had friendly links with the East; so had Britain with the Soviet Union. Mr. Kosygin had told him that he regarded the previous week's discussions as a high water mark in Anglo-Soviet relations. Détente must be a prerequisite of the solution of many of the problems which had been created for Europe as a result of the last war. Political strength would promote the political unity of Europe and increase the power of all the countries of Europe to speak together in international meetings on matters of world concern. As he had said in Strasbourg, and as Mr. Brown and he had said on all their visits, important though the economic consequences of any negotiation for entry to the Common Market might be, the political consequences transcended them. He wished to stress the need to maintain the momentum of the last few months. If Britain were denied admission to the EEC and if long negotiations had taken place before she were told of that decision, a grim prospect would face Europe and the Community would be the poorer for Britain's absence. Such a decision would set in motion forces which could not easily be arrested and which would put into reverse the process of unification which had been started by the Community. Among the results might be the
necessity for Britain to consider the possibility of some other grouping such as an Atlantic Free Trade Area, or alternatively of maintaining our own position regardless of the Community which had rejected us. Either of these solutions would be less satisfactory than Britain's entry to the Community, or rather to the three Communities. The proposal to merge the three Communities was far advanced and Britain would be prepared to join either one merged Community or three separate Communities. If one merged Community were to be created, Britain would be glad to join in helping the other members develop it. Britain considered that an enlarged Community would be a source of strength, not of weakness and the admission of new members might help to solve some of the problems already confronting the existing members. For example the problem of majority voting would become easier both mathematically and politically if Britain and some other members of EFTA had joined the Community. Their accession would also help the Community to be outward-looking, as he understood the German Government wished it to be.

The reasons for choosing the present time for a renewal of our approach to Europe were over-riding, and for both sides. It was necessary not to lose momentum, because there were important decisions to be taken about the future of the Community which it would be advantageous both for Britain and the Six to take with Britain as a member of the Community. It remained to be seen how, when the British Government had decided formally to activate negotiations for entry, she should go about it and at what time Britain sought entry to the Community, provided that her interests could be dealt with satisfactorily. In his speech to the House of Commons on 10th November he had said that, having examined in depth every aspect of the Treaty of Rome itself, of decisions taken subsequent to its signature, and all the implications and consequences which might be expected to flow from British entry, Her Majesty's Government took the view that, while there were anxieties on the point, the Treaty need not be an obstacle if our problems could be dealt with satisfactorily, whether through adaptations of the arrangements made under the Treaty or in any other acceptable manner.

Problems of United Kingdom membership
The main problems which would confront Britain arose from:

(i) the Common Agricultural Policy and especially the financial regulations made under it;
(ii) the Community's directives and rules dealing with the freedom of capital movements;
(iii) relations with the Commonwealth, chiefly in connection with agricultural policy and trade;
(iv) the effect on Britain's regional policy of the rules and conventions formulated under the Treaty of Rome.

There would of course be other problems as well as the four he had just listed; but these appeared of a lesser order of difficulties and on their previous visits Mr. Brown and he had learned enough to enable them to think that these problems were not as formidable as they might once have appeared to be.

It might now be helpful to discuss the four specific problems in rather more detail; and he would welcome any comments which the German Government had to make. The present discussions formed part of a series of six which should be of far-reaching importance for the future of Europe. He did not think that Britain was asking for anything which would weaken the Community or the rules which had been drawn up under it. Indeed, Britain's entry and that of her partners, whilst altering the structural features of the Treaty of Rome would indeed strengthen the Community. Britain was only seeking to safeguard her own interests in the same way as the founder members of the Community had safeguarded theirs during the period of the Community's formation. He had mentioned in the morning the high cost of technological innovation which was an argument for enlarging the size of the Community. The economic strength which the accession of Britain and other members of EFTA would bring would contribute to the political unity of Europe.

Dr. Kiesinger thanked Mr. Wilson for what he had said in the morning and for his impressive statement of the will of the British Government and people that
their country should become a member of the European Communities. When
Dr. Kiesinger, had observed that the development of the Community had gone
beyond the text of the Treaty of Rome, Mr. Wilson had answered his question by
declaring that it was the British Government's intention if admitted to the
Community, to join with other members in the development of Community policies
leading towards economic union through for example, common trade, social,
transport and monetary policies. Mr. Wilson had left him and his colleagues in no
doubt that Britain would follow this road once she had become a full member of
the Community. This had been the most important of the German questions and
it had been clearly answered. Herr Brandt would deal with more specific problems
in order to clarify for the German and other Governments the difficulties which
Britain might meet, and to help her over them.

**Treaty of Rome—Technology**

Herr Brandt said that it would help Germany and the other members of the
Community if Britain could confirm that, in her desire to enter the Community as
a full member, she proposed to do so on the basis of the Treaty of Rome and of all
the decisions taken under the Treaty since it had come into operation. Was Britain,
in speaking of adaptations of the Treaty and of protocols to it, referring to changes
other than the essential institutional ones arising from, e.g., the need to provide the
new member with voting rights? Had she any views on the question of majority
voting? He understood that this question had been raised in visits to other capitals.
Would Britain accept the view of other Community Governments on this matter?

As regards protocols, it was well known that some of the present members
of the Community had asked for special treatment at the time of their joining the
Community. For example, France had wanted special arrangements made for
Algeria and Morocco. Did Britain envisage that it would be necessary to have
special protocols for Commonwealth countries other than New Zealand? In the
morning Mr. Brown had said that transitional arrangements of varying lengths
would be needed for different items. Could he now indicate the length of some
of the transitional arrangements he had in mind?

If he understood Mr. Wilson correctly, the technological Community would
not be a fourth Community but rather an adaptation of EURATOM or else a
special limb of an enlarged Community. Could this be amplified?

Mr. Wilson said that, although in November 1966 he had used the term "a
fourth Community" and technology was sufficiently important to merit the
creation of an independent Community, it could nevertheless be assimilated to
EURATOM in order to improve the performance of that body (which had so far
been somewhat disappointing) and promote the further peaceful uses of nuclear
energy. But if the three executives were likely to merge soon, it would be
inopportune to create a separate technological Community, and the technological
development he had in mind could be carried out within a single Community.
But he must emphasise that technological co-operation on the scale we envisaged
would not be possible if the United Kingdom was not a member of the Community,
because of the need to be able to market technologically advanced projects on a
sufficient scale to justify the development and production costs involved.

Mr. Brown said that the only adaptation to the Treaty of Rome which Britain
envisaged as being necessary was already provided for in the terms of the Treaty
on the accession of a new member, for example, affecting formal voting rights
and the allocation of contributions. But no other change or adaptation need be
made, provided that the problems which would confront Britain on entry could
be treated equitably.

Similarly we could observe all the rules deriving from the Treaty of Rome
provided that our special difficulties could be given sympathetic consideration.
These might best be discussed in relation to the special problems such as capital
movements and the common agricultural policy on which they arose.

On voting, Britain would conform to whatever decision was acceptable to the
members of the Community. The German Government's view on majority voting
might differ from that of other members of the Community, but it would be wrong
and unwise for Britain, so long as she remained outside the Community, to interfere
in what was essentially an internal matter.

The question of transitional periods should be dealt with under each particular
heading in respect of which a transitional period was required. For example,
capital movements would require a transitional period which might be short or long depending upon the common consideration of the probabilities of capital movements after our entry. If the consequence was a tendency for portfolio investment to be made from Britain through the Community to third countries such as the United States a longer transitional period would be required; but if the tendency were in the other direction, a shorter period might suffice. The transitional period required for the Common Agricultural Policy would have to take account of the development of our agricultural production; the consequences for our balance of payments; and the increase in Britain's cost of living. A Morocco-type protocol was one of the possibilities for providing a special arrangement to meet the case of New Zealand: but there were others, such as a special form of association or of access to European markets.

Common Agricultural Policy

Dr. Kiesinger said that he hesitated to deal with the problems of the Common Agricultural Policy since only a small elite understood them well. He had, however, a few questions of special importance:

(1) What impact would Britain's entry into the Community have on the cost of living in Britain?

(2) What problems would accession raise for Britain's agricultural production? He had noted that Mr. Wilson had said that he expected Britain's cereal production to rise from its present figure of 13 million tons to some 20 million tons in the not too distant future. The problem of agricultural prices was a delicate one especially in Germany where any suggestion of lowering the prices paid to farmers would be repugnant to farming opinion.

(3) What arrangements were envisaged to deal with the effect on Commonwealth agriculture of Britain's entry into the Community?

(4) Did the British Government envisage any review of the Community agricultural policy arrangements, including the financial arrangements, in order to mitigate their effect on Britain's balance of payments and the cost of imports?

Mr. Brown said that he wanted to make it clear that the Common Agricultural Policy in itself, like the Treaty of Rome, did not constitute in the view of the British Government a necessary impediment to entry into the Community, provided that the four problems which had just been mentioned were capable of solution. He would try to answer the four questions in their ascending order of difficulty.

(i) The effect on the British cost of living

The British Government had introduced a policy of stabilising prices and incomes, and any notable increase in the prices of agricultural produce would tend to damage that policy. If the position did not change when the Community reviewed their agricultural prices in 1969 and if world prices remained at their present level, it had been calculated that there would be an increase in the price of food in Britain of between 10 and 14 per cent. If however food prices went down in Britain, or if world prices went up, the situation would be different. Either way, it was clear that much would depend upon the length of the transitional period. If it were short, the policy on prices and incomes could be seriously damaged; if it were long, the change would hardly be noticed. Something in between was therefore desirable. He saw the difficulty for the German Government and the Community over the level of agricultural prices; but if Britain's friends recognised that she would need a sufficiently long transitional period, all would be well.

(ii) Distortion of British agricultural production

This would be a considerable problem. Adaptation to the Common Agricultural Policy would stimulate the production of cereals and would increase the already high income of cereal growers in the Eastern part of Britain. Conversely it would reduce the returns of smaller farmers in the West and Centre of the country: they presented the largest political problem. They would doubtless try to turn to cereal production but in less favourable climatic conditions. They had least chance of getting a good return from cereals growing, and with
increased feed costs they would tend to lose on their production of milk and beef. A social problem would thus be created for small farmers in areas from which the Government would not wish them to move; the ensuing structural problem would call for a transitional period during which for example small farmers would re-group themselves into larger units by one means or another. The problem raised by this distortion could be solved, first, if Britain were allowed to use some of her large payments of levies to the Agricultural Fund for the making of grants to those farmers who had to adapt their farming to the new conditions. We already had schemes for making such grants, which would have to be regularised under the Treaty of Rome. He believed that they could be so regularised; this would make the whole problem easier of solution. Second, it would clearly be necessary to have a transitional period in which farmers could make the necessary adjustments.

(3) Commonwealth problems

In this field there was one problem of real difficulty which could not be solved by a transitional period—that of New Zealand. The trading problems presented by Australia and Canada and by the Commonwealth Sugar Agreement could be considered to be solved, as could the problems of other Commonwealth countries, possibly in the same way as the problems of former French territories had been solved. But because of the extent to which New Zealand’s export income and agricultural production depended on access to the British market, the problem of New Zealand would have to be solved by a more permanent arrangement such as a Morocco-type protocol, or by a form of association, or by a derogation providing special access for New Zealand to the Common Market.

(4) Balance of payments

The problem which was most difficult of solution was the charge which levies would impose on Britain’s balance of payments. If these levies continued to be based on 90 per cent of the cost of our substantial imports, they would amount at the lowest estimate to £175 million and at the highest to £250 million. They would be a direct charge on our balance of payments. Figures which we had exchanged with the Commission of the EEC led us to believe that these estimates were probably on the right lines. Because our agricultural industry was on the whole efficient, with rising productivity and a reduced labour force, we were unlikely to recoup from the Fund much of what we paid by way of levies. This meant that we would have to pay in levies a very substantial sum which might be as much as the combined contributions of all the other existing members of the Community. At present Germany paid a disproportionate share in levies, but Britain would pay an even more disproportionate share. This would be manifestly inequitable. Britain would be prepared to pay her fair share, (and he did not wish to argue whether this should be 90 per cent or some other figure) in 1969 if the size of the Community were to increase, but the present arrangements would apply so inequitably to us that it was reasonable to ask that the discussions which the Community would be having about their agricultural arrangements in 1969 should take account of the entry of new members, and the size of the Fund and the basis on which it was financed should perhaps be re-examined then. Unless this was done we estimated that we should have to pay, both in levy payments and in governmental contributions under the “key” apportionment, some 35 per cent of the total Agricultural Fund—equivalent to roughly twice what Germany would be paying.

He had stated the problems in ascending order of difficulty; but he considered that given goodwill, they could all be solved and that none need be a barrier to Britain’s entry into the Community. The solution of each would need goodwill on the part of our partners and each would require a different solution or solutions—but solutions could be found. After a short discussion on the statistics of the likely cost to Britain of accepting the Common Agricultural Policy, it was agreed that these should be explained in a smaller group meeting, and the plenary passed to a discussion of economic problems.

Dr. Kiesinger thanked Mr. Brown for the answers to his questions. He asked whether Herr Lahr had any supplementary points.
Herr Lahr said that a great deal could be said upon the subject of agriculture, but he would limit himself to a few points. First, on the question of the cost of living and the price of food. The British calculation that food prices would rise by between 10 and 14 per cent was almost exactly the same as the calculation made by German experts. But, if this increase were related to the cost of living, it would be much smaller, because food prices were only a part of the cost of living. Their experts thought that, on this basis, the figure would be around 3 per cent. If, say, a transitional period of six years were allowed, this would mean an increase of \( \frac{1}{4} \) per cent per annum and the problem would obviously be greatly reduced. He had no comment on what had been said about the structural problem of British agriculture.

Mr. Brown agreed that British figures were very similar to German figures and that the problem was manageable if the right transitional period could be obtained, though it might be unmanageable if there were an inadequate transitional period. It was for this reason that he had said that the problem appeared to be the least difficult of those concerned with agriculture. Mr. Wilson added that in the House of Commons on 10th November he had given figures of 10 to 14 per cent as the probable increase in retail food prices, and 3 to 3\( \frac{1}{4} \) per cent as those for the increase in the cost of living.

Herr Lahr said that in connection with the Commonwealth agricultural problems we had mentioned various possibilities—transitional periods and permanent arrangements which might for instance involve association or a protocol. Transitional periods would of course be easier to agree, and it would greatly simplify any negotiations if requests for permanent arrangements could be limited to a minimum. He asked whether we intended that all New Zealand's trade should be covered by permanent arrangements; or could such arrangements be limited to specific products such as butter? Mr. Brown replied that of course he was not negotiating at the moment, but so long as it was possible to arrive at a situation in which permanent arrangements could be made to cover the bulk of New Zealand requirements—perhaps different arrangements for different sectors—the question could be satisfactorily dealt with. In general he agreed with Herr Lahr that the more limited the area to which permanent arrangements needed to apply, the easier it should be to reach an agreement.

Herr Lahr said that we had mentioned a range of £175 to £250 million in connection with our balance of payments problem. This figure was again, perhaps by chance, the same as that arrived at by their own experts; but their own experts calculated that this would be the cost arising not only from the agricultural financing arrangements but from the whole agricultural arrangements of the Community, including the consequential effect of higher import prices. £175 to £250 million for agricultural financing alone seemed to be on the high side. Mr. Brown said that we should be willing to show him the figures upon which our estimate had been made. But the point with which he was concerned at the moment was that it should be understood that the problem was an important one. Mr. Wilson added that Herr Lahr's figures appeared to be identical with those he had quoted in the House of Commons last year. More calculations had been made since. The figure of £175 to £250 million which he had quoted was our then estimate of the total effect on the balance of payments of accepting the Common Agricultural Policy. Since then the figures had been further examined, and we had exchanged figures with members of the Commission in Brussels. He certainly thought that in the range of £175 to £250 million the higher figure was likely to be more nearly right, and could be even higher than that.

Dr. Kiesinger said that there would be plenty of opportunity to exchange figures related to the agricultural costs. It was agreed that the discussion on agriculture could now be concluded.

Financial and monetary questions

Herr Brandt said that before Mr. Wilson spoke on the financial and monetary problems involved in British membership he would like to make three points:

(a) He knew that in other capitals Mr. Wilson had spoken about the recovery of the British balance of payments. He would like to hear about the recovery in more detail.
(b) In connection with the role of sterling as a reserve currency he would like to enquire what Her Majesty's Government's attitude was towards Article 108 of the Treaty of Rome which made provision for assistance in balance of payments difficulties.

(c) He knew that Britain had reservations about the freedom of capital movements in the expanded Community. He would be grateful if Mr. Wilson could explain them.

Mr. Wilson said that the German Government would be aware of the balance of payments deficit with which the Government had been confronted in 1964, amounting to about £800 million. The figure would, in fact, have been rather larger if we had not sought relief on the annual payment due on the United States loan (£60 million). The actual deficit in 1964 had been £770 million. This had been reduced in 1965 to £320 million. No final figure was yet available for 1966 but the deficit had certainly been considerably reduced. Again, even though we had gone through a difficult period during the summer partly owing to the seamen's strike, we would in 1967 be in fact in balance and then moving into surplus. The final figures were not yet available for the fourth quarter of 1966 but all the indications were that we should be in balance. We intended to pay off later in the year the first tranche of the large borrowings which we had had to incur in 1964-65. In the past two months the reserves had risen considerably; in addition to published figures there had been substantial repayments of the swap and other arrangements undertaken during the summer of 1966.

The trade figures alone showed a considerable improvement. The trade deficit had been running at £45 million per month in 1964; this had been halved to £23 million in 1965 and to £12 million per month in 1966. The Germans would recall that, on our trade figures alone, we had been in deficit in every quarter of every year this century, but of course figures of invisible earnings needed to be taken into account to correct the picture. Moreover, although he had given annual figures, there had been a very strong improvement in the second half of 1966, especially in exports. This had been maintained into January. The figure for exports in January was an all-time record. The imports figure was, however, also high because of the effect of the abolition of the temporary import charge at the end of November.

To sum up, we expected a strong surplus in 1967 on the balance of payments, as did Germany: like the Germans we had had to pay the price in terms of a reduced level of activity in the domestic economy. Part of the expected recovery in the balance of payments was dependent upon the policies for reduction of Government expenditure overseas, at present running at over £500 million per year, a good deal of it in the military sector. He would not enlarge upon this question because one aspect of it was to be discussed on the morrow between German and British representatives.

Mr. Wilson then turned to Herr Brandts question about Article 108 of the Treaty. Of course if we became members of the Community we should be in the same position with regard to Article 108 as the present members, of whom for example the Italians had had to have recourse to this Article in the past. But so long as one's balance of payments remained healthy, Article 108 merely constituted a form of insurance to which recourse would not be needed. We recognised that it might be in the minds of German Ministers that our position was not only that of a trading country, and that they might have some fear that, since we had a form of banker's liability in the shape of the sterling balances a run on these balances would place a burden upon the Community as a whole. Even though it was theoretically possible that the position arising from the transactions of the rest of the sterling area might be different at any time from those on United Kingdom account he nevertheless thought that in practice the overall effect would depend on confidence in Britain's own position and in the British balance of payments. If this confidence existed there was no problem, and as confidence in the pound grew the effect on the position of sterling might represent a plus rather than a minus factor. He would not say more about sterling unless there were detailed questions, e.g., about the sterling balances; if there were, he would be happy to elaborate on them, as he had done in Paris and in Brussels.
Capital movements

The question of capital movements had been mentioned briefly by Mr. Brown in answering a question upon transitional periods, and Mr. Brown had made the important distinction between direct investment and portfolio investment. We saw more immediate danger arising from the Community's policies under Article 67 on portfolio investment than on direct investment. We recognised that the directives under Article 67, whilst making a distinction between direct investment and portfolio investment, had provided for similar treatment for both, and as regards both they had made no provision for liberalisation. Mr. Wilson explained that by direct investment he meant the establishment or purchase of a subsidiary in, e.g., Germany by a British parent company; or the purchase by a German company of a British subsidiary. And it was more guesswork than estimation what the immediate consequences would be of freeing direct investment. He thought that, net, the result might not be to place too great a burden on the capital account; the results could even be positive; and against any fears of a deficit might be set the expectation that there would be higher investment in Britain from the United States. The question of direct investment would be a subject to be dealt with in the negotiations but, by and large, we did not see it as a major problem.

Portfolio investment on the other hand would create greater difficulties in terms of the potential burden on the capital account, especially in the early years of our membership of the Community. At present in the United Kingdom foreign currency was not obtainable at the official exchange rate for portfolio investment in the Community or indeed anywhere outside the sterling area. Investment currency was permitted, but at a premium over the official exchange rate. Investment currency represented the foreign currency proceeds of disinvestment by United Kingdom residents from non-sterling area securities (he would not wish this simplification to be quoted as the legal position). There was a pool of European and American securities in which British residents could invest only by buying from a British resident who wanted to disinvest. The present premium for investment currency over the official rate was considerably higher than that envisaged in Article 67 and the regulations made under it. Present practice in Britain was thus a considerable way from what would be required by the Community's policies. If we had to liberalise our arrangements this would impose a serious burden upon our overseas capital account.

A further problem had been referred to in passing by Mr. Brown. Liberalisation of portfolio investment would not only facilitate a substantial financial investment at or near the official rate of exchange, from Great Britain to, e.g., Germany or France. Because there were no tight controls on investments by Community residents in the dollar area or other third countries there would be a strong temptation to use the freedom provided in order to channel funds through to New York or some other centre. This would be an organised traffic; a merchant banker in London would be able to organise in 10 minutes a substantial investment in New York through a contact in, e.g., Frankfurt, merely using the contact as a channel. While he accepted the case for facilitating investment between the United Kingdom and the Community and vice versa he did not see there was any case for facilitating investment in, e.g., Manhattan which was not only part of the economic community to which we would all belong but certainly could not be regarded as under-developed.

Mr. Wilson concluded that we saw the question of portfolio investment as a serious problem which would have to be dealt with in the negotiations.

Voting procedures—Association

Herr Brandt thanked the Prime Minister for his answers. He had two further points to make. The first was not really a question and he scarcely expected an answer. But, to revert to the question of majority voting—and he had fully understood what Mr. Brown had said on this point—the question did not arise from a dogmatic attitude on the part of the Germans; if the Community was enlarged not only by one but by several additional members then the problem of voting procedures became one of considerable importance for the efficient working of the Community.

Second, the question of association had been mentioned as a possible solution to the problems of New Zealand. He himself did not think it was the most
practicable one. There were probably better ones. But were we able to say whether Britain would support association for other countries, bearing in mind that association had been provided for former French territories? He recalled that Nigeria had already obtained association with the Community and that other Commonwealth countries were negotiating for it.

Mr. Wilson said he would deal with Herr Brandt’s question about the problem that might arise if not only Britain, but other EFTA countries—and there was the Irish Republic as well—joined in the Community. Clearly changes would need to be made in order to provide voting quotas for new members, and a new figure for a blocking minority would have to be established. This was exactly the sort of thing we had had in mind in talking about the adaptations to the Treaty of Rome which would have to be made. We did not envisage or expect that the entry of a block of EFTA members would lead to block voting within the Community. This was not only very unlikely, but it would certainly be unhealthy, and Mr. Wilson foresaw a situation in which, when majority voting was invoked, there would be a rapid change of existing alliances. He could see for example Denmark and the Netherlands, or Denmark and Germany, or Germany and the United Kingdom voting together according to the subject in question.

Mr. Brown in replying to Herr Brandt’s question on association, said that in the last round of negotiations a variety of arrangements had been provisionally agreed upon, which would have provided for association for some Commonwealth countries and differing arrangements for others. We would assume that these arrangements could be carried over, and the problem of African, Caribbean and Asian Commonwealth countries could be dealt with in this way.

Credits for the Soviet Zone

Herr Brandt said he wished to raise the only purely national question which would come up. His British colleagues would know the Federal Government’s policy on improving the living conditions in the part of Germany on the other side of the Eastern frontier, by developing trade and cultural relations, etc. The Government in East Berlin was not co-operative at the moment. But, in this difficult time, inter-zonal trade had great importance as an instrument for achieving better living conditions in Germany, and in order to help the Federal Republic in their policy, their partners in the Community had made arrangements involving the volume of State-guaranteed credit to the Zone Government. Denmark had also said that she was prepared to co-operate in an arrangement of this kind. The German Government would be grateful for Her Majesty’s Government’s sympathetic consideration of this point.

Mr. Wilson said that he was aware of the problem and understood the Federal Government’s concern with this matter on both human and economic grounds. He understood that the problem related to the length of credits accorded to the Zone Government?

Herr Lahr here interposed that the volume of State-guaranteed credit rather than its length or period, was the particular point of concern.

Mr. Wilson said we would like to hear more of the German position before being able to comment. It would be desirable to exchange figures in order to give proper consideration to the question and we should be ready to do this. He assured Herr Brandt that we wished to be co-operative, and that we entirely understood the problem of the German Government. But the British Government, for its part, was under heavy attack from industrialists, not only from those who thought that East German trade was an easy way to make money, but from highly responsible industrialists who did a great volume of trade in the world as a whole. They tended to argue that the British Government stopped their undertaking business with the Soviet Zone, and that West German businessmen gained the trade for themselves. He again assured Herr Brandt that we recognised the problem and repeated that he thought figures should be exchanged concerning the volume of credits extended.

Procedure for following day

Dr. Kiesinger said that he would have a few more general questions to raise, which he thought might be dealt with on the following morning. He proposed
therefore that there might be a further restricted meeting at 9.30 with a plenary later if time permitted. Were there any further questions which should be dealt with in the present meeting?

Mr. Wilson said he agreed with Dr. Kiesinger’s suggestions on procedure. He thought it desirable that there should be at least a short plenary on the following morning in order to put on record those things which needed to be recorded. But before concluding the present meeting he would like to mention briefly two other points.

Regional policies
The first concerned regional policies. Our position was that we had dealt with this question exhaustively in discussions in other capitals. We had wanted to hear from some of Germany’s Common Market partners who had similar problems to ours, what their experiences had been of operating regional policies within the Community. We had no problem to raise with the Germans on this score unless they wished to have it discussed.

Kennedy Round
The second point was the Kennedy Round. We attached the greatest importance to the successful outcome of the Kennedy Round, and had been at great pains in other capitals to make clear that the United Kingdom Government’s position on membership of the Community did not imply that they attributed any reduced priority to the Kennedy Round or that they believed anybody should slacken their efforts. On the contrary we believed that the need for progress in the Kennedy Round was reinforced. Since the round of talks with the Community began the final deadline on the Kennedy Round had come one month nearer, and we were more and more concerned whether the urgency of coming to a settlement on the Kennedy Round was generally understood.

Herr Brandt said that the Federal Government was determined to do everything possible in Brussels, Geneva and elsewhere to bring the Kennedy Round to a successful conclusion. He personally was very much impressed by the talks he had had in Washington with the President and others during the previous week which had shown him the nature of the difficulties which could arise if the deadline were not adhered to. But in practice the position was that because Britain thought the Community’s offer insufficient, she was threatening to withdraw some of her own offers. He appealed to the Prime Minister for a reconsideration of this position. He thought that the outcome of discussions with the Scandinavian countries might lead to a general improvement in the situation. He shared the British view that it would be a very unhappy situation if no agreement were reached.

Mr. Wilson said he thought the discussion might be continued on the morrow. But he wished to make two points. First we had gone to the limit in our original offers and had been disappointed by the results. We had in fact gone to the limit more than might appear on the surface, in that the figures of trade volume on which the offers had been based were figures for 1962, which had been a year of depression in the United Kingdom when imports had been unusually low. There had been increases of 30 per cent in our imports of manufactured goods in the period from 1964-65 and 1965-66. Although therefore we felt that even on the 1962 basis we had gone further than anyone else the 1962 figures under-represented the value of the offer that we had made.

Second, there were many countries who, if not satisfied with the outcome, would start attacking some established arrangements which might not be in strict conformity with GATT. Unless there were for instance a satisfactory arrangement on cereals there might be difficulties within GATT. Arrangements which had been allowed to pass in GATT hitherto might be challenged if the concern of certain countries were not satisfied; this was a point which needed no enlargement.

Conclusion
Dr. Kiesinger suggested that the meeting might be adjourned at this point and thanked Mr. Wilson and Mr. Brown for their great patience and for the thoroughness of the answers which they had given to the questions asked. The meeting concluded at 6.35 p.m.
RECORD OF A MEETING BETWEEN THE BRITISH PRIME MINISTER AND FOREIGN SECRETARY AND THE FEDERAL GERMAN CHANCELLOR AND FOREIGN MINISTER IN THE PALAIS SCHAUMBURG, BONN, ON THURSDAY, 16th FEBRUARY, 1967, AT 10 a.m.

Present:
The Right Hon. Harold Wilson, M P
The Right Hon. George Brown, M P
Mr. Lederer (Interpreter)

Dr. Kurt Georg Kiesinger
Herr Willy Brandt
Herr Weber (Interpreter)

Non-proliferation

Mr. Brown said that he had asked the Federal German Minister of Finance, Herr Strauss, to have breakfast with him because he had not been sure whether on the previous night he had fully understood Herr Strauss's views on a Non-proliferation Treaty; but he had found that the same views seemed to prevail that morning.

Mr. Wilson said that he attached great importance to securing this Treaty. The two officials who had been charged with discussing non-proliferation had made some progress. Sir Solly Zuckerman might visit Bonn to discuss these matters with the German Government. He was very well informed on the problem of non-proliferation as well as on scientific aspects of the matter and was an expert on the problem of “spin-off”. He would not talk about such matters as a European Defence Community but could advise the Germans how far their fears about civil technological progress were justified or not. Dr. Kiesinger considered this a helpful suggestion. Mr. Wilson suggested that Herr Brandt and Mr. Brown and perhaps also Lord Chalfont might discuss these matters further.

Dr. Kiesinger said that Herr Strauss's attitude on non-proliferation was symptomatic of a widespread feeling of unease in Germany at the moment which was reflected in the German Press. There was a feeling that Germany was to be downgraded to the status of a tenth-rate Power, not only because of the content of the Non-proliferation Treaty but to a large measure because of the manner in which the Treaty had been prepared and then put to Germany. It was generally felt that the ground was being cut from beneath her feet, that alliances were no longer reliable and that NATO was no longer a coherent entity and was becoming an anachronism. The United States and Britain seemed to be following a different policy from the rest of NATO and it was felt that the German problem was being written off by their allies. This mood was the result of a sequence of events over the past years and he did not want to dramatise it.

In this context a few words should also be said about the NDP. Only very few of its members were real neo-Nazis. The great majority were no more than old-fashioned nationalists. If this uneasy mood was now reflected by a man such as Herr Strauss, who certainly could not be accused of Nazi sympathies, that was a sign that the matter must be taken seriously. The German Government would be grateful for any help, especially psychological help, that Britain could give in this respect. It would be very useful if Britain could say that she realised that a great deal was being asked of the non-nuclear Powers and that everything possible should be done to assure them that their interests would be effectively safeguarded. When he had referred the previous day to Mr. Kosygin's statement, he had done so because he was shocked at the brutal way in which Mr. Kosygin had expressed himself. When the Soviet Embassy had been asked for the exact form of words used, they had taken some time and trouble and had obviously referred the matter home before giving an answer. Indeed he had begun to hope that the explanation might be found in a mis-translation; and had thus been all the more surprised when the Soviet Embassy confirmed the harsh words used by Mr. Kosygin, namely that the Federal Republic would have to sign the non-proliferation Treaty whether it wanted to or not. It did not seem that those words had been used without full reflection.

Turning to the German Government's policy statement, Dr. Kiesinger said that it made quite clear that the Federal Government were determined to pursue
a policy of peace and understanding and would do what they could to reduce tension in Europe. True, the first impression of their recent action might have been one of aggressiveness, when looked at from the Soviet Zone of Occupation and it had caused a certain amount of nervousness in the Warsaw Pact countries; but this was inevitable so long as the Soviet Zone authorities insisted that, before any of the Warsaw Pact countries established diplomatic relations with Bonn, Bonn must renounce its claim exclusively to represent the German nation. In fact their action was not at all intended to be aggressive; on the contrary it would surely contribute to peace. The Federal Government's policy was backed by the two large parties in the Bundestag. It had been initiated during the present stage of ferment in the country and no doubt the Government would have some difficulties. He had wanted to give this account to Mr. Wilson and Mr. Brown after the talks with Herr Strauss. Nevertheless he himself and Herr Brandt were firmly resolved to carry the policy through. He was sure that they would succeed; but they needed support, especially psychological support. Germany had had "to take" rather a lot in recent months.

Mr. Wilson said that he appreciated what Dr. Kiesinger had said and was grateful for it. If Germany felt that she was sometimes being pushed around a little, so did Britain. We were being pushed around even by our best friends, who were also Germany's best friends. It was important that the psychological problem should be stressed. The NDP question gave rise to a certain amount of concern in Britain and to very deep anxieties in the Soviet Union. It would be useful if the British Government could be kept informed of developments in this direction; Mr. Brown had had to answer questions in the House of Commons about this matter, and had done so in a very relaxed manner. It would however be important to educate the Russians on this point and to that end we should welcome all the information we could get. From what Dr. Kiesinger had just said and from what Herr Brandt had said briefly on the previous day, the NDP seemed to be a kind of Poujadiste movement. There was something rather similar in the Welsh Nationalist Party which also was a repository for all kinds of discontented persons.

As to the philosophy of the Non-proliferation Treaty, Dr. Kiesinger's remarks were fully understood and were very much in line with what Lord Chalfont had been told by India, Sweden and other non-nuclear Governments. There was a strong feeling that there should not be a group of "haves" and a group of "have-nots" especially if to be a military "have-not" affected one's industrial position. In discussion with Mr. Kosygin in the previous year and again the previous week he had told him that the non-nuclear neutrals felt that, if they were to remain non-nuclear Powers, the nuclear Powers must scale down their own armaments and give some kind of military guarantee. Mr. Kosygin had suggested that no nuclear Power would ever use nuclear arms against a non-nuclear Power. This sounded good, but nobody really believed that such an arrangement would be adhered to in war where every side's only concern was not to be beaten. Mr. Wilson said that he had suggested a kind of collective guarantee to the effect that no nuclear Power would ever attack a non-nuclear one, but this was difficult for India to accept because of her fear of an attack by China, which would in any case be unlikely to subscribe to such a guarantee. In all these matters he and Mr. Brown had spoken to Mr. Kosygin in the same way as to Dr. Kiesinger and Herr Brandt—there was no question of saying different things to different Governments. On the so-called "European option" they had suggested a form of words to the effect that there would be no handover to any European country or group of countries, but that, if at any time a genuine new sovereign State in Europe were to emerge which included in its component States an existing nuclear Power this new State would inherit the rights of that existing nuclear Power. In the unlikely event that Canada and the United States became something like the United States of North America, that new unity would inherit the present nuclear rights of the United States of America.

Mr. Brown said that his conclusion from all these talks was that Britain could best encourage those who were worried on this count by entering the EEC. If Britain did so, people's belief in the ability of Europe to stand up for itself would be strengthened. That was why our present initiative was so important and could not be allowed to fail or to suffer long delay. If the Press asked whether this matter had been raised, he suggested that the answer might be that...
it had been raised, but not in the Common Market context; that the experts were examining it and would continue to do so, with special emphasis on the implications of the treaty for civil technological development in Europe.

Dr. Kiesinger suggested that, if the Press put questions on this matter, Mr. Wilson and Mr. Brown might indicate that they understood the anxieties of the non-nuclear Powers. Such a statement would have a beneficial effect.

Mr. Wilson agreed, so far as the effect on the peaceful development of industry were concerned.

German support for United Kingdom entry

Dr. Kiesinger then recalled that Mr. Wilson, in his speech at dinner the previous evening, had appealed to the German Government to do more than just support Britain’s initiative; he had asked them to do all in their power to bring about Britain's entry into the EEC. As Dr. Kiesinger had said, Germany wanted her support to be effective; she genuinely wanted to help, and to be firm in doing so, but she must manoeuvre with caution. It would be necessary for the German Government to discuss these matters very thoroughly with their French friends, to whom they would certainly convey their impressions of the present talks, and would try to dispel the anxieties felt by the French about the entry of Britain and other countries into the EEC. But they must set about this carefully, not weakly but with wisdom and prudence. Dr. Kiesinger still had General de Gaulle’s remarks on this problem ringing in his ears: he had used very firm language. Although the task would not be easy, he could give an assurance that as a result of the two days of talks in Bonn the German Government would faithfully try as honest brokers to overcome the difficulties in Paris. In the light of this he felt obliged to ask Her Majesty's Government to show understanding if the Germans did not make any solemn public declaration. But they could be relied on to do all in their power in Paris.

He was however concerned about what would happen after the tour of the Six capitals had ended. He doubted whether the Five would have succeeded in overcoming French resistance by that time. The problem would then arise—and it was a worrying one—how to fill the gap with reasonable action. The first step might be to await the French reaction to the talks which Germany would promptly begin with France.

Mr. Wilson said that he appreciated these assurances and agreed that results were more important than declarations. But he must stress the importance of maintaining the present momentum. The British Government were under pressure in the House of Commons both from those who favoured and from those who opposed British entry. There was a danger that, if Britain were to make a second formal application and were to be answered with a second rebuff, this might prove fatal. But there was also the danger of doing nothing, or of standing by the water’s edge and dipping in a toe but not daring to take the plunge. We must try to keep up momentum while the German Government and others did what they could to reassure General de Gaulle. There seemed to be two main problems in the General’s mind. One was the problem of sterling, on which we would let the German Government have a note. The second was the feeling that he did not want the present easy, comfortable little Community disturbed by strangers.

Herr Brandt said that he doubted whether it was wise to have multilateral discussions on British entry at this stage before some further progress had been made in various bilateral talks. In the first place the German Government would consult with Paris. A high official would be going there the next day, he himself would meet M. Couve de Murville in Brussels shortly and the Federal Chancellor would be going to Paris again. Secondly the Anglo-German Economic Commission might be upgraded and carry forward the discussion of this point. All this would enable the German Government to give Britain useful advice. Moreover, even if big words were not used, the German Government would underline where it stood on the European issue in the Bundestag debate the following week. One difficulty was that he would be meeting several of his
colleagues on subjects not immediately connected with the present talks, first in Brussels and then in Rome in April where Mr. Brown and he would be in connection with WEU.

Mr. Brown said that most of the British Press that morning said that the Federal Government had been discouraging towards Britain. This would not help to maintain momentum.

Dr. Kiesinger in reply said that there had been three courses open to his Government:

1. They could have said that they were in favour of Britain's entry while the French were against it. This they could not say because they honestly wanted to help Britain.

2. They could have used very strong words of support and assurance. This, he was absolutely certain, would have spoilt things in Paris. He knew this from his talks with General de Gaulle.

3. There therefore only remained the attitude which in fact they were taking, namely: they were impressed by the British arguments which had confirmed them in their intention to support Britain's endeavours; and they would talk to the French in this spirit.

This was the best the German Government could do in the circumstances and Britain should realise this.

Mr. Wilson said that in this connection he had instructed his own Press Secretary who wanted to publish his speech after dinner on the previous evening to omit the sentence in which he had appealed to the German Government because he felt that, if this were publicised, it could be counter-productive. The sentence might get out none the less because there had been very many persons present. If asked, he would say that in private talks German Ministers had clearly stood by their previous public declarations. If asked whether he had appealed for help in Paris, he would say that what one Common Market Government said to another was none of Britain's business.

Kennedy Round

There was one small point he wished to add in connection with the Kennedy Round. The list of exceptions to our offer amounted to 5 per cent of industrial imports eligible for most favoured nation rates. The Community list amounted to 18 per cent. This gap needed to be closed. Britain would much prefer to close it through further Community offers than to withdraw her offers. What Herr Brandt had said the previous day about Scandinavia might be useful in this context.

Herr Brandt said that the Anglo-German Economic Commission should meet to consider what the two countries could do to get things moving.

Offset

Mr. Wilson said that he also wished to mention the offset question. There were bipartite talks about it in Washington that day and tripartite talks would take place the following week. It was a very grave problem for Britain as well as for Germany and he hoped that it would not lead to any loss of friendship. Britain might have to take serious steps if Germany could not help her (which Germany might not be able to do). Those who had an interest in sowing discord between the two countries must not be allowed to benefit from this opportunity. We might be forced to carry out a surgical operation and should approach it with the proper detachment and not bludgeon each other in the process. Among various ideas being suggested the Foreign Secretary had one which involved a forward look at Germany's aircraft purchase programme.

Mr. Brown said that Herr Brandt had been right in saying that the time might come when we would have to make certain reductions and that these should be made for rational and not for irrational reasons such as money. We must try to find a solution on those lines.

Mr. Wilson said that Mr. Kosygin had been less encouraging in the recent talks on the mutual reduction of forces. Possibly he had read so much about our unilateral plans for reduction that he felt that there was no need for him to do his part; possibly also he was trying not to upset the Soviet Zone authorities.
Mr. Brown said that it would be good if Herr Brandt could visit London as soon as possible after Mr. Kosygin's visit and certainly before Mr. Brown's visit to Moscow in May.

Herr Brandt suggested April.

The Ministers then went into plenary session.

Prime Minister's summing-up

Mr. Wilson said that he and Mr. Brown had just concluded a useful discussion with Dr. Kiesinger and Herr Brandt and they had agreed that a short plenary session would be desirable in order to set down the points which they had discussed.

They had briefly discussed non-proliferation on a bilateral basis. He had suggested that a British scientific authority, qualified to discuss the relation between atomic research for military use and the "spin-off" for other uses, should visit Germany and talk to some of the Federal Chancellor's advisers; he thought that Sir Solly Zuckerman might be the adviser in question. Dr. Kiesinger and he had agreed what should be said to the Press if this question were raised at the final Press conference.

As regards the importance his visit to Bonn might have for the discussions between the members of the Six about Britain's possible application for entry, he was grateful for Dr. Kiesinger's excellent words in response to the appeal for support which he (Mr. Wilson) had made in his speech at dinner on the previous evening. He accepted the importance of avoiding prejudice to the support Dr. Kiesinger could give us by not making that support a public issue, and the relevant sentence of his own speech at dinner had not been in the text issued to the Press. At his Press conference shortly, he would say that Dr. Kiesinger had spoken warmly in support of British entry and, if the Press asked him what...
action Dr. Kiesinger would take with General de Gaulle, he would reply that any exchanges between the Heads of other Governments were a confidential matter for the two Governments concerned.

Their discussion on the *Kennedy Round* in the restricted session would be written into the record of their conversations and he would not, at this stage, repeat what they had said in that session.

For a number of reasons Dr. Kiesinger and he had felt that it would be desirable for the *Anglo-German Economic Mission* to meet soon at different levels; this might be a means of continuing the momentum of the approach to the Community once the series of visits by Mr. Brown and himself to the capitals of the Six Governments had been completed.

On *German offset costs* there had been a brief discussion which was to be continued through the other channels available to the two Governments. Ministers of both Governments had appreciated each other's difficulties and if, in the last resort, certain actions had to be taken, they should be taken swiftly in a detached and scientific way like a surgical operation, and not like an attack with bludgeons. If such action had to be taken over offset costs, it would provide certain persons, both in Germany and in Britain and in other countries too with the opportunity of sowing discord, and he would do his utmost to stop irresponsible comment.

He understood that a grave matter of protocol was involved in deciding whether he had been in Bonn on a distinct bilateral visit or whether his present visit was regarded as part of the *series of bilateral talks* between the Heads of German and British Governments. If the experts on protocol decided that he had paid a distinct bilateral visit, he hoped that Dr. Kiesinger would, in turn, visit London. He recognised the commitments which Dr. Kiesinger had, and the timing of the visit would be a matter for Dr. Kiesinger to decide. Alternatively if the experts decided that he (Mr. Wilson) had not paid a distinct bilateral visit, he hoped that he might be allowed to come to Bonn to do so some time in the future. Herr Brandt would be visiting London in April and would be meeting Mr. Brown on various other occasions on which they could continue the dialogue between the two Governments.

Finally, in furtherance of their discussion of the question of *sterling* he would arrange to convey to Dr. Kiesinger two notes, about the sterling balances and the overall position of sterling.

**Conclusion**

Dr. Kiesinger said that Mr. Wilson had correctly summed up their discussions in restricted session. As regards protocol he considered that Mr. Wilson had visited Bonn and visited it most impressively; but in saying this he would be happy to see Mr. Wilson in Bonn again as soon as possible. The talks had been extremely useful to the German Government, and had confirmed their conviction that they should support British entry into the Community. He hoped that the further talks Mr. Wilson and Mr. Brown would have would be crowned with success, and he looked forward to hearing further from Mr. Wilson, and to visiting London in due course.

Mr. Wilson said that he too looked forward to their next meeting, and again expressed thanks for the German Government's warm hospitality.

The meeting ended at 10.45 a.m.
RECORD OF CONVERSATION AT THE BRITISH EMBASSY, THE HAGUE, ON SUNDAY, 26th FEBRUARY, 1967, AFTER DINNER

Present:
The Right Hon. Harold Wilson, M.P.
The Right Hon. George Brown, M.P.
H.E. Sir Peter Garran, M.P.
Sir Burke Trend
Sir Con O'Neill
Mr. L. de Block
Mr. W. A. Nield

Professor Dr. J. Zijlstra
Dr. J. M. A. H. Luns
Mr. L. de Block
Dr. J. H. van Roijen

Mr. Wilson, after a general introduction, turned to the choices which would confront the United Kingdom after the tour of the Six was over. There would be three possibilities open: to do nothing, which meant deciding that the conditions of joining the Community did not exist; to apply for negotiations; or to do something in between. He emphasised the importance he attached to maintaining the momentum which the tour of the Community capitals had engendered.

Mr. Brown suggested that before the Dutch commented on these possibilities it would be useful to hear their view of an argument that seemed to be gathering strength on the Community side, namely, that the entry of Britain and some members of EFTA would fundamentally change the Community's nature.

Dr. Luns said that, although there was some truth in this, as far as the Dutch were concerned they were perfectly happy to see the Community expanded to a membership of 10 or 11 and Professor Zijlstra added that there was probably an optimum number of members, but he seemed prepared to go up as far as Dr. Luns.

Mr. Brown remarked that the present members of the Community need not fear that an expanded Community would exhibit rigid patterns of alliance or voting. There would be shifting patterns of interest according to varying interests on varying topics; and he thought this would give new flexibility and life to the expanded Community. Dr. Luns accepted this concept; and went on to say that he assumed that Mr. Wilson's first alternative choice of doing nothing was purely theoretical and could be discarded; to which Mr. Wilson agreed.

The remainder of the discussion can be summarised under the following headings.

The next steps after the probe

The Dutch Ministers strongly urged the British Ministers to submit an application for membership of the Community as soon as possible, in order to maintain the momentum of their approach. They strongly emphasised the need for the simplest possible application and for the United Kingdom to be content with seeking solutions to all its problems by means of transitional periods only. They gave the impression they felt any other course would give the French opportunity for infinite delay. The only exception to transitional periods as the solution to all problems appeared when Professor Zijlstra admitted that there might be justification for "a footnote on New Zealand butter".

Agriculture

There was a good deal of discussion on agricultural finance. Professor Zijlstra insisted that the burdens the British foresaw on their balance of payments as a result of the agricultural policy of the Community were likely to be much alleviated through a probable rise in world prices. From the British side it was argued that the possibility that world prices might fall, after the end of the Vietnam war, was not to be excluded. Dr. Zijlstra accepted this was possible.

SECRET
The Dutch argued the case for the British giving up any hope of changing the Community's Agricultural Policy including the Financial Regulations during negotiations to enter the Community, and urged that instead they should rely on modifying them in their favour through entering the Community in time to take part in their re-negotiation in 1969. The Dutch expressed their confidence that this could be achieved, but argued all the same that the new 1969 agricultural finance settlement would be bound to preserve the main lines of the existing system.

In the course of argument on agriculture Dr. Luns mentioned a transitional period of five years as an indication of what he had in mind. He also said he regarded it as quite unrealistic to suppose that agricultural prices in the Community would fall.

The French attitude

Dr. Luns said he was convinced that General de Gaulle had not yet finally made up his mind as to what course he would pursue. Dr. Luns believed that M. Couve de Murville would loyally implement whatever policy General de Gaulle sought to follow.

Mr. Wilson gave some account of his discussions with General de Gaulle in Paris, the purport of which was to reinforce Dr. Luns' view that the General had by no means yet made up his mind, and to emphasise to the Dutch Ministers the extent to which his attitude seemed to have changed since 1963.

Dr. Luns remarked that he personally was convinced that the French veto had been cast in January 1963 only because the negotiations had then been on the brink of success.

Main British problems

Mr. Wilson defined the main British problems as existing in the field of agriculture (especially the Financial Regulation and New Zealand); capital movements (and especially the problem of portfolio investment), and Commonwealth trade (New Zealand again and Commonwealth Sugar Agreement). He added that our regional policy, which had at one time looked as though it might be a serious problem, now seemed less difficult.

Dealing with capital movements, Mr. Wilson said that Britain might be prepared to take her chance (subject to a transitional period) on direct investment. He explained the special difficulties of portfolio investment.

Professor Zijlstra replied that here too Britain must be prepared to take the plunge and accept Community arrangements. The Dutch had had the same problem, and had found it soluble. He remarked that the Netherlands had larger investments in the United States than the United States had in the Netherlands.

The Commission

Throughout the discussion the Dutch Ministers laid much emphasis on the importance and usefulness of the role of the Commission. Mr. Wilson told them how helpful the contacts he and Mr. Brown had had with the Commission in Brussels had been, and he remarked that Dr. Mansholt had been specially helpful.

Non-proliferation

A reference by Dr. Luns to the need for Britain to tailor its general policies to the aim of entering the Community led him to speak at some length on the Non-proliferation Agreement. He hoped that Britain would be prepared to accept some delay in which to join with European States in the search for a solution which would not cause difficulties in Europe. Dr. Luns emphasised that the threatened difficulties were real. It was even possible that member States of the Community would be unable to sign a Non-proliferation Treaty without breaching the EURATOM Treaty. If this seemed to be so they might have to refer the point to the European Court at Luxembourg before they could make up their minds, and the Court might well find the obligations of the two Agreements incompatible.

Mr. Wilson acknowledged the reality of these difficulties, but reminded the Dutch Ministers that what the Non-proliferation Agreement really aimed at
averting was not dangers in Europe, but dangers in, e.g., India and Pakistan or Israel and Egypt. He went on to remark that it was unfortunate that EURATOM was in a somewhat moribund condition, and he hoped that British entry into the Community could contribute to reviving it.

**Dutch action**

Mr. Brown made several attempts during the evening to persuade the Dutch Ministers to indicate what help they would be able to give Britain should she apply for membership in the Community; but their response was confined to repeating that we must make the simplest possible application with the very minimum of conditions and rely exclusively on transitional periods to solve our problems, on the grounds that there would then be, in their view, no basis on which to veto or delay our entry.

Throughout the evening the question of the sterling area and the sterling balances was never mentioned, nor was the condition of the United Kingdom economy.

**RECORD OF MEETING BETWEEN THE PRIME MINISTER AND THE SECRETARY OF STATE AND THE NETHERLANDS PRIME MINISTER AND FOREIGN MINISTER AT THE ROLZAAL, THE HAGUE, ON 27th FEBRUARY, 1967, AT 10 a.m.**

Present:
The Right Hon. Harold Wilson, MP
The Right Hon. George Brown, MP (for the first part of the Meeting)
The Right Hon. Federick Mulley, MP (for the second part of the Meeting)
Mr. L. de Block
Mr. A. E. K. Hartogh
Mr. E. Schokker
Baron C. W. van Boetzelaer van Asperen
Mr. F. Italianer
Jhr. E. van Lennep
Dr. G. Brouwers
Ir. J. A. P. Franke
Dr. D. M. Ringnalda
Dr. H. C. Posthumus Meyjes

**Dr. Zijlstra** repeated his welcome of the previous evening. He hoped that the discussions upon British entry into the Community would be fruitful. He asked Mr. Wilson to introduce the discussion.

**Background to the United Kingdom initiative**

Mr. Wilson thanked Dr. Zijlstra for his welcome, and for the frank talk which had taken place on the previous evening. They would be aware of the purpose of the present visit from the statement which he had made in the House of Commons on 10th November of which a copy had been given to the Netherlands Government at the time. The Netherlands Government would also have received full reports on the previous four visits which he and Mr. Brown had paid to Community capitals.
He and Mr. Brown were in The Hague to discuss how British and Commonwealth essential interests could be safeguarded if Britain were to accept the Treaty of Rome and join the European Economic Community. In the light of their discussions with Community Governments, Her Majesty's Government would consider whether and when to activate the arrangements for negotiation for Community membership. Behind all this there was a firm intention on the part of Her Majesty's Government to join the Community if British essential interests could be protected and to do so unreservedly, in the sense that Her Majesty's Government would be prepared to play their full part in the development of the Community.

Mr. Wilson said he had not embarked upon his round of visits to Community capitals in the expectation of getting or taking "no" for an answer. Community countries had expressed their wish for British membership, and Article 237 of the Treaty of Rome said specifically that the Community was open to the accession of additional members.

In return members of the Community were entitled to ask Her Majesty's Government how far they accepted the Treaty of Rome, which was the foundation stone of the Community. Mr. Wilson here quoted the words of his answer to Mr. Grimond in the House of Commons on 10th November. He added that he had enlarged in Strasbourg on the theme of our preparedness to accept the basic rules of the Community.

As his talks with the Community countries had proceeded it had become clear that the main difficulties were those arising out of the Common Agricultural Policy, the Community's policies on capital movements, and questions of Commonwealth trade. During some of his earlier talks in the present series of visits to Community capitals, he had also discussed questions of regional policy but he was now less concerned with such issues.

This did not mean to say that no other questions would arise in negotiation. There would be for example some agricultural questions not arising directly out of the Common Agricultural Policy, and there would need to be discussion of the timetable by which the common external tariff would be applied and the internal tariffs within the expanded Community abolished. But these were not questions of major difficulty. In addition there were certain subjects where we ourselves saw no difficulty but which members of the Community might regard as problems.

To conclude, he did not think that we were proposing or asking for anything which it would be impossible to negotiate. We were not seeking to weaken the Community's sense of purpose or its institutions. If it were possible to overcome the difficulties, as he was sure that it would be, given goodwill on both sides, major new opportunities would open up. The Community would have an enormous potential represented by a population approaching 300 million; this constituted the biggest market in the world, with the exception of India and China which were not relevant to the present context. There would be a great impetus towards economic and technical development and thus towards the political development of Europe. Europe would be enabled to play a bigger role in the world than at any recent time.

**Netherlands attitude**

Dr. Luns said that the Netherlands Government was not only sympathetic but most favourably inclined towards British entry, for many reasons, both economic and political. Since the last war the Netherlands Government had been absolutely committed to the idea of greater cohesion and unity within Europe and finally to the concept of a united Europe. Great Britain could and should play a very great role. This was not only because of the values which Great Britain could contribute to the expanded Community; the Netherlands Government saw in our accession the possibility of further harmonised development and closer co-operation with North America. They had not forgotten President Kennedy's idea of an Atlantic partnership. They would feel a great loss if the European continent, without the United Kingdom, should develop in a way which would separate her from her destiny. Netherlands exports to the outside world were very considerable, so that the Netherlands Government also had a strong economic interest in maintaining outside connections. It was true that, at the time of the signature of Rome 70 per cent of Netherlands exports were sent to third countries.
outside the Community, and that now the proportion was little over half. But the Netherlands still had wide external interests.

The Netherlands had been greatly disappointed when, for political reasons, the way to British membership had been blocked in 1963. Since then a crisis had been overcome within the Community, but the scars were still present. Co-operation within the Common Market had lost some of its idealism and impetus. The Netherlands Government were confident that British membership would greatly contribute to inspiring the Community with new life.

They recognised that some very important adjustments needed to be made to allow the United Kingdom and the Community to adapt themselves to the new situation created by British membership. The Community had undergone considerable development in 10 years; the pattern of development of the United Kingdom had not been the same as in the Common Market. But they felt that the main problems, in particular the agricultural problems, could be solved by formulae which would be reasonably acceptable to all.

Mr. Wilson suggested the meeting might now turn to discussion of specific questions raised by the entry of the United Kingdom to the EEC, and invited Mr. Brown to outline the major problems arising on agriculture.

Common Agricultural Policy

Mr. Brown said he was sorry that he would have to return to London before very long to deal with questions in Parliament. Mr. Mulley, the Minister of State in the Foreign Office, would replace him and speak on his behalf.

Mr. Brown said that our attitude to the Common Agricultural Policy was comparable to our attitude to the Treaty of Rome—neither need raise questions of principle. The policy did not constitute an impediment to British membership provided that the difficulties which would arise for us could be satisfactorily handled. These were of differing degrees of importance and differing solutions might be required.

The first problem was the effect on the cost of living in the United Kingdom, and consequently on the prices and incomes stabilisation policy, which was important both to the United Kingdom and other countries. We estimated—and experts in other Community capitals and the Commission seemed to agree broadly on the figures—that the retail cost of food would increase by between 10 and 14 per cent, if there were no changes in world and Community prices by the time we joined the Community. It was of course impossible to be sure what the real position would be. A rise in food prices of the size he had mentioned meant an increase on the cost of living of around 3 to 3½ per cent. This would be a serious matter if all the increases took place at one time, but not if they were spread over a longer period. The severity of the problem depended on the length of the transitional period.

The second problem was the effect on our own farmers and on the pattern of agricultural production in the United Kingdom. Cereal producers would gain additional income. Livestock producers, principally in the western part of the country where climatic conditions were more difficult, would see their income reduced. They would attempt to switch to cereals production, for which their climate and terrain were less favourable. It would therefore be necessary to take appropriate measures to deal with consequential problems of structural reorganisation. For this time would be needed, and financial assistance.

Mr. Brown said that he understood that, in other capitals, it had been suggested that, in asking whether some part of the very large sum the United Kingdom would be paying in levies could not be used to finance this structural reorganisation, he was insisting upon the retention by the United Kingdom of some part of the levy income which would accrue. For the purpose of his question it was immaterial whether the United Kingdom retained the funds or recovered them; he was not suggesting that the money should not pass through the Community's Agricultural Fund.

The third area of difficulty was the effect on Commonwealth trade. Sugar producers in the Commonwealth enjoyed the benefit of the Commonwealth Sugar Agreement; and means would have to be found of overcoming their problems.
There would be some effect on Canada and Australia and the problems this raised were not without difficulty; but they were not of an order that could not, with goodwill, be resolved. There would be very serious effects indeed on the New Zealand economy, and it was difficult to see how transitional periods could overcome this problem, unless they were of such length that they would in effect be equivalent to a material change in the existing arrangements. Various ways had been suggested of overcoming this difficulty, among them, special guarantees of access to traditional markets, and association with the Community. The problem could certainly be solved, but it was a formidable one.

The fourth question was the most difficult, namely the effect on the British balance of payments if Community prices and financing arrangements remained unchanged. We calculated that the net adverse effect would be between £175 million and £250 million a year. The higher figure was likely to be the more realistic. This would not only represent an enormous burden on the British balance of payments but would, in his view, be altogether inequitable. We were sure to be by far the largest importer in the expanded Community, and we calculated that we should pay in levies virtually the same as the whole of the rest of the Community put together. Taking contributions and levies together we might be paying something over 35 per cent of the Community budget. It seemed reasonable therefore to ask that new arrangements should be made in order to reduce the burden on the United Kingdom to a tolerable level. His view was that, on the entry of a new member such as ourselves, there would need to be a review of the financial requirements of the Fund, and of the way in which the burden should be shared.

He had described the problems in what he believed to be an ascending order of difficulty. The answer lay partly in transitional periods, partly in adjustments of Community arrangements. We were convinced that none of these questions need raise insuperable difficulties or that their solutions need destroy the character of the Community or of Community policies. He added that he had sometimes been reminded that there would be some savings to the Exchequer. He did not think that he needed to remind an economist like Professor Zijlstra that in the one case internal finance was involved, in the other transfers across the exchanges.

Professor Zijlstra thanked Mr. Brown for his exposition. As he understood the problem there would be two main elements affecting our balance of payments: (a) payments to the Agricultural Fund, which could be sub-divided as between the need to transfer levies and the internal contribution to the Fund; and (b) the increase in food prices which would arise in so far as imports were shifted from third country sources to Community sources.

Mr. Brown said that the figures he had given made allowances for increases in United Kingdom production and shifts in import patterns. Figures quoted by Dr. Mansholt in Brussels suggested that we would be making even higher levy payments than we calculated, but he thought that Dr. Mansholt might be basing his calculations on the existing pattern of trade rather than allowing for shifts in import patterns. Mr. Brown said that we had made as good an allowance as we could for shifts in import patterns and in production. We estimated that cereals production might increase from 13 million to 20 million tons per year; Dr. Mansholt’s figures for our levy contribution had in fact been something like £80 million above our own.

Dr. Luns acknowledged the four problems mentioned by Mr. Brown, and that a just solution to them must be found. The Netherlands Government thought that most of them could be overcome by adequate transitional periods. He agreed that the effect on the cost of living would be serious if the changes had to be made all at once. But price adjustments took place every year under the Common Market regulations, and a transitional period would make the problem easier to deal with. The increase in the cost of living would be around 3 per cent. From 1962-66 retail food prices in the United Kingdom had risen by 15½ per cent. He did not therefore think that a 3 per cent rise, suitably spread, should occasion any great difficulty.

Dr. Luns said that Professor Zijlstra and he had been struck by Mr. Brown’s mention of a possibility that levies might be retained by the United Kingdom to deal with problems of structural reorganisation. He thought this was dangerous politically; in that such a device might be used by some to justify an assertion that
New Zealand was, in his view, by far the most important question. The Netherlands Government thought there were several possibilities for dealing with it. He thought that in Bonn three different ideas had been put to us: (a) a Morocco-type protocol—the new arrangements for dealing with Morocco had not yet been worked out within the Community; (b) association with the Community; (c) some form of quota system. He believed that the length of a transitional period might be crucial in this case. The Netherlands Ministry of Agriculture believed that the French were reluctant to accept quotas without any limitation on their duration. But, for his part, he believed that the Netherlands could accept any of the three solutions that he had mentioned.

As regards the balance of payments aspect of the agricultural question, he would not be surprised if not only the United Kingdom, but France also, would wish to have this problem settled in advance of British entry. In May 1966 the Five had agreed that the principle of equitable sharing of burdens within the Community should apply. He thought that we had a fair point in arguing that the effect upon our balance of payments would be inequitable. But he reminded Mr. Brown that at the end of 1969 the present agricultural financing system within the Community would come to an end; if we were members by that time then we should be able to play a major role in determining the future arrangements. He thought that there should be a gradual transition from the present lower British prices to the higher prices applicable within the Community.

Summing up, he said he shared our view that the problems were difficult but not insurmountable.

Mr. Wilson enquired exactly how much of the Community’s present agricultural arrangement had to be renegotiated in 1969. He understood that from 1970 onwards all levies had to be paid into Community funds. What then could be changed? Dr. Luns said that, supposing the Community had been expanded to 10 members by 1970, their calculation was that payments under the fund would amount to around £700 million plus £100 million for the guidance element. Netherlands experts calculated that the United Kingdom would get back something like £35 million out of the £175-£200 million which she might be expected to pay. But the whole of the agricultural financing arrangement was open to revision before 1970, apart from the principle that all levies would be payable to Community funds. Mr. Franke added that of course price levels applicable in 1970 could not be foreseen at the moment. Changes in prices depended partly upon what would have happened in the Kennedy Round. But he felt bound to say that he thought the chance of price increases was greater than the possibility of their decreasing.

Professor Zijlstra asked whether we foresaw the changes which we needed being made before or after our entry to the Community. Would it be sufficient, in any agreement made, to state it as our reasonable expectation that such changes would be made?

Mr. Wilson asked for clarification of Dr. Luns’ view that the French might also be interested in changes. Dr. Luns said that the point arose on the balance of payments effect. He merely thought that it was possible that the French might wish to raise this question in order to provide them with an opportunity of discussing many other questions as well. He had only brought the point up as an after-thought. He agreed with Mr. Wilson that French motives in raising the question were likely to be very different from our own. He added that he doubted whether there could be any question of restricting in advance the liberty of individual countries to adopt particular positions in the 1969 renegotiation. But all Community countries thought that the burden upon the United Kingdom balance of payments would range between “somewhat excessive” and “very excessive”. He had yet to hear anyone argue that this burden was a natural consequence of the British position.

Professor Zijlstra explained the philosophy behind the requirement that levies should be paid over to the Community.

*Note: Dr. Luns apparently thought that the Germans had proposed these ideas; in fact they were tentatively mentioned in Bonn by Mr. Brown as possibilities.
Mr. Wilson said he was interested in the calculation that we might get back £35 million annually from the Community. At present we spent considerable sums to assist British farmers. He thought there was some doubt about how far our existing production grants would qualify for Community assistance; one of the objectives of the Common Market was, he understood, to reduce production in high-cost areas. He was given to understand that some of our production grants might not be permitted to continue.

Dr. Luns thought that changes in United Kingdom production might be to the advantage of the United Kingdom. He would expect that production of both cereals and vegetables would increase. Mr. Wilson agreed that there would certainly be a change in the pattern of production. But he thought that this would result in an inaccuracy of British resources. We were far better equipped for livestock than cereal production. We might finish up by being a major exporter of cereals. This he thought would be an irrational agricultural policy for the United Kingdom. Professor Zijlstra agreed that the Community's Agricultural Policy was not the most satisfactory one when seen in terms of the rational distribution of world resources; but the system was there and he feared that its principles could not be substantially changed.

Dr. Luns hoped that the four problems outlined by Mr. Brown could be solved, given goodwill, mostly by transitional periods.

Procedures

Professor Zijlstra asked if it would now be the wish of the British Ministers to turn to questions of procedure; after signifying that this was so, Mr. Brown said that the guidance of the Netherlands Government would be welcome on the best procedure for the United Kingdom Government to follow after the present round of visits was completed.

Dr. Luns said that there were three possibilities which could be considered. The first was to abandon the idea of applying for entry; he assumed this could be dismissed. The second was not to press too strongly for entry at present, but to wait for a more auspicious time later in 1967. The third was not to lose the present impetus but to follow up firmly the visits to the Six capitals. He favoured the third, which might be essayed in various ways. The first might be to make a declaration of intent, to which would be annexed the reasons why Britain wanted to enter the Common Market. The second might be to apply for membership and to specify the length of the transitional periods which would be required. In Britain's view, there was no way in which she envisaged. The third would be to apply for membership and refer to the need for transitional periods, but then to indicate Britain's willingness to enter into negotiations within a given period, should the Community wish this. This third possibility would enable Britain to avoid the charge that she did not really accept the Treaty of Rome and the regulations made under it. Britain should be ready to undertake preliminary talks with the Community if that were desired. The various positive approaches had advantages and disadvantages. On the one hand if Britain applied for entry immediately the visits were concluded she might risk being rebuffed. On the other hand delay in submitting an application would enable the Community to discuss other matters and thus lose the momentum which had been gathering since November 1966. To be too specific about the length of transitional periods might give the impression that Britain had too many caveats about the Treaty of Rome; not to specify the transitional periods might incur the charge of vagueness or unreadiness to negotiate.

Mr. Wilson said that Dr. Luns had summed up the dilemma confronting Britain. On the one hand Her Majesty's Government wanted to avoid a loss of momentum and the prospect of long and arid talks about entry before real negotiations began. On the other hand they wanted to avoid a rebuff which might well be taken in Britain as a final rejection and would have serious effects on the political unity of Europe. Such a rebuff would call for the examination of alternative schemes to bridge the gap between the various groupings in the Western world. The fact that the visits to the capitals of the Six had been carried out quickly with little interval between each had maintained the momentum. One proposal which had been made was that a further round of bilateral talks might be undertaken in which he and Mr. Brown might or might not participate but we ought to get into a position where exploration could merge into negotiation, perhaps
on a multilateral basis, although there were certain aspects which could profitably be discussed at varying levels on a bilateral basis. Visits would not solve the problem of France's policy, which remained enigmatic. At an appropriate moment further talks would be needed, but if they were to be with the Community as such, rather than with its individual members, the talks should be with the Council of Ministers of the Community.

Dr. Luns said that discussions with the Community should be preceded by a definite application by Britain to join in some form or other. This would counter the French argument that the Council could make no move, because Britain had made no definite application.

Mr. Wilson reminded him that Britain had made an application in January 1963 and said that he had asked the Commission whether they regarded it as a matter which had been adjourned. If Her Majesty's Government asked for the adjournment to be lifted was it conceivable that France at that stage could decline to have it lifted, or would the French ask for Britain, e.g., to declare her attitude towards the Treaty of Rome before the request could be considered?

Dr. Luns said that he thought that, despite some difficulty and the allegation that the British Government had been ruminating for too long, the adjournment could be lifted and that the French would not try to block such a course.

Mr. Brown said that once there was a multilateral meeting between Britain and the members of the Community its only purpose could be to begin negotiations. The real difficulty was when to start negotiations. Mr. Wilson and he had not finally decided what to recommend to their Cabinet colleagues. In their discussions in the capitals of the Six they had indicated the likely problems confronting Britain and the kind of solutions which might be found, but they had had no indication from the French of the kind of solutions which would commend themselves. If negotiations could not begin that would be tantamount to a breakdown.

Dr. Luns advised that Her Majesty's Ambassador to the Communities should ask the Commission to lift the adjournment. He was glad that during their visit to Brussels Mr. Wilson and Mr. Brown had held a discussion with the Commission since this was bound to create goodwill towards Britain. Although the Commission had no say in procedural questions it had the power to offer legal advice.

Mr. Wilson said that although the talks in Brussels might have created goodwill in the Commission it did not necessarily follow that it had created goodwill in France. When he had asked the Commission informally at lunch about Britain's earlier application the members of the Commission had said that they understood that the British application of 1963 stood adjourned. But they had not been giving a considered view and some members had suggested that psychologically it would be preferable for Britain to submit a fresh application.

Dr. Zijlstra said that a fresh application might be simpler to deal with. Dr. Luns said that if the adjourned application were revived there was a danger that all the old files would be brought out with the attendant risk of arousing old animosities and renewing detailed and profitless discussions which was not germane to the new situation. He suggested that it might be prudent to ask the French Government and the other member Governments what their views were on procedure.

Mr. Wilson said that the French Government were likely to say that, whether Her Majesty's Government resuscitated the earlier application or put in a new one, the only point of interest was whether Britain accepted the Treaty of Rome.

Dr. Zijlstra said that Her Majesty's Government's position seemed now fairly close to accepting the Treaty of Rome, which contained arrangements for transitional periods. To resuscitate the earlier application would complicate matters seriously; a new application should be made accepting the Treaty of Rome and its consequences. If Britain raised all the important problems which had been mentioned by Mr. Wilson and Mr. Brown such as changing the system of payments to the Agricultural Fund, and asked for these problems to be discussed before entry in the Common Market that would create a new stumbling block. But if the United Kingdom accepted the Treaty of Rome subject only to transitional periods, she could expect solutions to be found after she had entered. It was
certainly possible for Britain to express her expectation that a reasonable solution would be found to the various problems but to make pre-conditions as distinct from transitional periods would create new stumbling blocks. The application for entry should therefore be couched in as simple terms as possible.

Mr. Wilson asked whether Dr. Zijlstra would agree with Britain saying that she would seek to join the Community, provided that means could be found of safeguarding essential British and Commonwealth interests.

Dr. Luns said that Britain would then be asked what those essential interests were.

Mr. Wilson said that we could answer that question. The onus of saying that there should be no negotiations on the basis of that formula would fall not on Britain but on the Community or a member of the Community. If Her Majesty's Government were asked what the essential problems were she would reply on the lines indicated in the discussions in the capitals of the Six. But what would happen once Britain had given these answers? What would the Council of Ministers and the Commission do then?

Dr. Luns said that he was not too optimistic about the next step. What the Council of Ministers did would be affected by political bias. The simpler Britain's application was, the better. If it mentioned safeguarding Commonwealth interests it would provide those who did not want Britain in the Community with a pretext for saying that Britain did not accept the Treaty of Rome in its entirety. It would be better to concentrate on transitional arrangements and make an application with as few conditions as possible.

Mr. Wilson said that if the advice meant that Britain should put in an entirely unconditional application it would not be accepted by the British Parliament unless it was backed by a clear understanding of what would happen in relation to British and Commonwealth interests, what would be covered in the negotiations and what would be left for later settlement, and so on.

Mr. Brown said that Britain was in the difficult position of answering all the questions put by the French but receiving no answer from the French to the questions Britain herself put. Would it be possible for the Netherlands Government to apply any pressure in Paris?

Dr. Luns said that the Netherlands Government would exert what influence they could among the Five in order to provide Britain with the best possible platform but the main problem was to avoid receiving a downright refusal and to avoid unnecessary procrastination.

Dr. Zijlstra said that if Britain's application did not specify exactly what Her Majesty's Government wanted, and did not deal with timing, it would give France and the Five a chance to object.

Mr. Wilson said that if however our application was exact, that would surely invite either a rejection or procrastination?

Dr. Luns agreed but said that a firm application would at least get things moving.

Mr. Brown said that Mr. Wilson and he had now received almost as much advice as they could hope to get in their visits. They knew the various courses open to the British Government and would be able to decide what to recommend to their Cabinet colleagues. He agreed that it would only be a matter of weeks before a decision had to be taken on the next steps, in order to avoid a loss of momentum or a charge of procrastination. When Dr. Luns said he assumed that no definite decision would be taken until after the French elections on 15th March, Mr. Brown agreed and reminded Dr. Luns of the forthcoming visits to Luxembourg and to the EFTA meeting in Stockholm.

Kennedy Round

Mr. Wilson said that his colleagues would want to know what progress was being made in the Kennedy Round to harmonise the different offers made by Britain and by the Community.
Dr. Luns said that it was important politically for Britain not to give the impression that she did not take the views of the Six into account in the Kennedy Round negotiations.

Non-proliferation

Dr. Luns said the same applied to the Non-proliferation Treaty, which was also a delicate matter, and could create prejudice as a result of the attitude of the EURATOM Commission to the proposed controls under the Non-proliferation Treaty as now put forward. The unsatisfactory development of EURATOM stemmed partly from the French attitude in 1963. But he must stress that the Netherlands Government did not want EURATOM to be further weakened. The EURATOM Commission's objections were levelled only at the system of controls of the Non-proliferation Treaty but they were very powerful as they regarded signature of the Treaty with its control clause as incompatible with the Treaty of Rome. The Netherlands Government's legal experts were less pessimistic than those of EURATOM, but their views had to be taken into account, and he hoped that it would not be necessary to refer the matter to the Court in Luxembourg, which could take a long time to reach a decision. The Federal German Government had expressed a fear—which the Netherlands Government shared to a lesser extent—that the United States and the United Kingdom might get an unfair advantage over other countries as a result of their nuclear development in the peaceful uses of atomic energy and in the civil "spin-off" which flowed from it.

Mr. Wilson suggested that it might be helpful if a Minister of State in the Foreign Office—perhaps Mr. Mulley and Lord Chalfont together with an expert on control procedures—were to visit EURATOM and the Commission for further discussions on this point. He believed that there was very little civil "spin-off" from military atomic energy, and our experts could be made available to discuss this too.

Dr. Luns said that it was important to talk to EURATOM, which had its own machinery. But if the "Vienna" non-proliferation controls were accepted France would boycott EURATOM, and this would further reduce its effectiveness. The Netherlands Parliament was anxious to maintain EURATOM as an instrument of European co-operation.

Mr. Brown said it would be intolerable if France kept Britain out of Europe and at the same time nullified EURATOM. He hoped both that EURATOM would survive and that the Non-proliferation Treaty would succeed.

Kennedy Round

Dr. Zijlstra said that the Netherlands Government were not over-optimistic about the outcome of the Kennedy Round negotiations. He asked what the British Government's forecast was.

Mr. Wilson said that Britain was not over-optimistic either. The problem was not capable of solution if left to itself, since the American Congress would not extend the President's powers under the Trading Negotiations Act when they expire this summer, unless the substantive Kennedy Round negotiations had been successfully completed, leaving only consequentials and details to be settled.

Britain was disappointed with the Community's offer list which did not compare favourably with Britain's. Our offer list was more generous and our exceptions list smaller. We would prefer to see the Community's offer improved in order to move to a higher level of agreement, rather than to reduce our own offer list. It was unrealistic to measure our offers by the trading position of countries in 1962, since in that year Britain had suffered a trading depression. In 1962-63 British imports and manufactured goods increased by 30 per cent and in 1963-64 by a further 30 per cent. There had been little increase in 1964-65 because of the imposition of the temporary import surcharge. Imports in 1965-66 had risen by at least a quarter and were rising again in 1966-67 as a result of the removal of the import surcharge. In other words, British imports and manufactured goods in 1966-67 were almost double those imported in 1962-63 and the value of our offers was thus much greater than the original figures suggested. He doubted whether this was as true of other countries.

Dr. Zijlstra said that in the negotiations in Geneva the problem of agriculture presented particular difficulties. Closer co-operation between the delegation of
Britain and the Community might help to promote the momentum of Britain's soundings about entry into the Common Market and this could be psychologically beneficial.

Mr. Wilson said that we should like to see the two delegations come closer together but one-way co-operation was of no avail, and we should appreciate some encouraging move on the part of the Community.

United Kingdom balance of payments

Dr. Zijlstra asked whether it would not be better, in dealing with the Common Agricultural Policy or any other question, to lay less emphasis on the balance of payments situation? This was undesirable, as being likely to give the impression that the British balance of payments remained weak. Perhaps Mr. Wilson could say something on this subject.

Mr. Wilson acknowledged that it would be preferable, in dealing with the fourth and most difficult problem which Mr. Brown had described in relation to the Common Agricultural Policy, to stress the essential unfairness of the Community's financial arrangements rather than to emphasise the strain which unconditional acceptance of the policy would place on our balance of payments. The Labour Government had inherited a balance of payments deficit of some £800 million in 1964. The exact size of the deficit depended upon whether account was taken of payment of interest and amortisation of the 1946 American loan. Britain had the right to defer payment until the end of the period of the loan which was towards the end of the century. In 1964-65 we had deferred payment but not in 1966. Allowing for repayments of the loan, the deficit in 1964 had been around £230 million, in 1965 £370 million and in 1966 it was expected that the deficit would be around £200-£250 million. The exact figure would be available within the next few weeks. In the fourth quarter of 1966 we had been in surplus, although it was true that there were favourable seasonal factors, e.g., less British tourist expenditure in that quarter than in the third quarter of the year. The position now was that we were moving strongly towards a surplus in the balance of payments in 1967 and 1968. We had never been, almost within living memory, in direct surplus on trade alone as we had been recently, but our invisible earnings had traditionally cancelled out the visible trade deficit and met our Government expenditure overseas. We were now trying to hold down or reduce our overseas Government expenditure, which amounted to some £300 million on defence and some £200 million on overseas aid; the House of Commons would be debating our defence expenditure that day and the next. As the Netherlands Government would know, we were redeploying and reducing our forces overseas. This would continue, and much would depend upon the solution of the problem of German offset costs where we carried a heavy burden in payments over the exchanges. We were not seeking a reduction in budgetary expenditure, but what had been envisaged in the original agreement, i.e., the avoidance of payments across the exchanges which prejudiced our balance of payments. We had set a target of £100 million reduction over the year in the Government's overseas expenditure. It was not easy to implement, as the reactions of the Maltese Government made plain. Malta wanted our forces to remain; Aden wanted our forces to remain; and it was likely that Singapore also would not want a reduction in our forces, which would affect the employment of 30,000 workers there. It could not be denied that the presence of British Forces in a developing country carried with it strong implications of British aid, and the reduction of the Government's overseas expenditure was thus not an easy task.

(Mr. Brown expressed his regrets that he must now withdraw from the meeting to return to London. Accompanied by Dr. Luns, he left the meeting and Mr. Mulley joined it at this point.)

United Kingdom economic position

Mr. Wilson, turning to the economic position of the United Kingdom, said that our general trading balance was now very good. The monthly trade deficit, exports and re-exports being set against imports, had been reduced from £45 million per month in 1964 to £23 million per month in 1965 and £12 million per month in 1966. It might be suggested that these figures had been achieved only by imposing severe deflation, but it should be remembered that the measures
of July 1966 had hardly had time to make themselves felt in our export performance
by the end of 1966. Our internal economic position in 1966 had been one of fairly
high activity and relatively low unemployment. In the last quarter our trade
figures had been phenomenally good; we had a £90 million surplus, due in part
to the postponement of imports until the removal of the temporary import
surcharge. Using the old method of calculating exports f.o.b. and imports c.i.f.
there had not been a quarter in the last 50 or 60 years which had shown a trading
surplus, until the last quarter of 1966. In January 1967 our exports had risen
again. In short, between 1964 and the beginning of 1967 we had had the biggest
increase in exports for a very long time. The value of our exports had increased
by some 14 per cent over the last two years in compound value 17 per cent over
1964-65 and 6.5 per cent over per cent over 1965-66. We expected this trend to continue; it
had done so in the latter half of 1966 when the economy was still overheated; the
trend was underlying and not related to the July measures. We had increased the
emphasis laid upon exports, and The Queen had approved the introduction of
a new Honour for those who promoted the increase in our export performance.
We had no tax-on-value-added system to assist our exports through rebates of tax,
but we were examining its possibilities.

The measures we had taken in July 1966 were calculated to hold back imports
and to apply a salutary shock to our industrial system. British industry was now
more cost-conscious and this applied both to the employers and to the trade unions.
The need to avoid waste both in money and in labour was being reappraised. All
this would help our export performance, and it was only in a few areas that there
was now a shortage of skilled labour. Given the continuance of our present export
performance, we were confident about the basis of our future balance of payments
and, indeed, we expected to be one of the few countries to be in surplus by the
end of 1967.

Dr. Zijlstra said that the Netherlands and Germany expected to be in surplus
and had experienced the same sort of swing as Britain had between 1966-67.

Mr. Wilson said that concern had been expressed elsewhere that Britain's
trade was in surplus only as a result of severe deflation. In the 1950s the trade
cycle had been related more to the periodicity of elections than to true economic
factors. The 1959 election had been won on the slogan "You've never had it so
good". But this consumer boom had led to the crisis in 1960 and to stagnation
leading to high unemployment in 1963. It should be remembered that the
restrictions of July 1966 had been imposed on top of the biggest budget surplus
since the war and had been made inter alia by imposing restrictions on excess
consumer demand through the hire-purchase regulations. This had led, admittedly,
to some unemployment in the motor car industry, but he would regard it as a failure
of his Government's policies if Britain were to deflate by the old means of
indiscriminate expansion of uneconomic consumer and social expenditure. Instead
we proposed to give priority to purposive investment expenditure. To help take
up slack in the economy we had set up the Industrial Reconstruction Corporation
with £150 million capital to encourage industrial rationalisation; a further £150
million was being spent on reconstruction of the docks to assist our exports;
substantial funds were being devoted to the re-equipment of our shipbuilding
industry, and we were building more factories in depressed parts of the country
to prevent other parts, such as the Midlands and the South-East from becoming
over-developed. The Government's reflation policy was to switch from
"investment" in consumer durables, to capital investment in industries which
would promote our export performance and thus help our balance of payments.

Moreover, we attached great importance to our policy of incomes restraint.
As a result of the freeze which had been imposed by the Government, wage rates
had been raised by 0.1 per cent of 1 per cent over the last six months. Some slight
easement of the position would follow: on his return from The Hague he would be
having difficult discussion with the trade unions. It was generally agreed that for
a considerable period in the future restraint would be needed in prices and incomes,
and the argument, though keen, related only to the method of achieving such
restraint. Mr. Wilson said he had gone into some detail as Dr. Zijlstra, another
economist, had expressed interest in the way in which Britain was meeting her
economic problems.
Dr. Zijlstra thanked Mr. Wilson for his detailed exposition: the Netherlands, as Mr. Wilson knew, was facing similar problems of wage restraint. He should perhaps mention also that if Britain joined the Common Market the fiscal system would have to be adjusted to meet the requirements of the Community.

Mr. Wilson said that British experts were already working on the modalities of assimilating our tax system to that of the Community, and also of assimilating our social policies to those of the Six.

The Meeting adjourned for lunch at 12.30 p.m.


Present:
The Right Hon. Harold Wilson, M.P
The Right Hon. Frederick Mulley, M.P
H.E Sir Peter Garran
Sir Burke Trend
Sir Con O'Neill
Mr. W. A. Nield
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. N. Statham
Mr. T. Lloyd-Hughes
Mr. D. J. D. Maitland
Mr. W. K. Reid
Mr. R. J. O'Neill

Professor Dr. J. Zijlstra
Dr. J. M. A. H. Luns
Mr. L. de Block
H.E Dr. J. H. van Roijen
Mr. A. E. K. Hartogh
Mr. E. Schokker
Baron C. W. van Boetzelaer van Asperen
Mr. F. Italianer
Jhr. E. van Lennep
Dr. G. Brouwers
Ir. J. A. P. Franke
Dr. D. M. Ringnalda
Dr. H. C. Posthumus Meyjes

The role of sterling

Dr. Zijlstra said that, in the light of Mr. Wilson's economic exposition in the morning, it might be helpful if he could now deal with the implications of sterling's role as both a world currency and a reserve currency for the mutual aid provisions of Article 108 of the Treaty of Rome. Section 108 had been formulated in order to encourage members of the Community to give mutual help to any member country with balance of payments problems. When the Treaty of Rome was being drawn up, none of the currencies of the signatories was a reserve currency, and so the problems which would arise on Britain's entry had not been foreseen. It might perhaps be possible to distinguish normal assistance to EEC members with balance of payments problems from the problems of sterling as a world currency?

Mr. Wilson said that Article 108 had, of course, already been invoked on behalf of Italy when she had had balance of payments problems. It almost seemed as if the Article had been drafted with Britain in mind, as it might be used not only if there were a disequilibrium in one's balance of payments; but also when there was no disequilibrium on the domestic balance of payments, for example, but only shortage of a particular type of currency or speculative pressure. Our view was, in fact, that the position of sterling depended very largely on Britain's own balance of payments. It was true there had been psychological factors affecting sterling in 1965 and 1966 when the British balance of payments had in fact been improving; but these factors really arose from the lack of confidence not so much in sterling as in the basic British balance of payments situation. He
had that morning explained the great improvement which had taken place in our balance of payments, and why we thought it would continue. Once we were in surplus, we did not expect lack of confidence in sterling to recur; but there were clearly two other factors, apart from the British balance of payments, which in previous discussions had been cited as affecting the position of sterling; one was the sterling balances; another was the role of sterling as an internationally accepted and convertible currency and, in reply to Professor Zijlstra, he would say something on each.

Many countries were willing to hold their reserves in sterling because it was acceptable as an international currency and, unlike gold, it bore interest. The sterling balances had remained fairly constant in total even in 1966. There had been fluctuations, and big changes in their distribution, but, taking one year with another, the level of our sterling balances had been steady. Under the Basle Agreement a fall in the level of sterling balances could be offset by financial assistance from the signatories to the Basle Agreement. That mechanism which was an extra-Community arrangement in which the Six countries took part had worked well recently.

Between one-third and one-half of total world trade was conducted in sterling, and this second or trading currency role of sterling meant that leads and lags operated sharply. Over the last three years, this had happened three or four times, but those who had sold sterling short had lost money in doing so. So long as the paeity was right—and we should see that it was kept right, the Community need have no fears about Article 108.

We could appreciate that the Six might feel anxious that a recurrence of balance of payments difficulties combined with a reserve currency might if we had again to take remedial measures, lead to the export of unemployment because our deflation might in turn affect other member countries. But the Six need not fear that they would be affected by Britain’s entry in this way. There were four safeguards:

1. Our balance of payments prospects were good.
2. The level of sterling balances remained relatively constant.
3. Special arrangements such as the Basle Agreement and recourse to the IMF were available should sterling come under pressure.
4. Britain’s assets at home and abroad exceeded, overall, our liabilities.

Dr. Zijlstra said that every bank ought to be able to realise its assets in an emergency. Mr. Wilson replied that any bank would have a difficult passage in mobilising quickly all its assets. Some of ours could be mobilised quickly; others were not liquid. But no country had a vested interest in seeing the pound weakened and Her Majesty’s Government for their part regarded it as their duty to keep it strong.

Turning to the sterling balances, Mr. Wilson said these were composed of different elements. Balances of sterling kept by Central Banks and Governments in the sterling area as a backing for internal currencies were a stable element. Trading corporations abroad such as the Ghana Cocoa Stabilisation Board held substantial balances in Britain. When cocoa prices had fallen, their sterling balances had fallen, but when prices rose, sterling balances rose also. Several overseas banks had appreciable holdings in Britain and many had holdings with local authorities; on occasion, they reduced their balances, but were not likely to do so while interest rates in Britain remained relatively high. Large trading organisations such as Unilever and Royal Dutch Shell also held balances to finance their transactions both in Britain and in other countries, for example, for the repayment of royalties; some corporations which had reduced their balances in 1966 were now obliged to build them up again.

While we now saw no likelihood of our entry involving our partners in the Community in the danger of deflation if difficulties with sterling did recur, we should be prepared to discuss the possibility of special arrangements should there be at some time in the future a move towards a single European currency. In that event, a number of measures might be considered for dealing with the sterling balances, but the IMF would be the appropriate forum for considering them in the first instance.
Dr. Zijlstra said that in order to avoid the necessity of the other members of the Community underwriting sterling should Britain join the Community, would it not be desirable to limit the application of Article 108 to normal fluctuations in the balance of payments, and not to extend it to cover risks arising from pressures on a reserve currency, should a country like Britain with such a currency join the Community? The intention of the Six in drafting Article 108 had taken no account of the possibility of a member possessing a reserve currency.

Dr. Luns asked whether Article 108 would in law be applicable to a reserve currency; for example, legal experts had some doubts whether it could apply to fluctuations in the sterling balances.

Mr. Wilson said that he would leave the legal arguments to the lawyers, but on the substance of it, if the Six sought a derogation from the terms of the Treaty of Rome in respect of Article 108 if Britain became a member, Her Majesty's Government would be happy to give it sympathetic consideration! Otherwise a layman might be inclined to interpret Article 108 as applying not only to any balance of payments difficulties Britain might have, but also to strains arising from sterling's role as a reserve currency. It should, he thought, be possible to distinguish between these two kinds of fluctuation.

The responsibility for helping Britain, if she were a member of EEC, in any difficulties arising from sterling's international role should remain where it was now, i.e., with the international monetary arrangements in which a much wider group of countries and central banks than those of the Six participated. When Italy had balance of payments difficulties, Britain, as well as members of the EEC and the United States and other members of the world's financial community rallied round; and similarly with Britain in 1964. Moreover, assistance to India, Ghana, Ceylon and other countries in financial difficulties was given by a wide range of countries in the international financial community acting as consortia. The Six should therefore not fear that if Britain became a member of the Community she would place a legalistic interpretation upon the mutual aid provisions of Article 108 in order to meet pressures arising from sterling's international role, e.g., to underwrite the sterling balances.

Dr. Luns said that it would be good for other members of the Six to know of this answer.

Jhr. van Lennep said that Mr. Wilson had clarified the position. Article 108 had been drafted at a time when currencies were not readily convertible and it was doubtful whether it would apply to movements in the sterling balances. It had been drafted in circumstances when currencies were not convertible as they were to-day, and had been intended to provide assistance of a limited nature, the concept being that a member country's deficit would primarily be dealt with in the context of the International Monetary Fund, and that assistance under Article 108 would be a standby arising from any special strains or limitations which a country might experience as a result of its membership of a common market. Although Britain had among her assets extensive overseas investment there might be difficulties of liquidity in mobilising these investments in support of sterling. There was, therefore, some concern that, if Britain did not have a healthy balance of payments, there would be a danger of her having to resort to restrictive or deflationary measures which would affect her Common Market partners. It would be useful to have it on the record that the Community would not have to underwrite sterling against confidence movements if Britain had difficulties with her balance of payments; and that that responsibility would continue to be shouldered by the existing international monetary arrangements.

Mr. Wilson said that it was realistic and reasonable to interpret, as Jhr. van Lennep had done, Article 108 not according to the strict letter of the law but according to the intention of its draftsmen. It was a reassuring factor that the Treaty of Rome was now being interpreted more pragmatically. The increased convertibility of currencies which had come about since the formulation of the Treaty of Rome had, of course, brought other developments in its train, and it could be that the EEC might encounter a Euro dollar squeeze if the United States balance of payments were brought into surplus—especially for example, if the war in Vietnam were to end.
He agreed whole-heartedly with Jhr. van Lennep that the kind of problem which sterling had encountered over the last three years was a matter of concern to a much wider circle of financial authorities than those of the EEC, and was a matter concerning the financial authorities of the free world. In other words, under Article 108, the financial authorities of the EEC would not have a special Community obligation towards sterling, but rather a general concern shared with the other financial authorities of the world, i.e., as members as it were of the club of Central Bankers as the Federal Reserve Bank was. They had in fact helped Britain in 1964 in this latter capacity and not as members of the EEC. This was a new point, which had not been raised, at any rate in this form, in the previous visits to the capitals of the Six.

Dr. Zijlstra and Dr. Luns said that it was very important and useful to know that, if Britain joined the EEC, Article 108 would not in her view oblige the other members to be sole underwriters of sterling. They had often told the other members of the Community this, but this was the first time their thesis had been confirmed.

Dr. Zijlstra said that it was sometimes said that Britain's net reserve position was not a strong one, and therefore, despite what Mr. Wilson had just said, in the event of Britain joining the Community, the other members would be at some risk. The United States had a deficit in their balance of payments, but they possessed enormous assets throughout the world. Mr. Wilson had described Britain's economic growth and recovery but, in relation to the members of the EEC, her reserve position was, relatively speaking, weak. Had Britain's balance of payments improved sufficiently to be shockproof?

Mr. Wilson said that our reserves were healthy in relation to our present and likely future balance of payments. We would be repaying later this year some of our drawings from the IMF. This repayment would have to be debited against our surplus in 1967 and our reserves. Our reserves covered a wide spectrum of assets ranging from gold and convertible currencies in the Bank of England to other less readily available assets. Our liquid assets did not, however, consist merely of gold and convertible currencies. We had liquified a large portion of our Government-held assets in the United States, but we had not yet taken them all into our reserves. In addition, we had short-term investments abroad, and also a very large portfolio investment which could in emergency be mobilised as the United States had done, although to realise these assets would affect the countries in which they were held as had happened in 1964 when some external investment in Britain had been realised. Our total overseas assets, including direct as well as portfolio investment, amounted to some tens of billions of dollars, but they were not all of course Government assets, nor of course were the overseas assets of the United States.

Dr. Zijlstra said that it would not be possible for the Government to mobilise private portfolio investment overseas quickly.

Mr. Wilson said that he could see no situation in which the British Government would have to take urgent steps to mobilise overseas assets on the scale of our holdings. It was true that it would not be easy to liquidate them, and whilst we had been obliged to realise some private overseas investments during the war there was no question of our having to do that now.

Capital movements

Dr. Zijlstra asked whether the Community's regulations on capital movements presented problems for Britain.

Mr. Wilson said that on capital movements it was necessary to distinguish direct and portfolio investment. If we accepted the rules in respect of direct investment, it was uncertain whether investment between Britain and the Six would result in a net gain or a net loss to our balance of payments. However, it was probable that in an enlarged Community there would be more United States and other third country investment both in Britain and in the EEC. In principle, therefore, Britain should be able to follow the same road as the Six in relation to direct investment, but it was possible that there might be a need for arrangements to cover a period of strain for a year or two.

SECRET
As regards portfolio investment, it was again difficult to say whether liberalisation would on balance lead to increased portfolio investment from the Community to Britain, or vice versa. Our concern was that liberalisation could lead an outflow of capital from Britain through the Six to the United States, since the members of the Community did not control outward portfolio investment closely as Britain did. Merchant bankers could, if our control on portfolio investment from Britain to the Community were lifted, organise in a matter of minutes investment from Britain to third countries, e.g., the United States, via Community financial centres who were not under similar control of outward investment. It would be necessary to discuss such controls, without which we might find ourselves promoting property development in Manhattan at the expense of building up technological development in Europe. Britain would for this reason have more reservations on freedom of portfolio investment than on freedom of direct investment.

There was also a regional problem arising from the control of direct investment. Unless Her Majesty's Government were allowed to continue their present policy of restricting industrial development in the South-East of England, there would be over-development of that part of Britain if Britain joined the Community; and still more so when the Channel tunnel had been opened. At present our controls enabled us to prevent building of factories in congested areas: he understood, however, from previous discussions that this would still be permissible if we joined the Community: it was important for us to know whether severe restrictions on regional development could be maintained in the Community.

Dr. Zijlstra said that the Netherlands Government operated regional policies designed to promote investment in certain parts of the country, and as a corollary to inhibit development in other parts. The Commission was considering how to harmonise the regulations dealing with regional development in the member countries of the Six, but they all had sensitive regional problems, and he did not envisage that regional policies would be a serious problem for Britain if she joined the Community.

Returning to the main subject, Dr. Zijlstra said he appreciated that freedom of capital movements presented Britain with a problem. The Netherlands had also had problems with capital movements in 1957 when the Treaty of Rome was being formulated; and he advised Mr. Wilson not to make a precondition of entry of capital movements. All the members of the Common Market had problems in connection with capital flows, and if Britain joined, she could discuss with the other members of the Community the further control of capital movements to third countries.

Jhr. van Lennep said that when the Community rules were made, there had been no problem of undue net outward flows of investment, and the rules did not therefore provide for Community control over them. He would appreciate that Britain might accept a wider measure of liberalising capital movements within the EEC than to third countries. But there was a ready made solution in Article 70, Section 2, of the Treaty of Rome, which provided that:

"Where the measures taken in accordance with the preceding paragraph do not permit the elimination of differences between the exchange rules of member States, and where such differences lead persons resident in one of the member States to make use of the transfer facilities within the Community, as provided for under Article 67, in order to evade the rules of one of the member States in regard to third countries, that State may, after consulting the other member States and the Commission, take appropriate measures to overcome these difficulties."

The Community preferred non-discriminatory policies, but if there had to be discrimination against third countries, Article 70 would surely provide the solution.

Mr. Wilson agreed that Article 70 might help. This could be discussed further if Britain were to join the Community. A longer period of adjustment would certainly be required by Britain for portfolio investment than for direct investment, and he was not sure whether transitional arrangements would be adequate. He observed that the Community accepted discrimination in agricultural policy in the interests of European agriculture to the disadvantage of other agricultural
countries. It hardly seemed consistent with this that discrimination in respect of portfolio investment which could promote the economic and technological development of Europe should be frowned upon—especially as capital movements had been liberalised more than trade since the last war.

Dr. Zijlstra said that France would be Britain’s best ally if she sought to restrict the freedom of portfolio investment to third countries. The balance of payments of the Community as a whole was strong, but there was some concern about the export of capital.

Jhr. van Lennep said that the Community policies had been formulated at a time when there was too great an inflow of capital, and there had been no need to impose restrictions on outward flows; but if a net outflow from the Community to third countries were to develop, this would soon lead to a reconsideration of policy, and there was no Community philosophy against restriction of outward capital flows, whether of direct or portfolio investment.

Mr. Wilson said that, whereas Dutch and European investors in general had been free for some years to invest in the United States or other third countries if they wished to do so, British investors had not had that freedom. There might therefore be a pent-up demand which could lead at least initially to a substantial outflow of capital if portfolio investment outwards were liberalised. But if Britain maintained a higher interest rate than was needed for internal purposes, this might stem the outward flow.

Dr. Zijlstra said that, so long as there was not a net outflow of capital from the Community, there was no need to worry too much. The Community would be readier to accept restrictions of capital movements than restrictions on trade; and there were still within the Community some national restrictions on inward capital flows.

Mr. Wilson said that whereas Britain could prevent the take-over of British firms by outside interests, she encouraged inward investment which brought with it advantages such as technological knowledge and improvements in the quality of management.

Technological development

Dr. Zijlstra then invited Mr. Wilson to speak about technological development.

Mr. Wilson said that the previous evening he had given a number of figures to M. de Block which he had subsequently had checked. Her Majesty’s Government spent on technological research (excluding defence expenditure) £286 million, an increase of one-third over the last two years. Of this, £129 million went to Universities and Research Councils and to the Government-sponsored Institute for Nuclear Research. An indication of the importance we attached to technology was the establishment of the Ministry of Technology which now employed 7,600 staff, excluding those engaged for contract work. On computers for Universities and Research Councils, we should be spending £30 million over the next six years, and the Government itself spent between £6 million and £7 million a year on computers. Local authorities were being encouraged to install computers at a cost of £3 million a year. Research funds were also being granted to the National Research Laboratories to develop computers. Among the other interesting projects we were developing was the fuel cell.

In his speech at the Guildhall, he had referred to a technological Community. By this, he did not mean to imply that a fourth European Community dealing purely with technology should be established, but rather that the technological wing of a merged Community should be developed if, at the time of Britain’s entry, there were one Community; if there were still three Communities, then EURATOM might be strengthened by an injection of technological expertise. Britain welcomed Signor Fanfani’s proposal, although she doubted whether NATO was the right forum for this work, and wished to encourage conversations between scientists and technologists of Community countries. But major technological achievements going beyond such exchanges depended upon the achievement of a common market for the products of technological innovation. British firms wanted to be assured of a bigger market for their products, and he had told General de Gaulle in Paris that we should not be willing to share our technological advances...
if our products had to surmount a wall of external tariffs between the two European Communities; this was a factor which was also bound to limit bilateral co-operation in civil as well as military projects of a technologically advanced nature.

Dr. Luns said that some fears had been expressed that, if Britain entered the Common Market, Britain and France might continue bilateral projects which could harm technological developments in the Netherlands, Belgium and Luxembourg.

Mr. Wilson said that they should not fear this: there was no doctrine of exclusivity or duopoly in our minds. Britain was, for example, trying to promote tripartite development of some military aircraft of multilateral sales. It was true that military aircraft tended to be ordered only by the Governments collaborating in their production, but with private and civil projects, multilateral co-operation and a common market were essential.

Dr. Luns said he hoped that Britain's trump card would not be committed in advance of her entry into the Common Market because of bilateral projects in aircraft production.

Institutional questions

Dr. Luns then asked for Her Majesty's Government's views on the question of majority decisions and the compromise reached at Luxembourg in February 1966. The Five contended that majority voting would become the rule as the Community developed and enlarged itself, whereas the French held the opposite view. When he had served as President of the Council of Ministers, he had in fact been able to accept majority voting on a number of points. Was it true that Britain favoured unanimity rather than majority voting?

Mr. Wilson said that it was not for Britain, since she was not yet a member of the Community, to intervene in the difference of opinion on this subject which had been registered in the Luxembourg agreement. He could say that once Britain entered, she would accept the Treaty of Rome no less than other members. So long as she was not a member, she would not wish to add to the difficulties of the existing members by interfering in a domestic Community matter.

Dr. Luns said that there was a strong body of opinion in the Netherlands to increase the degree of European parliamentary control over the Community, especially in respect of the large sums which the Commission would control. Indeed the Dutch Government had accepted unanimously a resolution of Parliament to that effect. Had Britain considered this matter?

Mr. Wilson said that Her Majesty's Government had given some thought to this question, but not as much as would be given if Britain were a member of the Community. Naturally, as prospectively a very large contributor, she would be interested in seeing that the funds of the Community were well spent; but again, it would be wrong for us to intervene before we became members.

Dr. Luns recalled that there had been long discussions among the Six in the past about ultimate political union in the Community. The original Fouchet proposals had been rejected by France because she did not agree with the supranational ideas implicit in them. The Five had been disappointed at this decision. He recalled it because, in April, the new Netherlands Government would probably wish to go as far as supporting the Second Fouchet Plan, especially if Britain were a member of the Community. He recalled that in 1962-63 Her Majesty's Government of that time had agreed with the views of the Five on this matter.

Mr. Wilson said that Britain had been interested in the political unity of Europe since the First Fouchet Plan, and had expressed the hope that Britain might be associated with any talks about Europe's political future, even if she were at that stage not a member of the Community. Her Majesty's Government had received no response to this approach.

Dr. Luns suggested that the Ministerial meeting of WEU on 3rd and 4th April might provide a convenient opportunity for discussing Britain's soundings about entry.
Mr. Mulley said that it was to be hoped that either Mr. Brown or he would attend that meeting, and would welcome a discussion; but if the Six were to become involved in talks on this topic before Britain’s application for entry it could delay consideration of our application, should we decide to make one. Mr. Wilson emphasised that it would be undesirable for any of these discussions to be used in such a way as to prejudice Britain’s position.

Dr. Luns said that they would see to it that that would not happen. The question of the fusion of the Executives had still not been solved; but there was a rumour of a secret Franco-German agreement that Professor Hallstein should retire in September, and that an Italian should head a new and enlarged Executive. The Netherlands Government were bound to seek the approval of the Dutch Parliament for any fusion agreement before the exchanged instruments ratifying it.

Mr. Wilson asked whether Dr. Luns could give any indication about the rumour which had appeared in the Observer the previous day about a secret Franco-German agreement to keep Britain out. Was this mere sensational journalism or was there any foundation of fact in this story? He noted also that the Daily Telegraph that day had carried a story that the Netherlands Government were opposed to Britain’s entry. Perhaps this was an erroneous impression that could be corrected at the Press conferences which were to follow.

Dr. Luns said that the Daily Telegraph story was completely contrary to the feelings of the Netherlands Government and he would controvert it at the Press conference. Full information had been received from Bonn about the talks which Mr. Wilson and Mr. Brown had conducted, and there was no indication at all of a secret Franco-German agreement.

European Coal and Steel Community (ECSC)

Dr. Luns asked whether Britain proposed to join the ECSC? His Government were somewhat worried about the ECSC: it was the most supranational of all the Communities, and it was attempting to integrate supply and demand within the Community in supply circumstances of great difficulty and with increasing closures of coal mines. Would Britain need a transitional arrangement in order to adapt to the Treaty of Paris which set up the ECSC?

Mr. Wilson agreed that the coal position was becoming increasingly difficult. We too were closing down uneconomic coalmines and transferring miners to more economic pits. Over the last 18 months, our closure programme had been speeded up, with consequential social problems; and now, the discovery of large amounts of North Sea gas would further affect our coal and also other fuel industries. We were still appraising the implications for our energy programme and the part of our National Plan which dealt with energy policy was now outdated. Although he agreed with Dr. Luns that the ECSC was not the easiest of Communities to deal with, we would intend to play a full part in it if we applied for membership. Apprehensions that quantities of British coal would be dumped in the Community were exaggerated; our domestic market was our principal outlet, and we were currently exporting only three-quarters of a million tons a year to the Community, much of it in special types of coal. There was need for order in the coal market, and arrangements for that would need to be part of a wider European energy programme, which would require further examination whether Britain entered or not. Mr. Brown and he would have the advantage of discussions with the members of the ECSC Executive the following week when they visited Luxembourg.

Dr. Zijlstra agreed that a common energy policy, whether nuclear or traditional, was urgently needed.

Conclusion

Dr. Luns said that it was desirable that at the two ensuing Press conferences he would firmly rebut any suggestion that the Netherlands Government opposed the British Government’s intention of maintaining the momentum of their initiative, and would say that the Netherlands Government would support a British application for membership of the Community.
Dr. Zijlstra said that the discussions had been most fruitful, and had helped the Netherlands Government to understand more fully a number of points which had so far remained in doubt. He could assure Mr. Wilson that the Netherlands Government were extremely favourable towards British entry to the Community.

Mr. Wilson said that he too had found the discussions extremely valuable. It had been most useful to draw on the experience of the Netherlands Government, who had been approached as friends and who had given helpful advice about future procedures. If shortage of time had prevented them from discussing political matters as fully as they had discussed economic and agricultural matters, this did not in any way imply that either side underrated the importance of the political development and influence of Europe. He thanked Dr. Zijlstra and his colleagues for their hospitality and for the time they had generously given to the discussions.

The meeting ended at 6.30 p.m.
RECORDS OF CONVERSATIONS IN LUXEMBOURG

NOTE OF A CONVERSATION AT THE BRITISH EMBASSY, LUXEMBOURG, ON TUESDAY, 7th MARCH, 1967, AFTER DINNER

Present:  
The Right Hon. Harold Wilson, M P  M. Pierre Werner  
The Right Hon. George Brown, M P  M. Gregoire  
H E Mr. D. Malcolm  M. Clasen  
Sir Burke Trend  M. Pescatore  
Sir Con O'Neill  
Mr. W. A. Nield

Problems of United Kingdom entry

Mr. Wilson after expressing his pleasure at being in Luxembourg, said that he hoped that on the following day it would be possible to discuss some of the issues which we regarded as the main problems in relation to our entry into the EEC—the Common Agricultural Policy; capital movements; Commonwealth interests, and so forth. We ourselves had come to believe that none of these problems need be insurmountable; and we had been impressed by the fact that the chief objection which was now being raised against our entry seemed to be the fact that it would change the basic nature of the Community. Was this a real objection? We should be very grateful for the advice of Luxembourg Ministers about the best way of meeting it.

Luxembourg's attitude

M. Werner said that, as British Ministers would know, they had the full sympathy and support of the Luxembourg Government in their renewed attempt to enter the EEC. The Luxembourg Government were convinced, as a result of their own experience of the practical working of the Community, that every problem—not excluding the difficult question of the Common Agricultural Policy—could be solved provided that the political will to solve it existed. He would be particularly interested to hear from the Prime Minister on the following day the nature of the difficulty which we saw in relation to the question of capital movements.

Capital movements

Mr. Wilson briefly explained that for Britain this was essentially a question of the opportunity which might be provided for portfolio investment to flow, via the EEC, to the United States and so to evade British exchange control.

M. Werner said that this might raise the whole question of the relationship of sterling to the Community? Luxembourg permitted complete freedom of capital movements; and, if this freedom had to be made subject to some degree of restriction, this might be thought to imply that the Commission in Brussels would need to be invested with a new kind of supra-national authority going beyond anything which had hitherto been envisaged in the context of the integration of the financial and monetary policies of the members of the Community.

Mr. Wilson replied that the problem might perhaps be tackled in terms of a transitional period for portfolio investment which would need to last until agreement had been reached on the type of permanent controls required.

Technology

Mr. Wilson said it was important not to underrated the British argument on this point, since it had a direct bearing on the whole question of European technological development. Europe must be prepared to compete with the United States in technology and, therefore, to create the right conditions for the intensive investment which would be required for this purpose. The computer industry was an outstanding example in this context; and it was this thought which had...
prompted his own suggestion that something in the nature of a fourth community should be created. He had not used this term in any institutional sense. He had rather meant that the EEC should concentrate on maximising its technological potentialities; and this necessarily implied some degree of control over the movement of the capital which would be needed for this purpose. Britain could contribute a good deal to the technological development of Europe (including nuclear technology, although we believed that the technological overspill from military nuclear development was small), provided that we were an integral member of a market large enough to give our technological potential full scope.

Commonwealth interests

Mr. Brown said that we did not regard Commonwealth interests as an insuperable obstacle to our entry to the EEC though it was clear that some special arrangement would have to be made for New Zealand. Even here, however, a very long transitional period—possibly of more than 20 years—might suffice.

Problems of the Six

Mr. Wilson asked what were likely to be the main problems for the Six themselves if we tried to enter the Community?

M. Werner replied that they could be summed up as being the risk that the Treaty of Rome might be diluted into little more than a mere customs union which Britain and France together would dominate. But it was precisely this sharing of control which General de Gaulle foresaw and resented.

It was agreed to continue the discussion in more detail on the following day.

RECORD OF A MEETING BETWEEN THE BRITISH PRIME MINISTER AND FOREIGN SECRETARY AND THE LUXEMBOURG PRIME MINISTER AND FOREIGN MINISTER HELD IN THE “TERRE ROUGE”, LUXEMBOURG, ON WEDNESDAY, 8th MARCH, 1967, AT 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P. M. Pierre Werner
The Right Hon. George Brown, M.P. M. Pierre Gregoire
H.E. Mr. D. Malcolm M. Wegenkel
Sir Burke Trend M. Petit
Sir Con O’Neill M. Pescatore
Mr. W. A. Nield M. Clasen
Mr. A. N. Halls M. Borschette
Mr. A. M. Palliser M. Wagner
Mr. C. M. MacLehose M. Duhr
Mr. T. Lloyd-Hughes M. de Muyser
Mr. D. J. D. Maillard
Mr. N. Statham
Mr. W. K. Reid
Mr. R. Lederer

M. Werner renewed the welcome he had given on the previous evening to Mr. Wilson and Mr. Brown on their visit to Luxembourg, the last stage in their tour of visits to capitals of the EEC. He hoped that this stage would be successful both for bilateral relations between their two countries and for matters of major European concern. The fundamental position and the ideals of the Luxembourg Government were already known to Her Majesty’s Government. Since 1962 when the possibility of Britain joining the Community had first been seriously discussed the position of the Luxembourg Government had not changed; but there had been changes in the political and economic situation of the world. He offered Britain his Government’s best wishes for the action they were now taking.
Mr. Wilson thanked M. Werner for the warm welcome which had been extended to the Foreign Secretary and himself and for the helpful informal talks which had taken place on the previous evening. He did not think it was necessary to go over familiar ground since the Luxembourg Government would have read the statements he had made in the House of Commons in November 1966 and at the Council of Europe meeting at Strasbourg in January 1967. They would also have had accounts of the progress of the talks in the other five capitals from Her Majesty's Ambassador and no doubt from the other members of the Community. The purpose of the visits was to explore the possibility of entering the EEC, provided that Britain's essential interests could be safeguarded. The advice of the Luxembourg Government would be welcome when the British Cabinet came to determine whether and when Britain should activate negotiations for entry. Understandably the discussions in the capitals of the Six had been occupied with the difficulties which would occur if Britain applied for entry; but it was also important to take account of the value of her entry for the future of Europe. It was Britain's firm intent to enter the Community if her essential interests could be safeguarded. The Foreign Secretary and he would not have undertaken their strenuous but enjoyable round of visits had they not meant business. They had started with the knowledge that members of the Six had expressed the hope that Britain would enter and that the Treaty of Rome fully allowed for the admission of new members.

The reports of the discussions which had already taken place would have made it clear that Her Majesty's Government did not consider the Treaty of Rome in itself as presenting an impediment to our entry provided our essential interests could be safeguarded. Most of the problems which had been discussed could be solved when the actual workings of the Treaty of Rome were examined closely. For example, the question of sterling and the implications of Article 108 of the Treaty did not now appear to present the difficulties which had at first been foreseen.

The main points of difficulty were the Common Agricultural Policy and especially its financial regulations; certain aspects of capital movements; Commonwealth questions; and certain aspects of regional policy, although here again the further the talks had developed the more it had appeared that the difficulties under the latter head would not be as great as we had feared.

To list these main points did not mean that there were not other points of difficulty. But Her Majesty's Government envisaged that the negotiations for British entry, if Britain decided to activate them, would be concentrated on a few main issues and would not involve detailed discussion of what amounted to a grocery list. Many detailed matters had been discussed in 1962. Many problems had altered since then, and many could be dealt with from the inside after Britain's entry. There would also be certain questions arising from harmonisation procedures, e.g., it would be necessary to work out a timetable for adaptation to the common external tariff. But that kind of question should not present major political difficulties.

Mr. Wilson said that he was aware that in some quarters there was a feeling that Britain's entry would dilute and weaken the Community. To use a metaphor which had been employed in previous talks it had been suggested that, if more coaches were added to the Community train, the train would find itself labouring or losing its sense of direction. It was true that additional coaches might be added if Britain and some other countries joined, but there would be a more powerful engine and the whole train would continue along the track already laid down. In other words the accession of Britain would strengthen the Community and its purpose. The eventual size of the Community might amount to some 300 million people, providing the largest market in the free world apart from India. The concentration of skill and technological expertise would help Europe to become stronger and economically more independent and thus to play a bigger and more important role in the world. Those were material difficulties to be overcome but when discussing the future of the Community and of Europe it was important to remember that the political advantages and motivation of an enlarged Community and a strengthened Europe were more important than the difficulties in the way.

Institutional questions

M. Werner said that the Luxembourg Government had a positive approach to the question of Britain's entry. It considered that the Community could gain...
substantially in strength and influence both politically and economically if Britain became a member. As one of the big Powers, her joining would present a complete picture of intra-European co-operation and would make Europe stronger in world affairs.

One of his Government's concerns, however, was that the achievements of the Six in producing an advanced system of economic and political collaboration should not be weakened by new institutional or legal problems which might arise through the addition of new members. He had been glad to hear from Mr. Wilson that he too was concerned that the efficiency and cohesion of the Community should not suffer. The Community had now had much experience in solving the problems of individual member countries by negotiation. With goodwill transitional arrangements could be agreed for all vital matters.

Although most of the discussion would hinge on the Treaty of Rome, it was important not to forget the Treaty of Paris, especially since the prosperity of Luxembourg was based on its coal and steel production. Some of the principles of the Treaty of Paris were very important; in particular non-discrimination in marketing among members of the ECSC should be maintained; this was part of the philosophy which had been in the mind of the founding fathers of each of the Communities and should not be forgotten. Collaboration among the signatories of the Treaties of Paris and of Rome should lead to closer co-operation in political matters among the Six, the Seven, the Ten or however many members there might be of an enlarged Community.

The Luxembourg Government had received reports on the discussions which had taken place in the other capitals of the Six. He would not therefore wish to trouble Mr. Wilson and Mr. Brown to repeat all the points they had made previously. Certain problems had become clearer in the course of the talks. He suggested that institutional aspects of the Treaties should be discussed and then the major problems of agriculture, capital movements, Commonwealth trade and regional development. As he understood it, Britain accepted the principles of the Treaties as they stood at present.

Mr. Wilson said that she did, just as the Six did.

M. Werner said that there had been certain developments which had gone beyond the original Treaties, for example in the ECSC. Would Britain be prepared to collaborate in developments of that kind?

Mr. Wilson said that Britain would consider it impertinent to express views on any disagreements which had arisen among the members of the Communities but she would be prepared to play her full part in discussions and development if she were a member of the Communities. To revert to his earlier metaphor, one felt more sense of movement and acceleration in a train than if one stood watching it go by.

M. Werner said that, when the question of majority voting had been debated in Luxembourg, the Six had come to the conclusion that they should state two different views in the same text. His Government considered this to be a false problem since they did not believe that one member country would be overruled by the other members of the Community where the vital interests of that Community were concerned. But a Community could not be run without the sanction of majority voting, since otherwise there would be no arbitration of the problems that arose in interpreting the original Treaty.

Mr. Wilson said that it was helpful to have M. Werner's views on this; they represented a realistic way of looking at the problem. It seemed right that if a problem arose affecting the vital interests of one country then the other members of the Community should make every effort to meet these difficulties. On the other hand it would be wrong to disrupt the Treaty by pushing its national interest to the point of overriding the will of the Community as a whole. Where decisions had to be reached it was best to proceed in the sense of the whole meeting; but it might be that certain matters would have to be decided by a vote. For this reason he felt that M. Werner's position was realistic.

M. Werner said that certain provisions of the Treaty of Rome involved co-operation in matters which were not determined by the Treaty itself. Trade policy was one; the Community had succeeded in taking a number of decisions on the Kennedy Round, but there were still large areas of trade policy which
were not covered by Community decisions, for example trade with Eastern Europe and with under-developed countries. The Luxembourg Government felt that closer co-operation in these matters should be pursued. Would Britain see any difficulty in this?

Mr. Wilson said he saw no problem for Britain in this proposition.

M. Werner said that a problem might be created by the sovereign rights of States in relation to harmonisation of taxation. This was most likely to arise first in relation to indirect taxation such as the turnover tax, but in due course the Community might feel the need for harmonisation of direct taxes, such as income tax.

Mr. Wilson said that if we were a member, of course Britain would accept the position of the Community in this respect. The British Government were constantly examining their tax structure. As he had said in the summer of 1966, the Conservative Governments had rejected a value-added tax but his Administration were looking again at this possibility. He understood that in the last two weeks the Community had decided to move away from the "cascade" type of value-added tax. Indirect taxes were of course related to the freedom of trade within the Community, and, given time for transitional arrangements to operate, he would see no insuperable difficulty in harmonising indirect taxation. In the long term the same would apply to social taxation, involving payments by employers to finance social policies. If Britain joined the Common Market, and if there were no harmonisation of social taxation, British industry and the industry of the rest of the Community would receive different treatment. He noted that the Treaty of Rome imposed no obligation to harmonise direct taxation; but if this were desired in consonance with the spirit of the Treaty the British Government would play its part in discussing the matter.

Fusion of the Communities

M. Werner said that Mr. Wilson would be aware of the impending merger of the Executives of the Communities. The Luxembourg Government were concerned that the merger of the Communities themselves should lead to a position of strength rather than one of weakness. What was the British attitude to the merger?

Mr. Wilson said that this was largely a question of the timing of our entry. Britain would be prepared to join the three separate Communities or one merged Community depending upon the state of development at the time. Britain could certainly strengthen EURATOM, but she would be ready to play her part whether the Communities were separate or fused.

M. Werner said that the British desire to strengthen EURATOM would make the prospect of Britain joining the Communities more attractive both to the public opinion and the Governments of the Six. If Britain were able to bring her technological expertise into the Communities it would be of great importance.

Mr. Wilson said that his purpose in his Guildhall speech in 1966 had not been to propose the establishment of a fourth and separate Community for technology, but to advocate the strengthening of the technological content of the Community or Communities. The whole of Europe needed a larger market for the products of technology. If the Community were enlarged to a figure approaching 300 million persons, it would provide a market large enough to justify manufacturers taking risks in deploying resources on major technological research and development which in a smaller market would prove a much more hazardous operation. He cited as an example the fact that, when the Labour Government had come into office, they had decided to abandon work on the TSR-2 which had taken £750 million expenditure in research and development, although the market for the aircraft was restricted to the RAF. Her Majesty's Government had now undertaken joint defence projects with the French Government which would halve the cost and double the market for military aircraft since both the French and British Air Forces would use the products of this particular branch of technology.

In computer technology none of the European countries could compete by itself on equal terms with the United States; but if there were a market of some 300 million persons Europe could compete successfully. If Europe were not in the forefront of technological development by the 1970s, she would become a
second-class technological area relying on the United States for new developments and producing herself only those traditional goods which she had produced 20 years earlier. Technological co-operation on the necessary scale would not be feasible in a divided Europe, no matter how many learned papers were read by professors or how much advice was communicated by scientific attachés. Our businessmen would not take the risk of incurring substantial expenditure on research and development if they had to compete with United States firms and face the same tariff barrier as the Americans faced because of non-membership of the Common Market.

M. Werner said he agreed: and suggested the meeting should now discuss agricultural problems.

Agricultural problems

Mr. Brown said that there were four related problems in agriculture, none of which in the view of Her Majesty's Government required changes in the Treaty of Rome, or in the Community's institutions. They were of varying degrees of difficulty and he proposed to set them out in ascending order of difficulty.

(i) The effect on the cost of food and the cost of living. If Britain switched to the Community system with its higher prices, this would have a substantial effect on our price levels, estimated at 10-14 per cent as regards the increased cost of food and 3-3 1/2 per cent as regards the rise in the cost of living. He understood that the calculations made by the Commission were roughly the same as those made by Her Majesty's Government. If the change could be made over a long period these increases would be relatively unimportant; if they were made over a short period, the effect in Britain could be severe. The length of the transitional period would therefore be of considerable importance.

(ii) The distorting effect on the pattern of British agricultural production. If Community and world prices of agricultural products remained at their present level the overall profitability of British agriculture would probably be no worse than at present but there would be changes in the pattern. The level of Community prices would stimulate cereal production and would depress some, but not all, livestock production. The smaller farmers tended to be livestock producers: this meant that the Government would have to face a considerable series of structural changes within the pattern of British agriculture. The western and northern parts of Britain had climatic and soil conditions which were relatively unsuitable for cereal production. It would take time to carry through the structural changes which would be needed for encouraging smaller farmers to merge and to adapt their production to the Community's agricultural policy by changes in production, by amalgamations, by co-operative systems. Such changes would require both time and financial assistance, and Her Majesty's Government should be enabled to recoup some of the levy payments made to the Agriculture Fund in order to finance these changes. There was also a question whether to avoid depopulating the poorer parts of Britain special grants, e.g., for those who would otherwise have to leave unrewarding farms would be acceptable under the Community regulations. He considered that ways could be found to assist the necessary structural changes without breaking either the letter or the spirit of the Treaty of Rome; Her Majesty's Government hoped that this would be acceptable to the Community.

(iii) The effect on Commonwealth suppliers. Acceptance of the Common Agricultural Policy would produce a number of Commonwealth problems, for example, in relation to the Commonwealth Sugar Agreement. Presumably the kinds of association which had been discussed in the 1962 negotiations would be available to Commonwealth countries in Africa and the Caribbean. It seemed likely that these would present no substantial problem. The real problem arose over supplies of agricultural produce from New Zealand. (Supplies from Australia and Canada would present difficulties but they should not present insuperable difficulties.) New Zealand depended on her exports of temperate foodstuffs to the British market. This meant that provision would have to be made to ensure access for the agricultural products of New Zealand to Britain and the Common Market on no less generous a basis than she enjoyed at present. The method of arranging this would have to be discussed if negotiations were begun. Something more than a transitional arrangement would be necessary: a Morocco-type protocol might
be a possibility or some arrangement which guaranteed access for New Zealand
products to the Community market. Britain could not let New Zealand down in
this respect.

(iv) The effect of the present agricultural financial arrangements on Britain's
balance of payments. Her Majesty's Government assumed that she would pay
her contribution to the Agriculture Fund under the "key" system of apportionment.
If no changes were made in the present arrangements, Britain would, under the
90 per cent levy arrangement, have to pay in levies a very substantial sum across
the exchanges. Taking the higher prices, the national contribution and the levies
into account, this would involve Britain in a charge to her balance of payments of
£175 million at the lowest estimate and £250 million at the highest. The end result
might be somewhere between these two figures with which the Commission had
expressed themselves as being broadly in agreement. The problem lay in the size
of the payments and in their unfairness. Britain would have to pay as much as all
the present members of the Six together and would contribute some 35 per cent
of the total Fund; in view of the size of the payment and its inequity some
change seemed to be called for. He imagined that the Fund would not have been
drawn up on its present basis had there been more than six members of the
Community at the very beginning. In the event of accession by Britain and other
European countries therefore, it would seem desirable to have a further look both
at the size of the Fund and at the relative levels of contribution to it; and it was
convenient that the whole question of financing was due to be re-negotiated in
1969.

If there was a common will to solve these financial aspects of the Common
Agricultural Policy a solution could be found without changing its purposes and
principles. These were the four main problems which Her Majesty's Government
foresaw in relation to the Common Agricultural Policy.

M. Werner said this was a complex problem and it was necessary to distinguish
between its various aspects. The Common Agricultural Policy had a basic
philosophy which the Six regarded as definitive, and applicable not only in the
transitional stage to 1970 but thereafter. They regarded the system of levies and
the provision of compensation for exports as a suitable and desirable one for the
Community. There was also provision for funds to be made available for
agricultural development in order to solve the special problems of individual
countries and to enable them to cope with the conversion to Community policies.
Whilst the transitional stage was still running the special arrangements operated.
In arriving at these arrangements the individual interests of the Community
members had had to be taken into account and careful compromises achieved.
He wished to ask whether Britain objected to the system of levies and interventions
as a major element in the agricultural policy at the final single market stage, after
Britain had become a full member. He stressed that he recognised the problems
which the Common Agricultural Policy presented for Britain. There were problems
which could be dealt with by transitional periods, and there were problems also
of structural alteration. But the question was what Britain could accept in the
final stage of the Community's development. Arrangements could be made to
deal with transitional difficulties but he did not see how it was possible to overturn
the Community's basic philosophy.

Mr. Wilson said that he must in a sense be expressing a personal opinion in
replying to M. Werner's question because no decision had been taken by the
British Government whether or not to seek membership of the Community. But
if the Cabinet decided to apply for entry he thought it would have to be on the
basis that we accepted the principles of the system described by M. Werner. It
would not, he thought, be realistic to say that we wanted to enter the Community
provided that there could be a totally different agricultural system—though if we
had been members of the Community at an earlier stage then we might well have
wished to see a different system introduced. But the amounts of the levies that
would be payable might be a different question. How far this question could be
left until 1969 when we might already be members of the Community, how far
the key of national contributions might be adjusted, how far the problems might
be solved by transitional periods, what length these transitional periods should be
and the extent to which our system of production grants might be maintained
were all questions for discussion in negotiation.

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Mr. Brown said he agreed that the Community system was not ideal for Britain but he thought we could adjust to it. Even so, the four problems that he had mentioned needed to be dealt with satisfactorily in one way or another.

Mr. Wilson said that when Germany had pressed for a ceiling on her contributions to the common agricultural fund he understood that this had not been taken by the other members of the Community as involving a derogation from the system, but rather as meeting a special problem. On that basis we would not need a derogation either; but we would need special decisions to deal with special problems which arose in our case.

M. Werner said that it had been agreed that from the beginning of the single market stage in the Community all levies would be payable to the Community. If we accepted this position without derogation, he could not think that there would be any difficulties. He imagined it would be possible to find special arrangements covering transitional periods, provided it was clear what we could accept in the final stage. He stressed the undesirability of looking at the present situation as a static one. We had made our calculations, based on the present situation. But the Community would change; there would be new developments. There would be new opportunities for British agriculture. In Luxembourg they had had the problem of persuading farmers that if they were prepared to specialise there would be new opportunities. Perhaps the problem was not so big as we thought it might be.

Mr. Brown said he wished to make it quite clear that in making the estimates that he had quoted we had made an allowance for changes in British agricultural production, for changes in import requirements, and for the possibility of additional exports, as favourable to ourselves as was prudent. He had been interested to discover that the Commission’s estimates of the amount of levy payments which Britain would have to make were much higher than our own; and he imagined that the difference represented the allowance that we had made for changes. Thus the figures he had quoted were genuine ones involving full allowance for any changes which might reasonably be expected to assist us.

He said that, if we accepted the basis of the Common Agricultural Policy, then of course we should have to accept that all levies would have to be paid over to the Community. What seemed to be still open for discussion however was the amount that might be paid back to Britain for other purposes. It was the net contribution that was important. And for us to be making a net contribution twice that of Germany was in his view altogether inequitable.

M. Werner said that the way in which the problem had now been put seemed to present it in a much more acceptable light. The Community clearly envisaged payments to individual Governments for agricultural purposes. What Mr. Brown had just said seemed to offer a much more promising basis for negotiation.

Mr. Wilson confirmed that we were interested less in the system and the way it operated than in the final net amount which we should be required to contribute. It might be satisfactory if that requirement were limited. We were after all talking in terms of a marriage between the Community and Britain. You might prefer the girl you were marrying to have blue rather than grey eyes but you could not insist on her changing the colour of her eyes before you married her. Thus, although we did not regard the Community’s Common Agricultural Policy as an ideal system we recognised that it was scarcely possible to require that it should be changed upon our entry.

The question of production grants was important. We recognised that if we entered the Community deficiency payments would have to disappear. But we would like the question of production grants to be examined very carefully. We made them, for instance, to hill farmers in areas which presented difficult social and, to some extent, nationalistic problems. And every pound by which the grants could be increased would reduce the net balance of payments burden on Britain. We were applying a deflationary policy in Britain at the moment. Some experts estimated that it was necessary to cut production by £500 million in order to cut the balance of payments deficit by £50 million. Such cuts brought with them disagreeable consequences such as unemployment. If we were required to accept as the cost of the Common Agricultural Policy anything like the figures which Mr. Brown had mentioned this would mean holding back production.
investment, and technological development in Britain in order to find the necessary money. It was true that we would hope to increase our industrial exports to the Community; but we should also increase our imports from the Community. Thus we could not just set industrial advantages against disadvantages in the agricultural sector. To find the money needed to cover the cost of the Common Agricultural Policy would represent a very heavy additional burden upon Britain.

M. Werner agreed that deficiency payments would have to be excluded. But the Commission was at present discussing what kinds of grants to farmers might be permissible. No final arrangements had been agreed within the Six. So there was a margin available for negotiation, definition and study. In answer to a question from Mr. Brown, he confirmed that it did not seem to him that the agricultural problems were insurmountable if we were able to accept the basic philosophy of the agricultural policy.

M. Werner said that he recognised the special problem of New Zealand, which he understood to be limited to agricultural produce. Were there other Commonwealth problems which might present major difficulty? Mr. Brown said he did not think so, provided it could be assumed that the offers of association and the other arrangements envisaged during the course of the 1961–63 negotiations could be carried over.

Mr. Wilson added that association would reduce the difficulties of some Commonwealth countries, but sugar might remain a problem, especially for some West Indian territories. The difficulties arising from the Community’s present arrangements on sugar could disappear if a really effective world sugar agreement were made. But this would require time. Mr. Wilson agreed also, in answer to a question from M. Werner, that an effective cereals agreement within the Kennedy Round would also help in dealing with Commonwealth questions. But some of the changes that might be expected in British agricultural production might produce a difficult situation in the Community. We in Britain were low-cost producers of cereals; and we might even find ourselves in the position of exporting cereals to France. Of course this position might be affected by the level of prices set within the Community. M. Werner said that price levels would be open to discussion once we were in the Community.

M. Werner asked whether there were any special questions affecting EFTA which we wished to discuss. Mr. Wilson said we were in close consultation with our EFTA colleagues but we were not speaking on their behalf.

In answer to M. Werner’s invitation to explain the problems connected with capital movements, Mr. Wilson said that we drew a distinction between direct investment and portfolio investment, and he understood the regulations made under the Treaty of Rome did the same. There were of course risks connected with the freedom of direct investment, but all the present members of the Community had taken such risks. There was a risk that British direct investment in the Community would be greater than the Community’s direct investment in Britain, but as the situation was also possible, that risk might be taken; he would expect substantial movements in both directions. This freedom of direct investment could only be advantageous to the development of the expanded Community. In any case there was some safeguard in that additional investment could be expected from outside the Community, principally from the United States, in both Britain and the present Community countries.

Freedom of portfolio investment presented a more difficult problem. We discouraged such investment at the moment by our taxation system, and by what amounted to a system of currency discounts for investment purposes abroad (larger than those which the Community seemed to regard as permissible). We did not fear the results of freeing portfolio investment between Britain and the Six. Again there would be a movement in both directions, though perhaps in the earlier years after our entry the movement from Britain to the Community would be the greater as our investors took advantage of the new freedom they had gained. This problem could be dealt with by a transitional period. We were, however, much more concerned lest freedom of portfolio investment within the Community might provide an escape route for British capital to the United States by means of an organised traffic which could involve transfers arranged by telephone in a matter of minutes. We thought this was a problem not only for us but for Europe as a
whole. We did not see it as the responsibility of Europe to provide savings for the United States; we thought that the expanded Community might better concentrate upon its own technological and industrial development. We might thus well wish to press for restrictions on portfolio investment in third countries. We should certainly wish to harmonise our practice with that of present Community countries, but we should remain anxious unless this problem could be satisfactorily overcome.

M. Werner said that Articles 67–73 of the Treaty detailed the obligations in this field to which Community members were committed. He thought that these articles also provided the necessary machinery to overcome our concern. The general principle outlined in Article 70 was that the highest possible degree of liberalisation should exist, but this was merely a goal which the Community were still in process of achieving gradually. There were differences of view about it in the Community and they could move only as the overall economic situation developed favourably. The degree of liberalisation within the Community was still greater than that applied towards third countries, so that differential treatment was nothing new. The whole problem of capital movements was dominated by the overall financial situation of the major members of the Community. If Britain entered the Community there would be additional factors represented by the British balance of payments, the sterling balances, and the general problem of sterling as a reserve currency. So that in considering the question of capital movements it was impossible to avoid asking at the same time how we saw the whole question of the management of sterling, and how it would be fitted into the economy of the Community. There had not been much progress within the Community so far in the monetary field, but as soon as an important currency such as the pound were brought within the Community it would give rise to additional problems and complications. Perhaps, too, complications for the existing members of the Community would arise in that the British situation would affect the position of other countries. There was, for instance, Article 108 of the Treaty, which provided for mutual assistance in balance of payments difficulties.

Mr. Wilson agreed this was a very important problem and that the whole question of capital movements was linked to other aspects of economic management. Articles 67–73 of the Treaty envisaged a common policy on capital movements involving the highest possible degree of liberalisation. We were concerned not only with the existing machinery but with the intentions of the Community. Many problems would become easier if moves towards the creation of greater international liquidity, not directly linked with the present discussions, were successful. If the International Monetary Fund and the Group of Ten could make progress towards a more modern system of international liquidity then it would be possible to take a more relaxed view of the question of capital movements, including that of portfolio investment.

Mr. Wilson said that it was necessary to distinguish between the position of sterling as a concomitant of the British balance of payments and movements of sterling arising from the currency's wider role. Basically the strength of sterling depended upon Britain's balance of payments. Here there had been a dramatic improvement over the last few years. The deficit on Britain's balance of payments in 1964 had been of the order of £800 million, the biggest in our peacetime history. It would have been around £830 million if the interest due on the United States loan had been paid. In 1965 the deficit had been £370 million. No finalfigures were available for 1966, but there had been a further dramatic reduction in the deficit, especially in the last months of the year. The balance of payments was especially dependent upon the trade balance. This had never been in surplus in our recent history. In 1964 the deficit on visible trade had been of the order of £45 million a month; in 1965 this had been halved to £23 million; and in 1966 halved again to £12 million. In the last quarter we had probably been in surplus. Nor had the full effects of the internal measures taken in July 1966 yet become apparent. The Government had never shrunken from taking the unpopular measures necessary to improve the situation, and he believed the country accepted the Government's position on this.

As regards the British balance of payments, we should, if we joined the Community, be in the same position under Article 108 of the Treaty as any other member country. But we did not look to this article for relief if problems arose from external causes deriving from sterling's role as an international currency.
He thought that the Community might have had some anxiety on this score because of the wording of Article 108 (i) of the Treaty which referred to problems arising because of the "type of currency" at a country's disposal. The words in the Treaty had not been drafted to cover a position such as that of Britain and the role of sterling. They had been designed to deal with a regime in which non-convertible currencies were still frequently held. Since the drafting of the Treaty, Western European currencies had all become convertible and if the Treaty were being drafted to-day perhaps the passage to which he had drawn attention would not be included. The words of the Treaty might, taken literally and if we insisted on them, be of value to us, but after deep consideration he was bound to say that it would seem wrong to invoke this article to deal with problems arising because of movements in the sterling balances or other comparable external developments. The biggest insurance against any undue movement of this kind was a strong British balance of payments. But the kind of problem which could arise, e.g., from a drought in Australia and reduced income from wool sales did not, in his view, appropriately fall to be dealt with under Article 108. When there had been difficulties over sterling in the last two years, arising, admittedly, from our own balance of payments problem, they had been solved by Central Banks and by international arrangements going far beyond Europe. When Italy had had balance of payments problems the measures taken to deal with them had been international and not been confined to the Six, the United States and Britain, for example, had also participated.

It was now recognised by financiers and bankers generally that when any currency was in trouble for reasons which could be overcome, then the problem was one which needed to be dealt with by general action. We could consider making it clear in any negotiation that difficulties arising for the United Kingdom out of sterling's wider role would not involve the invocation of Article 108 even though member countries of the existing Community might indeed wish to help in such circumstances.

M. Werner thanked Mr. Wilson for his explanation, which greatly clarified the position. But was it possible to separate out the British balance of payments position from the wider problems involved with the role of sterling? Mr. Wilson commented that international financial authorities had recently become very skilful in distinguishing between the various factors at work. Under the recent Basle arrangement credit was made available to the extent of any reduction in the sterling balances. Balance of payments problems were dealt with through the IMF. If of course any difficulties which arose in future were attributable to our own balance of payments then we should be in the same position as any other Community country.

M. Werner believed that it would be desirable to agree an interpretative document on this subject during any negotiations, and Mr. Wilson confirmed that we would be prepared to discuss the point.

Reverting to the narrower question of capital movements, M. Werner said he wished to remind us that there were provisions in the Treaty (Article 70 (2) which he quoted) to cover preoccupations on this score. Mr. Wilson agreed that there was machinery which could deal with the problem if it were appropriately used. He did not wish to prejudge any eventual negotiation with the Community, but he thought that one possible way of handling the question might be a transitional period which would remain in force until Community arrangements had been made to deal with it. M. Werner said that a member State had full autonomy under Article 70 (2) to deal with the question, subject only to consultation with other member States. Mr. Wilson agreed that if there were a serious run on sterling owing to this cause steps would have to be taken to deal with it.

M. Werner said that he thought closer co-operation on monetary and financial matters within the Community would be essential if Britain joined, since the whole background would have changed. Mr. Wilson agreed.

M. Werner said he wanted to raise a question of concern to the Luxembourg Government regarding the development of the steel industry. He feared there was a tendency for some present members of the Community to become less liberal and to think in terms of separating the individual markets of the Community, as opposed to the present unified market system. The British steel industry was very powerful. He hoped that in accordance with our traditions the British attitude
to the problems would be a liberal one like that of the Luxembourg Government: there should be one market, as provided for under the Treaty, with equal access to raw materials and with the opportunity for all to sell under fair and equal conditions. Despite recent illiberal tendencies in the Community, he was happy to say that the recent agreement upon a system of compensation for coking coal had overcome some part of the present problem in a way which assured a free market without discrimination.

M. Werner recalled also that the Treaty of Paris made provisions for dealing with dominant positions in the steel market. The Luxembourg Government thought this was an important element of the Treaty and that everything should be done to avoid the establishment of dominant positions. He enquired whether, in our view, the nationalisation of steel in Britain might lead to the establishment of such a dominant position.

Mr. Wilson said he understood that public ownership was not prohibited under the Treaty (M. Werner assented). The reorganisation of the steel industry would involve the establishment of four main groups, which he did not think would be bigger than some of the groups at present operating in Western Europe. In any case, he wished to assure M. Werner that the steel industry in Britain would operate in accordance with the provisions of the Treaty. There might even be some who would think that the British steel industry was a greater danger to Community markets if we were outside the Community than if we were members. But we saw the need for orderly handling of the position. He recalled that the steel industry in one member of the Community had recently received a large loan at lower than market rates. We had not done anything comparable in our own steel industry.

M. Werner said there was no time to summarise the results of the meeting. The discussion could be carried on after lunch informally or formally and it would then be possible to agree on precise conclusions for public use. But he wished to say that, in his view, the present discussions had clarified many questions and had been generally very positive. M. Grégoire said that he would like to raise some political questions during or after lunch.

Mr. Wilson agreed that the morning session had been an extremely useful one. The meeting finished at 12 noon.

Present:
The Right Hon. Harold Wilson, M P
The Right Hon. George Brown, M P
Sir Burke Trend
Sir Con O'Neill
Sir James Marjoribanks
Mr. Dugald Malcolm
Mr. W. A. Nield
Mr. A. N. Halls
Mr. A. M. Palliser
Mr. T. Lloyd-Hughes
Mr. C. M. MacLehose
Mr. D. J. D. Maitland
Mr. N. Statham
Mr. W. K. Reid
Interpreter (Mr. Lederer)

M. Albert Coppé
M. Albert Wehrer
Herr Fritz Hellwig
M. Roger Reynaud
M. Edmond P. Wellenstein

Background to the United Kingdom initiative

Mr. Wilson welcomed M. Coppé and the other members of the High Authority. He said that in his tour of European capitals he and the Foreign Secretary had now had the opportunity of meeting all six Heads of Government and had had a short meeting with members of the Commissions of the European Economic Community and EURATOM. Our intention to enter the European Economic Community, provided that our difficulties could be satisfactorily met, involved, as matters now stood, entry to all three European Communities. But there was, of course, the question of timing; it was the intention of the Communities, he understood, that the three Executives should shortly be merged. Of course, we intended to achieve full membership of all three Communities, if our problems could be solved. He would be grateful if he could learn from the members of the High Authority some of the difficulties which they foresaw, and which we should bear in mind in the context of our eventual entry into the ECSC.

Attitude of the High Authority

M. Coppé said he and his colleagues were very happy to have the opportunity of meeting Mr. Wilson and Mr. Brown. Mr. Wilson had referred to the merger of the Executives. He expected this would take place in a few weeks or months. But, of course, it was only a first step towards the more important question of merging the Communities themselves. He would like to call on his colleagues to speak in greater detail upon more specific points. But, in the case both of coal and, to some extent, steel, the development in the ECSC had proceeded somewhat beyond what had been expected under the Treaty. A number of exceptional escape clauses had been applied recently because of the situation in both the coal and steel sectors. The Treaty prohibited subsidies. But in fact every coal mining enterprise had subventions of one kind or another, and recourse had been had to a clause in the Treaty which permitted this sort of development. There had recently been an agreement in the Council of Ministers on subsidies for coking coal. They had been able to agree on how these subsidies would be paid, their maximum extent, and how the money would be found. A system of compensation for coking coal exported within the Community would also be involved. In the steel sector an almost totally harmonised tariff had been achieved. They were trying also to achieve greater discipline in production in this sector.
The problem of British accession to the ECSC did not therefore involve only access to the Treaty but also acceptance of the way in which the Community had developed. It had not always been easy to get agreement upon the applications of exceptions, but as he had said some exceptions were now in force. The question of coking coal to which he had referred and arrangements for importation of steel from East European countries were examples.

Kennedy Round

M. Coppé said he would ask M. Wehrer to speak about the Kennedy Round, which was a subject of immediate importance on which, in the steel sector, the High Authority were spokesman for the Community.

M. Wehrer said that the discussions on steel in the Kennedy Round at Geneva were now in a difficult phase. We would remember that the mandate given to the High Authority by the Council of Ministers had led to their taking as their base rate the 14 per cent recognised as the Community's legal tariff when they had obtained a waiver in GATT. They had offered to cut this 14 per cent base rate by 50 per cent, and had said immediately that their final objective was a harmonised tariff involving all large producers and exporters in applying a comparable customs tariff. There had been at the outset much opposition to the position which the Community had adopted. The British Delegation in particular had reminded them of the actual level of the Community's harmonised tariff, which was of the order of 6-8 per cent, and had objected to the use of 14 per cent as a base rate. But, M. Wehrer added, that when the reduction in Community tariffs had been made in 1958, this had been a unilateral decision on their part. Most countries had not offered a counterpart. Only the United Kingdom had responded by making a reduction in its own tariff at that time. If the British Delegation now insisted that further reductions needed to be made beyond the effective level to which the Community tariff had then been reduced, this would produce an impossible situation. The Governments of member countries could not accept 3 per cent or thereabouts (the rate which would be produced by making a further cut of 50 per cent) as the level of their protection when much higher tariffs continued to be applied in other States, and when a tariff of 3 per cent provided no effective protection at all. In consequence, he had hoped that the question of the base tariff had been removed from the area of discussion; the idea upon which the discussions had later concentrated was that of seeing whether there was any basis for harmonisation of tariffs between the major producers. This idea had met with a not unfavourable response from most countries, but the United Kingdom Delegation had insisted on its previous attitude. The American Delegation had then suggested the idea of a target rate and discussions were proceeding upon this basis. But he understood, from the latest reports he had had from Geneva, that there was still resistance on the part of the British Delegation to this idea.

M. Wehrer feared that if it was impossible to arrive at a satisfactory settlement there would be complete failure of the Kennedy Round in the steel sector. He could not say what the repercussions might be elsewhere. He thought that if it was possible to reach agreement upon a common or harmonised tariff, the possible check to the progress of the Kennedy Round might be avoided.

There followed a general discussion during which M. Wehrer made clear that the Community's present effective tariff rate was on average 9 per cent less than (having been increased from the figure of 6-3 per cent); M. Coppé said that what they were aiming at was a figure of around 5 per cent for the Community—and they could not go lower than this; M. Wehrer noted that the Community wished to maintain a flexible attitude and their minds were not closed towards making further offers in particular areas; and Mr. Brown said that the difficulty was that we had offered a 50 per cent reduction in our own existing rates of tariff, which was what the Kennedy Round foresaw, and we thought it was up to the Community to make further moves. M. Wehrer objected that British tariffs were higher than Community tariffs.

M. Coppé said he did not think it was useful to pursue the discussion further (it had been said earlier that it would be desirable to leave the question to the negotiators in the Kennedy Round but added that he could not see why we wished to place pressure upon the Community to reduce their tariffs further if we ourselves expected shortly to be members of the Community.
Mr. Wilson said that this was certainly a dilemma in that what was desirable from the United Kingdom point of view whilst outside the Community might not exactly coincide with her interests inside. But he attached the highest importance to a successful outcome of the Kennedy Round.

Mr. Brown said that the Kennedy Round must not be impeded by the discussions on our own entry. We believed that it was for the Community to make a further move if there was to be a satisfactory outcome in the steel sector.

Problems of United Kingdom entry

Mr. Wilson enquired what difficulties the Community would see as regards British entry. M. Coppé said that the volume of United Kingdom coal production, all under the control of the National Coal Board, was a real problem. But during the previous negotiations they had thought, and they still thought, that the question could be solved. A similar problem arose in connection with steel nationalisation. 25 million tons of steel produced under one owner also constituted a block of a size which the Community was not used to.

Mr. Wilson pointed out that the nationalised steel industry would only be taking over the largest firms, and that it would be organised into four producing groups; and so far as he knew none of them would be significantly larger than some of the groups in the Community. M. Coppé said that if these groups were totally independent of each other then no problem would arise. If they were not independent of each other then there would be a problem, but he believed that the Community would be able to handle it. Special arrangements had been made in the case of Charbonnages de France to avoid any misuse of a dominant position within the Community. He repeated that although there were problems, he was confident they could be dealt with.

Mr. Brown said that the groups in the British nationalised steel industry would not be totally independent of each other, but equally the industry would not be monolithic. Herr Hellwig said that under Community doctrine one owner was treated as one unit. The NCB might produce the same amount of coal as the total produced within the Community at the moment. M. Coppé and Herr Hellwig said that they expected that coal production in the Community would be 170-190 million tons by 1970, and might undergo further reductions after 1970. Herr Hellwig said that he thought that the economic problem presented by the accession of so large a volume of production as that of the United Kingdom would not be any reason for the Community to refuse British membership, but ways and means, including transitional periods, must be found to provide solutions to the market problem.

There was agreement that transitional periods were desirable, not only in the interest of the United Kingdom, but in the interest also of the Community. There followed a brief discussion about stocks in the coal industry and unused capacity in the steel industry.

Mr. Wilson asked what the High Authority’s advice would be on the manner of a new application. M. Coppé suggested that there was no point in waiting for further developments within the Community; the Community progressed the whole time. Nor could there be any question merely of intensifying or amplifying the activities of the present Council of Association. Common solutions for coal and steel problems were necessary. But he and Herr Hellwig agreed with the Prime Minister that the operations of the Council of Association had been of great help and made the possibility of speedy agreement with the Community easier in that each side well knew the problems of the other. Herr Hellwig suggested that the last negotiations did not perhaps offer much help. There had been provisional results in the steel sector, but the shape of our nationalised industry might affect these results; and coal had not been discussed properly in the last negotiations, which had not proceeded beyond the stage of fact-finding when they were suspended. M. Coppé, in answer to a question from Sir James Majoriabanks, said that it was his opinion that the negotiations should be kept as short as possible. Mr. Wilson said this was fully his intention.

Mr. Wilson enquired whether pricing policies had been a problem in the last negotiations. Herr Hellwig said that on steel they had not been, but the National Coal Board’s system had presented rather more difficulty. But
transitional periods could adequately cover any problems. The Community did not exercise any control over retail prices but was based on pithead prices with full publicity being given to freight tariffs. If Britain entered the Community if would be necessary to look at the question of rates for movement by sea; sea transport was not covered at the moment by the Community’s freight regulations.

M. Coppé said it was his view that all the problems could be solved once the United Kingdom became a member of the Community. The Treaty of Paris provided powers to deal with most situations. Certainly unanimity was required for the application of exceptions, and thus long discussions were required. But it was fully possible to solve virtually every problem within the framework of the Treaty of Paris and he did not doubt that any problems could be overcome once the United Kingdom had joined the Community.

In answer to a question by Mr. Wilson about national subsidies within the Community M. Coppé said that the French applied a differential system of interest rates. So far there was no harmonisation of monetary policy within the Communities and a cheap loan, with a rate of interest below the normal market rate, could not be objected to by the ECSC if there was no objection to it by the EEC in Brussels.

There was some discussion of the Community’s Guarantee Fund, which had originally been financed by levies on steel production. Herr Hellwig said that it would be open to us to “buy a share” in the Fund; but he did not think that it would be possible to set off payments under the Community’s agricultural policy against any payment involved in “buying this share”. The ECSC Fund was the property of the coal and steel industry and he did not think it possible to arrange offsets in this way.

Common energy policy

In answer to a question from Sir Con O’Neill about the establishment of a common energy policy, Herr Hellwig said that this depended upon the establishment of a common import policy. Of course it raised problems going far beyond the ECSC alone. M. Coppé said that the Communities were not in favour of protection of the energy market. The High Authority had advocated that there should be no protection at the borders, and this philosophy was now generally accepted within the Communities. Of course there was still internal taxation.

There was some discussion of the relative roles which coal, water, atomic energy, oil and gas would play in a common energy policy. Herr Hellwig said that 1970 would be a critical year for decision on coal policy since atomic energy might be commercially economic by that time. M. Coppé added that the Community had already decided that it would be incorrect to defend the position of coal producers as if the whole energy future of the Community depended on it.

The meeting finished at 5.20 p.m.
C(67) 34

21st March, 1967

CABINET

THE AIRBUS

Memorandum by the Minister without Portfolio

Following the discussion of the airbus by the Cabinet on 16th March, 1967 (CC(67) 13th Conclusions, Minute 4), I have discussed the issues which require clarification with my colleagues. One of the new factors which emerged was the influence the size and number of engines could have on the future of the airbus project. The United States airbus, now under consideration by Lockheed, could be powered either by two engines, each of more than 40,000 lb. thrust, or by three engines, each with a thrust of about 30,000 lb. In the former case, either the Pratt and Whitney JT9D or the new Rolls-Royce RB 207 would be suitable; in the latter case, the only suitable engine would be the projected Rolls-Royce RB 211 (which is also the engine which has been proposed for the BAC 211). Lockheed are expected to decide whether to adopt two or three engines for their airbus in April, 1967, but they will not decide for or against a Rolls-Royce engine until some time between July and October.

2. The three main possibilities and their consequences are:

(i) That Lockheed should choose two RB 207 engines. In this case the European airbus would similarly be powered by two RB 207s, and the demands which these orders would place on Rolls-Royce would make it impossible for them to develop the RB 211 in the same period.

(ii) That Lockheed should choose two Pratt and Whitney JT9D engines. In this case the European airbus would be powered by two RB 207 engines, but Rolls-Royce would also be capable of developing the RB 211.

(iii) That Lockheed should choose three RB 211 engines. The European airbus would then be powered by three RB 211s, and the RB 211 would also be available for use in other European aircraft, including the BAC 211.

3. If the RB 207 were adopted for the European airbus, the cost of developing the RB 211 (£55 million) would have to be borne on the BAC 211 project, making a total of £105 million for the launching cost of the BAC 211. If on the other hand the RB 211 were to be used in both the European and United States airbuses, only a small part of the cost of its development would have to be borne on the BAC 211 project.
4. Before deciding whether or not British European Airways (BEA) should be authorised to order the BAC 211, we consider that studies should be put in hand as a matter of urgency in order that the BAC 211, the Trident 3B and the stretched VC 10 can be compared in terms of export prospects, launching costs, operating costs, profitability to BSA, and total cost to the Exchequer. It should be noted that if BEA were allowed to purchase the BAC 211 there might be a consequential reduction in their demand for airbuses.

5. Turning to the airbus, it was the general view that, at the tripartite meeting of Ministers on 30th March, the United Kingdom should proceed to the project definition stage on the clear understanding by our French and German partners that eventual production could only be contemplated if the five following prerequisites were met:

(i) If there is an assured market for 75 airbuses in the three national airlines, and if as a result of further market research there is a reasonable expectation of at least 50 sales to other airlines,

(ii) If the present estimate of launching costs is re-examined to see whether a significant reduction can be obtained, and if in any case it does not exceed £130 million at the conclusion of the project definition stage.

(iii) If the Rolls-Royce engine is adopted.

(iv) If there is assurance that the target operating costs of 30 per cent below current types, and the in-service date of 1972-73, will be achieved.

(v) If the manufacturers will take a proper financial participation, i.e., normal production costs and, say, some 20 per cent of development costs.

In addition, it was agreed that the following sixth prerequisite should be added:

(vi) If the capacity of the airbus as first developed does not exceed 250 seats.

6. Our negotiators at the Ministerial meeting should be given firm instructions to insist on the acceptance of these conditions, and the adoption of a Rolls-Royce engine should be an absolute condition for participation by the United Kingdom. If our prospective partners should propose some modification of the other conditions, where a little flexibility might perhaps be acceptable, our negotiators should refer the question back to Ministers.

7. I invite my colleagues to agree that, subject to the acceptance of these six conditions, we should proceed to the project definition stage.

P. C. G. W.

70, Whitehall, S.W.1.

21st March, 1967
21st March, 1967

CABINET

THE KENNEDY ROUND

Memorandum by the President of the Board of Trade

Introduction

The Kennedy Round is the most ambitious attempt which has ever been made to reduce barriers to world trade. Some 50 countries are now actively engaged in the negotiations, including the United Kingdom and other European Free Trade Association (EFTA) and Commonwealth countries, the United States, the European Economic Community (EEC), Japan and most developing countries. Successive British Governments have given it strong support since its inception more than four years ago in the belief that such reductions must be of benefit to a country like ours which is so dependent upon its external trade. The British Government's support for the Kennedy Round has been confirmed most recently in the Communique issued following the EFTA Ministerial meeting at Stockholm.

Timing

2. The Kennedy Round has entered its critical phases. The President's powers under the Trade Expansion Act, 1962, expire at the end of June and the Americans have made it clear beyond doubt that they need several weeks before that date to prepare the necessary documentation and secure the President's signature. It has been agreed that the negotiations should be finished by 30th April. The High Level Steering Group, on which the President's Special Representative, Mr. Roth, represents the United States of America, M. Rey, the European Economic Commission, and Sir Richard Powell, the United Kingdom, is to meet from 29th March probably for about a week. The broad content of the final result may well have emerged by the end of this meeting, although a good deal will be left to be done at the end of it. It is also agreed that there might have to be a Ministerial meeting around 20th April, if only to allow the less developed countries to comment on the value to them of the bargain struck between the principal negotiators and to press for greater concessions on products of particular importance to them.

3. Although this provisional timetable may slip a little, it is likely that an agreement ad referendum to governments will have been reached by or a little after the end of April.
Industrial Tariffs

4. The working hypothesis of the negotiations on industrial tariffs is a 50 per cent cut across the board. On the basis of this hypothesis, the major participants tabled in 1964 lists of products which, for reasons of over-riding national importance, they felt obliged to exclude from such a cut. Our list of exclusions was deliberately kept extremely short. Those tabled by our major partners were longer. Accordingly on 30th November last year we put in a list of further provisional exclusions designed to restore the balance. The Americans did the same. The main participants have now agreed that they will all next month convert their offers into precise schedules of the reduced duties which they are willing to adopt in the light of the known offers of the others. It is our intention to withdraw from our earlier offers all those products which we regard as "sensitive", i.e. those on which our domestic producers may be particularly adversely affected by a reduction in their protection, together with a number of products of export interest to our main fellow-participants which we feel justified in withholding. It is admittedly very difficult, since there are no accepted rules of the game, to determine precisely what represents a fair balance for us. We shall be guided mainly by the extent to which our offers and those of the other major participants fall short of a linear 50 per cent cut across the board, i.e. by a comparison of the percentage of dutiable imports on which each country is making such a cut. There are, however, other considerations such as the effect of non-tariff barriers.

5. Since total imports of dutiable industrial goods into the EEC and the United States of America alone are in value more than six times our total dutiable imports, the new opportunities for our exporters as a whole should more than compensate for the degree to which we shall have to open our market to the exports of others.

Sector Groups

6. In certain industrial goods - notably chemicals, steel, motor vehicles and textiles - it is recognised that there must be reciprocity if agreement is to be reached. Over much of the rest of the field there is scope for bargaining offers on one product or group of products against counter offers on quite a different group. The situation in the "reciprocity" sectors is briefly as follows:

Chemicals

(a) The central problem here is the American Selling Price (ASP) system for benzeneoid chemicals, for the abolition of which all the other major participants are pressing; this would require new legislation by Congress and is not within the President's present authority. The EEC are unwilling to make any substantial reductions on chemicals until Congress has legislated on the abolition of ASP. The Americans say that Congress will not look at any proposal for this unless there has first been some reduction of tariffs abroad in return for such reductions as the Americans can make under their existing powers. The problem is therefore to devise a package in two parts - the first independent of, and the second dependent upon, removal of the ASP system. One of the main tasks of the meeting of the High Level Steering Group beginning on 29th March will be to look for ways of cutting this Gordian knot.
Steel

(b) The prospects in this sector are not bright. The European Coal and Steel Community (ECSC) raised their steel tariffs in 1964 although we had made an arrangement with them in 1957 for mutual reductions in tariffs. Though the Community are prepared to reduce their steel tariffs roughly to the 1957 level, they will not go below this. We have refused to offer any reduction of our steel tariffs in return for this, since we have already paid once under the 1957 arrangements. It is unlikely that significant tariff reductions will be made in the steel sector.

Motor Vehicles

(c) The EEC have excluded heavy lorries from their tariff offer. This has been very unwelcome to our industry, and we have been pressing the EEC to include them. The industry's present advice, to which they may not adhere in the last resort, is that we should withdraw our offers in the whole of the motor vehicle sector, both cars and commercial vehicles, if the EEC continue to refuse a tariff reduction on heavy lorries. If we do make such a withdrawal, the EEC will almost certainly also withdraw motor cars and there will be no reduction at all in the high duties (generally 22 per cent) which both we and the Community impose on motor vehicles. A final decision on this will need to be made before the end of April if we fail, in spite of our pressure, to get the Community to change their attitude on heavy lorries.

Textiles

(d) Our offers in this sector fall well short of those made by the EEC and the United States of America, both of whom are prepared to make tariff reductions on cotton textiles provided the developing countries agree to the extension of the Long-Term Cotton Arrangement. The United States of America are excluding little in the textile sector, apart from wool, and the EEC have made a reasonable offer on most textiles. We cannot offer to reduce our tariffs on cotton or jute textiles, and we shall have to withdraw our offer on wool in the absence of reciprocity from the United States of America. Unless we maintain significant offers in other parts of this sector - principally man-made fibre textiles and mixtures - the EEC and the United States of America may try to make this the pretext for withdrawing much of their offer.

Non-Tariff Barriers

(e) Apart from the ASP system for benzenoid chemicals, the main non-tariff barriers of interest to us are American wine gallon assessment on imported whisky (which would also need separate legislation by Congress) and American and Canadian anti-dumping practices. We have offered to abolish Commonwealth preference on unmanufactured tobacco if the Americans abolish the wine gallon assessment system. There have been continuous discussions in Geneva with the main objective of securing some alleviation of oppressive United States and Canadian anti-dumping practices. The United States have come a little way to meet us. While the Canadians have shown signs of willingness to bring their legislation somewhat closer to Article VI
of the General Agreement on Tariffs and Trade (GATT), it seems that this would be little more than a gain in appearance without much real move on the points of substance which have troubled our dealings with Canada on this difficult subject. Discussions are continuing in Geneva, and we are not entirely without hope that a draft international anti-dumping code will be negotiated that would help our exporters in other markets without reducing our present power to protect our domestic producers.

The Americans, for their part, have pressed us to take action on non-tariff barriers of interest to them. We can do nothing about our virtual prohibition on imports of coal or about television films, but there are one or two minor pieces of action which we can take, e.g., removal of our restrictions on imports of pigmeat and perhaps processed milk from the dollar area and removal of import licensing on dollar aircraft. The Americans are very keen that we should relax our (illegal) import restrictions on citrus, which are maintained mainly for the benefit of the West Indies, but it seems unlikely that we shall be able to do this at present.

**Agriculture**

(i) The Americans have insisted from the outset that the Kennedy Round as a whole should have a material agricultural content, but they have lowered their sights during the negotiations, and there is no question of a 50 per cent cut across the board in this field. We have offered reductions in a number of duties, but the touchstone of success has come to be the proposed international cereals agreement, on which a separate paper is being circulated.

**Commonwealth Preference**

(g) To the extent that we and other Commonwealth countries reduce our most favoured nation (m.f.n.) tariffs, Commonwealth preference margins will generally be reduced. (This must happen where Commonwealth goods enter duty free, as they usually do in the United Kingdom, but it also tends to happen where other Commonwealth countries impose preferential rates of duty which they do not want to reduce in step with reductions in the m.f.n. rates.) We know that Canada and Australia have made offers to the United States and Japan involving the removal or reduction of our preferences over a very substantial field of trade. There may be some scope for bargaining here by offering to withdraw some of our offers involving preferences in our market of interest to Canada and Australia as a means of inducing them to do the same for us. Past experience and the present atmosphere do not lead us to expect more than a very limited success. While we did not exclude from our offers items on which Commonwealth preference was important, we made it clear that we could reduce contractual preferences only with the consent of the countries which enjoyed them. We hoped that we would get this consent where it was clear that the countries concerned were adequately compensated by reductions in the tariffs of third countries on products in which they had an export interest.
There is an awkward problem in the field of tropical products. One of the agreed objectives of the Kennedy Round is to reduce barriers to trade on products of interest to developing countries. We have to reconcile in our offers the interests of Commonwealth developing countries with those of non-Commonwealth developing countries. We are about to consult Commonwealth countries in the hope of securing their acquiescence in our reducing or abolishing preferences on certain tropical products which do not appear to us to be important in determining the volume or direction of trade, and where other countries have made offers of sufficient value to compensate the Commonwealth countries concerned for the erosion of their preferences in the United Kingdom market.

D.P.T.J.

Board of Trade, S.W.1.

21st March, 1967
CABINET

THE KENNEDY ROUND: CEREALS

Memorandum by the Minister of Agriculture, Fisheries and Food

There are three main elements in the negotiations -

(i) **Access** - the exporters (United States, Canada, Australia and Argentina) seek commitments from the principal importing countries (European Economic Community (EEC), Japan and the United Kingdom) to maintain imports of wheat and coarse grains at recent levels and to assure exporters of a similar share of the growth of future demand.

(ii) **Price** - the level of minimum and maximum prices in international trade.

(iii) **Food Aid** - a multilateral food aid programme.

**Access**

2. The Japanese have no difficulty in providing satisfactory assurances on access since their cereals production is not keeping pace with the growth in consumption and Japanese grain imports will increase in any event. The negotiations therefore centre on proposed self-sufficiency ratios for the EEC and the United Kingdom. The self-sufficiency ratio is domestic production expressed as a percentage of domestic consumption. It is envisaged that the EEC and the United Kingdom would undertake to limit production to these percentages and if the percentages were exceeded would withhold the excess production from the commercial market by storing it or diverting it to food aid, or make an equivalent cash contribution to food aid in respect of the excess.

3. The EEC are more favourably placed than the United Kingdom to accept a self-sufficiency ratio since EEC production is expanding more slowly than production in the United Kingdom. The EEC have proposed for themselves a ratio of 90 per cent compared with an average self-sufficiency ratio of 87 per cent for the period 1962-63 to 1964-65. In the last two years because of poor harvests and rising consumption self-sufficiency in the EEC has only been about 84 per cent to 85 per cent and they do not expect to reach more than 88 per cent by 1970. For practical purposes the area of negotiations between the EEC and the exporters lies between 87 per cent and 90 per cent.
4. The United Kingdom position is much more difficult. Our self sufficiency has been rising rapidly in recent years. In the last two years it has been about 64 per cent. In 1967-68 it is expected to rise to 67 per cent and may well reach 70 per cent in 1968-69. The selective expansion programme under the National Plan implies a ratio of 72 per cent by 1970-71.

5. To allow room for manoeuvre the United Kingdom has so far offered a self sufficiency ratio of 75 per cent. The exporters however start from the present position which they regard as about 65 per cent. The area of negotiation in our case lies therefore between 65 per cent and 75 per cent. Our objective is to get as near as possible to 72 per cent - the National Plan figure - and certainly not less than 70 per cent.

Prices

6. The exporters have proposed that the maximum and minimum prices under the present International Wheat Agreement (IWA) should be raised by 40 cents per bushel or more than £1.5 per ton. The EEC who are not exporters of wheat also favour higher maximum and minimum prices, although somewhat less than the exporters have proposed. Subject to important points of detail, they would be prepared to go along with the exporters' proposals. The exporters have made it clear that they will not agree to renewal of the present IWA which expires in July, 1967 unless substantially higher prices are accepted.

7. As major importers, Japan and the United Kingdom oppose any substantial increase in prices. Ministers have however authorised the United Kingdom delegation to negotiate an increase of up to £2 per ton on the present IWA minimum. This would be about £1 per ton above the level of our present minimum import prices. The United States delegation have indicated privately that they are prepared to come down substantially from the exporters' proposed 40 cent increase and the United Kingdom delegation expect to be able to operate effectively within the limits of their existing authority. No further instructions are necessary at this stage.

8. The EEC and the United Kingdom are also insisting on the introduction of maximum and minimum prices for coarse grains as a counterpart to their undertakings on access which will cover both wheat and coarse grains. The Americans are strongly opposed to price provisions for coarse grains. Both the EEC and the United Kingdom will, however, continue to insist for the present on price provisions for coarse grains as a means of securing better terms on access and the level of wheat prices.

Food Aid

9. The Americans with the support of the other exporters have proposed a multilateral food aid programme for the supply of ten million tons annually of wheat to the developing countries. This programme, which would cost about £250 million would be additional to existing bilateral food aid programmes. The main object of the Americans is to secure a more equitable sharing of the burden of food aid which they have so far been carrying almost single-handed. Under the proposals the cost of the new programme would be shared by both importers and exporters. The scale of contribution envisaged is roughly - United States 40 per cent, EEC 20 per cent, Canada 10 per cent, Australia 5 per cent and the United Kingdom 5 per cent.
10. While insisting that a food aid programme is an essential element in a satisfactory cereals agreement, the Americans accept that the size of the programme is a matter for negotiation. From informal bilateral talks the United Kingdom delegation are satisfied that the total programme could be reduced to four million tons. The cost of the United Kingdom contribution at 5 per cent to a programme of this size would be £5 million.

11. None of the major importers as yet has agreed to contribute to such a programme. The EEC recognise however that agreement to contribute to such a programme would be a valuable bargaining factor in securing better terms on access. The Japanese also recognise that under United States pressure they will probably have to go along with a modest programme. The United Kingdom position is similar to that of the EEC and the United Kingdom Delegation consider that United Kingdom agreement to a contribution not exceeding £5 million is essential to enable the United Kingdom to obtain satisfactory terms both on price and the proposed self-sufficiency ratio.

T. F. P.

Ministry of Agriculture, Fisheries and Food, S.W. I.

21st March, 1967
CABINET

COMMONWEALTH SECRETARY’S VISIT TO THE FAR EAST

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH AFFAIRS

I circulate for the information of my colleagues the following report on my recent tour of the Far East.

2. I visited Fiji, New Zealand, Australia, Malaysia, Singapore and Hong Kong during a tour lasting from 10 February to 8 March. The main purpose of my tour was familiarisation, but running through it were two themes of substance—our relations with the European Economic Community (EEC) and our Far East defence policy. I deal with these two subjects separately below, but give first some brief impressions of each country individually.

Fiji

3. The most important fact about Fiji is that the native Fijians comprise only 42 per cent of the population whereas the Indians (descendants of immigrant labour brought in under our rule) comprise 50 per cent. Most of the Indians are therefore pressing for “one man, one vote” on a common roll in expectation of dominating the political life of the country. For this purpose they are seeking support from the United Nations Committee of Twenty-Four. The Fijians are alive to this and are at last coming out of their political shell. They are tough and determined, and I am convinced that any early move towards majority rule and an Indian dominated independence would lead to bloodshed and chaos. Indeed independence may not even be the right objective in Fiji.

4. Elections were held only last year under a revised Constitution. The Government is formed by the predominantly Fijian but multi-racial Alliance Party under Ratu Mara. I took the line publicly that it was necessary to go slow and allow time to gain experience of the new Constitution. I discouraged suggestions for a United Nations mission to Fiji, but I persuaded Ratu Mara that there would be advantage in his going privately to New York to put the Fijian case to influential representatives there. I am sure that the main hope is to allow this new multi-racial party to take root and develop. I am examining whether anything can be done to enable it to learn something of party organisation in this country.
5. Economically Fiji suffers from being a sugar monoculture. It is heavily dependent on the Commonwealth Sugar Agreement under which it is marketing 140 thousand tons of sugar at £47 10s. per ton, or over twice the current world market price. The Fiji Government is in difficulty over financing its development plan following the refusal of a loan of £3.3 million sterling by the Australian Government. I had some discussion on this in Canberra and am doubtful whether the Australian Government will reverse their decision, though it may be possible to find other means of making the money available from Australian sources. In addition to our assistance to the Fiji Development Plan we are proposing to make available £1,250,000 over five years towards the establishment of a Regional University of the South Pacific in Fiji.

6. I was disturbed at the morale of HMCCS officers in Fiji and I understand that morale is even worse in our smaller and more remote Pacific territories. They feel they are part of a contracting service on unduly depressed salary rates. The Commonwealth Office and Ministry of Overseas Development are sending a mission next month to see what can be done.

New Zealand

7. No one who visits New Zealand can fail to be reminded of how close they still are to us and how dependent on us economically. Life still proceeds at the more leisurely pace of an out-of-the-way English county though American influence is slowly increasing in the towns. After some years of agricultural prosperity they are now facing a severe balance of payments problem and economic recession. The price of wool has fallen so far that a large part of last year's crop is still held in store by the Wool Board, who will be unable to maintain the current guaranteed price next year. Subsidies have been cut and import restrictions imposed; but even sterner measures will probably be necessary.

8. In my discussions with the New Zealand Cabinet, apart from EEC and defence, I spoke about Rhodesia, Malta, Britain's economy and Mr. Kosygin's visit. The New Zealand Trade Minister made a considerable issue of the growing imports of near butter into this country from Europe which he said threatened to undermine the quota system.

9. I was impressed by the new Leader of the Labour Party, Mr. Kirk; he has a very wide grasp of international affairs and an extensive knowledge of South-East Asia. He did not take over in time to establish his mark effectively during the recent election. I hope that an opportunity will arise for him to visit this country, possibly under the auspices of the Commonwealth Parliamentary Association.

Australia

10. I paid a brief visit to Tasmania to see the tragic results of the recent fire devastation. I think this was greatly appreciated.

11. I also visited Melbourne, Canberra, Sydney and Perth, where I made speeches, and called briefly at Adelaide. In Melbourne
I took Rhodesia as the main theme of my speech, and in Sydney I did my best to publicise some of Britain's recent economic and scientific achievements. In Perth I encountered a small pro-Smith demonstration, and I understand that my Melbourne speech has provoked a large number of letters; but I am sure it was right to publicise our case.

12. In Canberra I attended the State Opening of Parliament and was invited to take a seat on the floor of both Houses. I felt I was given an extremely warm welcome by Australian Ministers. They were anxious to hear of our economic recovery and to understand our point of view, with the possible exception of the Minister of Trade, Mr. McEwen, in relation to EEC. On all sides the hope was expressed that the voluntary programme of restrictions on sterling investments would soon be lifted.

13. The question of the entry of Australians into Britain under the Commonwealth Immigrants Act proved to be less sensitive than I had expected. This is probably because most come as visitors and experience little difficulty; but the long delay in issuing work permits is hard to defend. The feeling of resentment at having to apply for an entry permit is tending to die out. I heard few complaints of the 80,000 British migrants whom we are still sending to Australia each year.

14. In general Australians are still desperately anxious to hear well of us and cherish their connection with the "old country"; but the new generation, especially on the Eastern seaboard, is inevitably looking more to the United States.

Malaysia

15. I was impressed by the way in which the different races are co-operating. During my visit the Bill to make Malay the national language was introduced into Parliament; with his usual adroitness the Tunku seemed to have made sufficient concessions to each side to secure general acceptance. Anglo-Malaysian relations are climbing out of the trough into which they plunged last year. I had to take a firm line with the Finance Minister, Mr. Tan Siew Sin, over the overdue instalment of the War Damage Compensation Loan. I think the Malaysians will pay; but Mr. Tan expressed the hope that we could make it up in some other way. I am sure that some financial gesture on our part would pay enormous political dividends. One way of doing this would be to make negligible charges for the camps handed over by us and for our continuing logistic support to the Malaysian forces in East Malaysia.

16. The Tunku is talking of taking six months' leave and there is much speculation about his early retirement. I doubt myself whether he intends to let go the reins just yet. Tun Razak still stands as his successor. I found him impressive and with a firm grip on the many problems he handles. It is nevertheless difficult to forecast whether major changes should be expected in Malaysia's policies if he took over. The enigma is the extent to which he may come under the influence of Malay extremists.
17. I found the Tunku still concerned about allegations of disloyalty to Malaysia on the part of certain British officers in Sabah and Sarawak. At his request I made a public statement intended to discourage any thoughts of British support for separatism in those two States.

Singapore

18. I was treated to an hour and a half's tour de force by Mr. Lee Kuan Yew who ranged over almost every topic except the one which must surely be preoccupying him most—the rundown of our troops and facilities in the base. (I refer to this in more detail below.) This brilliant man still seems obsessed with past mistakes which led to the separation of Singapore from Malaysia and did his best to remove the favourable impressions I had formed of his northern neighbour. Although there have been one or two more hopeful signs recently, it would be wrong to expect any dramatic improvement in relations between the two countries. The main other message Mr. Lee was doing his best to convey to me was his great need for British investment capital, especially in the new industrial estate.

Hong Kong

19. Hong Kong is the eighth wonder of the world. 98 per cent Chinese, the size of a small English county but with nearly 4 million people, it has tackled the problems arising from the vast influx of immigrants across the border with unbelievable vigour and enterprise. It rehouses a population the size of York every year out of current revenue. Immense land reclamation and water supply schemes are in hand. Yet it lives on a knife edge for just so long as China is willing to accept the status quo; and the lease of the New Territories expires in 1997. Its achievements and its future depend on confidence—the confidence of the people and, it must be said, Communist China—that we will continue to govern firmly, resist external pressures for elected self-government and provide a credible garrison. The Administration is frankly colonial, but that is the way the people want it; if an elected element were introduced into the Legislative Council this would bring into the open and precipitate a clash between the supporters of the rival ideologies of Taiwan and Peking. It would then be harder for Peking to stand aside. The Chinese population would be split and would seek to reinsure; there would be no stopping this process once started. For that reason we are clearly right in our decision to do nothing to disturb the status quo. The Governor is, however, studying the possibility of some reforms in local government which would associate the people more closely with the management of local affairs.

20. The Government of Hong Kong have done so much for themselves that they tend to feel forgotten by us. For that reason any gesture demonstrating continued interest and concern would be very welcome. One possibility mentioned to me was the provision of aid finance for the extension of the airport runway.
Far East defence

21. As agreed with the Defence Secretary I took the line with Australian and New Zealand Ministers that our policy remained much as in last year’s Defence White Paper; that because of the ending of confrontation we were reducing to Defence Review levels earlier than we had expected; that some further reductions seemed likely, especially in administrative services; but that before any further substantial reduction below Defence Review levels took place, there would be full consultation with them. I took broadly the same line with Malaysian and Singapore Ministers, though by that time the debate on the Defence Estimates had taken place in the House of Commons.

22. In New Zealand Mr. Holyoake stressed that they had taken tremendous comfort from the Prime Minister’s statement last year that we intended to continue a military presence East of Suez. He was quite reconciled to reductions to Defence Review levels. He mentioned to me the likelihood that he would shortly wish to reinforce the New Zealand contingent in Vietnam by rotating one company from the New Zealand battalion in the Commonwealth Brigade. It was clear that New Zealand felt she should do more to match the Australian contribution in Vietnam.

23. In Canberra Mr. Holt had seen our 1967 Defence White Paper and remarked that it appeared to continue the existing policy, but there were some alterations in wording which might or might not have significance. As expected he stressed the importance attached by Australia to a continuing British presence in the Far East. Some of his colleagues expressed concern at Singapore’s future between the Malay nutcracker of Indonesia and Malaysia. It was clear that both the Australians and New Zealanders attached the greatest importance to our staying in Singapore; the size of our forces was less significant. But they remain very anxious about our long-term intentions.

24. There was considerable local interest in Perth about the possibility of the Royal Navy participating in the new Naval Base at Cockburn Sound. It was clear the expectations were out of all proportion to reality, but I think I was able to put the record straight.

25. In Malaysia the Tunku asked for further information about our intentions following the Defence Secretary’s speech in the House, and Tun Razak reminded me that under the Malaysian Defence Agreement we were obliged to consult them before making changes in the character or deployment of our forces in Malaysia. There was also some public concern over possible redundancies in locally employed personnel.

26. In Singapore, as I have mentioned, there was a strange evasion of any discussion on possible reductions in the base. There are various explanations, the two most likely being either that Singapore Ministers wish to reserve their fire for a major démarche possibly after they have seen the outcome of the Malta talks; or conversely that they are so anxious to retain our presence for as long
as possible that they will do their best to make no difficulties over reductions. Mr. Lee's line with me was that he fully understood our difficulties and would do his best to co-operate. I of course explained that we would consult fully with him before any decisions on further reductions in Singapore were reached.

27. I am left with a feeling of considerable anxiety over what may happen in Singapore if we seek to reduce too drastically or too quickly. Unemployment is already running at about 12 per cent and is rising sharply every year as a result of a natural increase in the working population. Some 25 per cent of the National Income is generated by our military presence. Precipitate action by us could clearly have far-reaching political consequences.

28. Although I realise that we have decided that one major unit should be withdrawn at some point during 1967–68, in Hong Kong the Governor and his Advisers stressed that, given recent events in Macao and the current situation inside China, it would be extremely unwise to make any reduction in the Garrison at the moment. The unofficial members of the Legislative Council, who have recently agreed to a substantial increase in Hong Kong's defence contribution, would also regard it as most inopportune. There is also a question of the nature of the reduction, when it is made. This I am taking up separately with the Defence Secretary.

European Economic Community

29. The possibility that we may start negotiations to enter EEC no longer arouses such strong emotional reactions in New Zealand and Australia as it did in 1961. In Singapore and Malaysia little concern on this topic was expressed to me, though their Governments will of course expect to be consulted.

30. In New Zealand the attitude is now one of quiet reliance upon our undertakings to safeguard their essential interests and to consult their Government before we embark upon negotiations. Mr. Holyoake spoke to me in familiar terms of New Zealand being an extension of the British economy and of his confidence that Britain would never accept membership of EEC without a satisfactory arrangement for New Zealand. He stressed that a permanent solution, as distinct from mere transitional arrangements, would be vital for her. It appeared, however, that neither New Zealand Ministers nor officials had yet given much thought to the question exactly what arrangements we might seek on their behalf.

31. To the Australian Cabinet I stressed that Australia's dependence upon the British market was much less than that of New Zealand, and implied that we should probably not be seeking an arrangement for her comparable with what we would be seeking for New Zealand. However, Mr. McEwen was difficult. He argued that a transitional period would not meet the needs of Australia, and that even if she were large enough to stand the knock of our entry in financial terms, she could not do so in human terms through standing by and seeing her sugar growers, butter producers and fruit farmers ruined. He was also worried about the effect on Australia's sterling
balances if it became necessary for sterling to cease being a reserve currency. On this I hope I reassured him. Finally he argued that Australia would be able to face the consequences of our entry into EEC relatively easily if, with our backing, it had in the meantime been possible to secure satisfactory world commodity arrangements, e.g., on cereals, dairy produce, meat and sugar.

32. Fiji's economy depends mainly upon the export of sugar, and would suffer grievous damage if we could not secure satisfactory arrangements in respect of sugar. The people of Fiji clearly regard it as unthinkable that we could let them down to this extent. The Hong Kong economy would also be endangered, though to a lesser extent than either that of New Zealand or Fiji. Hong Kong hopes we will try to secure "association" with the EEC for her, but realises that we would be very lucky to get it. Her real hope, therefore, lies in long transitional arrangements.

33. I am convinced of the importance of thorough consultation with the Governments particularly of New Zealand, Australia and Hong Kong if we decide to start negotiations. It will not be enough simply to hold some quick and superficial discussions with them, and we shall need to put forth our utmost efforts for New Zealand. Singapore and Malaysia have less need of safeguards. We shall have to consider carefully the interests of the Governments of Fiji and of the other Commonwealth countries dependent upon sugar.

Conclusion

34. The most important general impression which I have brought back from this visit is of the substantial responsibilities, influence and respect which we still have in this area. It would be against our long-term interests to jettison these. We have a role to play and interests of our own to sustain which, while changing from those of the historical past, are still of much significance both for ourselves and for the countries of the area.

H. B.

Commonwealth Office, S.W.1,
CABINET

THE KENNEDY ROUND: CEREALS

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

The issues involved in the cereals negotiations are set out in the memorandum by the Minister of Agriculture (C(67) 36). These were considered by the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Policy at its meeting on 21st March, and I set out the Sub-Committee's conclusions below.

2. A cereals agreement is bound to involve a net additional foreign exchange cost to the United Kingdom. We should therefore only subscribe to it if we can secure compensating advantages in the rest of the Kennedy Round negotiations - either on industrial tariffs or on non-tariff barriers. On industrial tariffs it seems unlikely that we shall get more than we give. We must therefore look especially to concessions from the United States on non-tariff barriers, particularly on American Selling Price (ASP) and wine gallon assessment, and the Sub-Committee agreed that we should send a further instruction to our delegation that they should make it abundantly clear to the Americans that we shall not be prepared to sign a cereals agreement unless they can offer substantial concessions on non-tariff barriers.

3. There is, however, a difficulty here in that the abolition of ASP and wine gallon assessment each require Congressional legislation. Since therefore American concessions on these issues must be conditional on the passage of such legislation, it seems necessary that a comparable weight of concessions on our side should be similarly conditional. The President of the Board of Trade undertook to consider further how we should ensure this, and in particular whether it would be right to insist that a cereals agreement should be made conditional in this way.

4. Subject to these general points, the Sub-Committee agreed that our delegation should be authorised -

(a) to explore what are the best terms we could secure on price and access with and without readiness on our part to accept a food-aid programme at a cost to us not exceeding £5 million a year; and
(b) to indicate in their exploratory talks that we might be prepared to contemplate a self-supply ratio somewhat below 72 per cent; the delegation should be told that Ministers would find it extremely difficult to accept a ratio below 70 per cent, but they should not at this stage be tied specifically to 70 per cent as the absolute minimum.

The delegation should report the results of their exploratory discussions to Ministers, who would then decide final negotiating instructions on cereals, taking account of progress in the other sectors of the negotiations.

5. I invite my colleagues to endorse the Sub-Committee's conclusions in paragraphs 2 and 4 above.

M.S.

Department of Economic Affairs, S.W.1.

22nd March, 1967
CABINET

THE FUTURE OF PRICES AND INCOMES POLICY

STATUTORY POWERS

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

With the publication on 22nd March of the White Paper on Prices and Incomes Policy After 30th June, 1967 (Cmnd. 3235), it remains for the Cabinet to reach conclusions about the question of further statutory powers. I have told Parliament that a decision is expected soon after the Easter Recess.

2. We are pledged to further consultation with the Confederation of British Industry (CBI) and the Trades Union Congress (TUC) on the basis of the reserve powers described in paragraphs 8-14 of C(67) 20. There is no serious problem with the CBI; they have brought themselves to accept legislation on these lines if it is limited to the twelve months after 30th June, 1967. The position with the TUC is unchanged since the Cabinet's discussion on 16th March (CC(67) 13th Conclusions, Minute 6); they oppose activation of Part II and the taking of any additional powers.

3. I need not rehearse all the reasons why I consider it necessary for us to seek the reserve powers described in C(67) 20 - I attach a summary of these powers. The expected trend of overall demand should continue to exercise some braking effect on the general level of claims and settlements, but current claims and settlements do not suggest that we can count with confidence on voluntary co-operation alone without the support of reserve powers. My colleagues will have in mind also the outlook as described in Annex C of C(67) 16. Nor do I think it would be wise in 1967-68 to try to operate on the prices side without something more effective than the present Part II.

4. As mentioned in paragraph 9 of C(67) 20, these reserve powers would not in practice be as wide as they seem. Anything less than this might well damage seriously the credibility of our policy, particularly in the United States of America and the European Economic Community countries.

5. Apart from the TUC's general attitude to powers, the main fear about reserve powers at home has been that we might try to bring in something like Part IV but we have rejected this idea. The public have been expecting us to retain powers which would at least enable us to check the "rogue elephants" whether on prices or pay. The prolonged discussion and uncertainty about powers may be beginning to sap the fund of the public goodwill for our efforts to get away from a free for all.
6. Any fresh legislation on prices and incomes is going to be attacked by some sections of opinion and it would seem wiser in our longer term interests to incur such odium for the sake of real reserve powers than for such limited powers that we would not be able to administer any effective check to those who try to get away with it and ignore the need for moderation.

7. It will in any case be necessary, if the benefits achieved since 20th July are not to be lost through a spate of successful actions for breach of contract in respect of pay increases deferred in accordance with Government policy, to introduce a new provision protecting employers from such actions designed to "wipe the slate clean" for the period up to 30th June, 1967.

8. I recommend, therefore, that we should seek the powers summarised in the Annex below. If the Cabinet accept this recommendation, I would propose to inform the TUC that this was our intention unless they had any specific suggestions for modifying the "package". It is unlikely that the TUC themselves would make specific suggestions though they might then ask for a meeting with the Prime Minister before the Government announced their decision to Parliament. As the Prime Minister explained to the Cabinet on 16th March, it might in any case be appropriate for him to see the TUC before promulgating the Government's decisions about powers.

M. S.

Department of Economic Affairs, S. W. 1.

30th March, 1967
FURTHER STATUTORY POWERS: SUMMARY

Powers to be taken for twelve months only with no built-in power to renew them so that a fresh Bill would have to be introduced if we subsequently thought it right to retain all or some of the powers. No pledge to be given that the Government would not seek such legislation in 1968.

2. These would be limited powers to enable the Government, at their own discretion, to implement recommendations of the National Board for Prices and Incomes (NBPI) in the following respects:

(i) Extension of the standstill on a price or pay increase beyond the three or four months under Part II which is the period provided to allow the Board to prepare its report.

(ii) Prevention of retrospective payment of a pay increase in respect of a standstill period.

(iii) Reduction of prices.

In addition there would be a further power to secure a temporary reversion of any increase in prices or pay which has already occurred but which merits examination by the NBPI.

3. Amendment of Section 30 of the Prices and Incomes Act. It will in any case be necessary to introduce a new provision to remove the cause of actions for breach of contract in cases in which pay increases have been deferred during the period of standstill and severe restraint in accordance with the Government's request.

-3-
T fois the Secretary of State for Foreign Affairs

and the Secretary of State for Defence

Our colleagues are aware (CC(66) 59th Conclusions, Minute 2) that a series of studies has been in progress designed to secure further large savings in defence expenditure by 1970-71. A major reduction of our forces was postulated, but still on the basis of no major change in our overseas policies. It is now clear that on this basis the maximum further savings on the defence budget which could be achieved by 1970-71 would be about £100-£125 million (these figures would increase by up to £25 million in subsequent years).

2. When these studies were started it was hoped to find further defence savings of between £200 million and £300 million by 1970-71. These savings figures were arbitrary and not based on any detailed calculations. Nor did they take account of any offsetting expenditure on economic or defence aid that might be required. Subsequent consideration of future public expenditure as a whole has emphasised the need to achieve the maximum possible saving on defence account as a contribution to the reduction of the present planned programmes of public expenditure as a whole by £500 million in 1970-71.

3. It is, therefore, plain that we must either accept a much smaller saving than had been hoped for on the Defence Budget or change our overseas policies. For the health of our economy we must change our overseas policies. We suggest below how this could best be done and outline what new policies we should seek to adopt. We must, however, emphasise that the new policies if agreed by our colleagues will take time and effort to carry through, and will not then be easy to change.

Room for Manoeuvre

4. The indications are that in the next few years our room for manoeuvre is limited mainly to our Far East deployment and commitments and to the consequential effects on the forces, facilities and stocks which we need to maintain in the United Kingdom. Even in the Far East the pace at which we can proceed will be seriously affected by the need not only to re-negotiate our commitments but also to avoid creating instability and so frustrate the achievement of the savings we wish to obtain. In particular, Singapore's economy is highly dependent on the presence of British forces, which provide 20 to 25 per cent of the Gross National Product and employ not far short of 10 per cent of the local labour force against the background of a local unemployment figure of about 10 per cent.
5. In the light of the studies carried out we consider that it will be necessary for us to withdraw British forces from Singapore and Malaysia and to maintain a minimum military presence with maritime and air forces based in Australia.

6. We shall have to consult our Allies about this proposal, notably Australia, New Zealand, the United States, Singapore and Malaysia. Withdrawal from Singapore and Malaysia would have to be phased over a number of years; our aim would be to try and reach the half-way mark by 1970-71 and to be completely out by 1975-76, though we should not preclude the possibility of an earlier withdrawal if political events made this feasible. We should offer, if necessary, to maintain a small maritime and air presence, on an unaccompanied basis in Australia, using Australian facilities once we have withdrawn from Singapore and Malaysia.

Commitments

7. This new approach will involve major re-negotiations of our commitments. Soon after 1970-71 we should no longer have any land forces in the Far East (apart from Hong Kong) and we must therefore re-negotiate our Treaty obligations to Malaysia and Singapore and our force declarations to the South East Asia Treaty Organisation. We should have to re-negotiate our agreement with Brunei. We could no longer contribute our land forces to the Commonwealth Brigade, but we could contribute maritime and air forces to a Commonwealth Strategic Force. Apart from the political and military changes in commitments, the economic consequences in the area as a whole would be considerable and in Singapore could be grave.

Defence Savings

8. It is not possible at this stage to give precise figures of the likely savings in the Defence Budget; but the Defence Secretary believes that, if adopted now, the defence savings that should result by 1970-71 would, as a preliminary estimate, be in the region of £150 million to £200 million and up to £300 million by 1975-76. It will take some time to work out the full implications, not least because of the need to assess the effects on the forces we maintain in the United Kingdom. The urgent need is for the process of consultation to start so that an early start can be made in achieving defence savings.

Aid Implications

9. The defence savings take no account of the expenditure on aid which would be necessary to help mitigate the consequences of our withdrawal from Singapore and Malaysia. Some increase in the aid budget will be needed to alleviate the economic difficulties, particularly in Singapore where they seem likely to be more severe than Malta. The full implications cannot be assessed before consultation starts.
Consultation

10. It will be difficult to carry our partners with us in this new approach and to get them to accept the major consequences in terms of reduced military capability, re-negotiated commitments, and economic changes. Nevertheless, we believe it is essential to do so.

Timing and Tactics

11. A principal difficulty in giving effect to the new approach lies in choosing the right combination of timing and tactics. On the one hand, in order to make sense of long term planning some firm assumptions are needed. But on the other, flexibility is required if we are to get the maximum political advantage out of the proposed policy. It may well be that outside political events, in particular a Vietnam settlement, will eventually make things easier for us with our allies. We must ensure that neither our planning nor our public statements commit us so rigidly that we find ourselves unable to advance the date of our final departure from Singapore and Malaysia if this later proves to be possible. In any public statement we may make, we should be careful to avoid naming dates so as to leave the maximum room for manoeuvre. In carrying out further work we shall study carefully the possibilities of making our final withdrawal at a date earlier than 1975-76.

12. If this approach is acceptable to our colleagues, we propose to start forthwith a series of consultations with our friends and Allies concerned on the lines we have indicated but without prejudice to final decisions which must be taken in the middle of this year.

Conclusion

13. We recommend that our colleagues agree to the new approach outlined in this paper.

G. B.
D. W. H.

Foreign Office, S.W.1.

31st March, 1967
31st March, 1967

CABINET

DEFENCE EXPENDITURE STUDIES

Memorandum by the Secretary of State for Commonwealth Affairs

The Foreign and Defence Secretaries in their memorandum C(67) 40 have proposed major changes in our overseas policies in the Far East, involving a rapid run-down of our forces by 1970-71 and their withdrawal from Malaysia/Singapore by 1975-76.

2. The main impact of these changes will fall on the Commonwealth countries in the area - Australia, New Zealand, Malaysia and Singapore. A decision to plan on total withdrawal from Malaysia/Singapore represents a major reversal of the policy announced just over a year ago after consultations with our Commonwealth allies and often reaffirmed since then; and the speed of run-down goes far beyond anything contemplated when I visited these Commonwealth countries last month.

3. In my view the better course would be to adopt as our objective a reduction of our forces to about half their present level in the next few years, to initiate consultations on this basis, and to leave a decision on the date of eventual withdrawal from Malaysia/Singapore to be taken in the light of developments in what is bound to be a fluid situation in the Far East.

4. If, however, the decision is in favour of the course recommended in C(67) 40, there are certain important principles I would wish to underline:

(a) It should be our clear aim so to handle matters that we do not create a chaotic situation in the Malaysia/Singapore area. This will be essential for the carrying out of our policy without disaster. But very severe strains will be imposed on Malaysia and Singapore both from the need to readjust their own defence arrangements and from the impact on their economies. Malaysia and Singapore are, particularly by South-East Asia standards, successful and progressive countries due to British rule and friendship in the past, and, as such, assets in the search for peaceful progress in that part of the world.

(b) Our negotiations with Malaysia and Singapore can only be realistic if based on acceptance on our part of the need to mitigate the economic consequences of our run-down by making available civil, and probably military, aid on a very considerable scale. The economic problems arising from a run-down of the scale and speed envisaged have not been assessed in detail; but it is clear that they will be formidable, particularly in Singapore where there is a real risk of a Communist take-over if the strains are too great. There can be no certainty that in Singapore the damage to the economy could be made good by development aid, however large, and relatively large sums of budgetary aid may be required.
(c) We must be prepared to take fully into account the views expressed by these four Commonwealth Governments in our consultations with them. For Australia and New Zealand major readjustments in the disposition and possibly the shape of their own defence forces will be involved. Our consultations with them should be full and frank. It will be essential to carry Malaysia and Singapore with us if our run-down is to be orderly and meet our own practical requirements. This underlines the need for flexibility (paragraph 11 of C(67) 40).

5. I ask that, if C(67) 40 is approved, my colleagues should endorse the three principles outlined above.

H.B.

Commonwealth Office, S.W.1.

31st March, 1967
31st March, 1967

CABINET

DEVELOPMENT AREAS - REGIONAL EMPLOYMENT PREMIUM

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs and the Chancellor of the Exchequer

We are sure that our colleagues will be interested to see, for their advance information, the attached text of a memorandum which will be sent on 3rd April on behalf of the Government to the National Economic Development Council and to the Chairmen of the English Regional Economic Planning Councils and will be published on 5th April. Preliminary consideration will be given to the memorandum by the National Economic Development Council at its meeting on 5th April and it will be more fully considered at a meeting early in May. Economic Planning Councils in England and Scotland and the Economic Council for Wales will also be invited to comment on the document during the same period.

2. The memorandum discussed proposals for improving the competitive position of manufacturing industry in the development areas, with a consequent raising of employment levels there, by the payment of a regional employment premium to private sector manufacturing establishments. It has been carefully examined by the Ministerial Steering Committee on Economic Policy, who attached great importance to the proposals as opening up new possibilities of achieving higher levels of employment and of economic growth than would otherwise be possible. They felt, however, that in view of their novelty, it would be right to arrange for the widest possible consultation with the interests concerned, and for an informed public discussion of them, before the Cabinet were invited to reach a decision; and arrangements have been made accordingly.

3. When the memorandum is published it will be made clear that no decision has been, or will be, taken by the Government on the proposals until there has been full consultation and public discussion of them, so that the Government's eventual decision on it may be taken in the light of the fullest possible information. But it will also be made clear that the presentation of this proposal is an initiative to which the Government attach considerable importance in the light of the high priority which must be given to a reduction of the disparity in unemployment levels between the development areas and the rest of Britain and to the achievement of the maximum rate of economic growth consistent with the maintenance of the stability and balance of the economy at home and abroad.
4. It is important in view of the nature of the contents of this memorandum that they should not be disclosed before the time of publication.

M. S.
L. J. C.

Department of Economic Affairs, S.W.1.

31st March, 1967
Studies carried out by the Departments concerned with the problems of the Development Areas in Great Britain, and with the system of selective employment payments, in accordance with statements made by the Chancellor of the Exchequer, have led to a proposal that a regional employment premium for manufacturing industry in the Development Areas should be introduced into this system. The economic case for this proposal, and other considerations which have to be taken into account, have been set out in a memorandum which the Government have sent to the National Economic Development Council and to the Economic Planning Councils in Scotland, Wales and the English regions for their comments. The text of this memorandum is now published as a basis for public discussion and further consultation. The memorandum does not deal with certain other aspects of the selective employment tax which have been under review and on which the Government's decisions will be announced separately.

5th April 1967.
The Development Areas

A Proposal for a Regional Employment Premium

The Problem of the Development Areas

1. In the space of two generations there have been massive changes in the way that people in Britain earn their living. A great shift has taken place from working on the land and from the older industries, while whole new industries – the motor industry, aircraft, plastics, electronics, oil refineries and so on – have grown up. There has also been a long-term growth in the numbers engaged in most service occupations.

2. Before the first World War there were nearly one and a half million people in agriculture (and still about a million in 1939) but to-day there are 750,000, including those self-employed in agriculture. There were well over a million men in coal-mining; to-day there are only half as many.

3. The impact of these changes has varied between regions, and the factors determining the structure of industry in any region are complex. But a general feature of the Development Areas, as they are now called, is that they have been particularly dependent on some of the industries with contracting employment, and their share in the new and fast-growing industries has so far been barely enough to compensate for this contraction. As a result, unemployment within the Development Areas has been substantially worse than the national average for a long period. There is a roughly similar situation, and a still higher level of unemployment, in Northern Ireland.

4. Coal-mining is an outstanding case where the brunt of the decline has been borne by the Development Areas. Shipbuilding, the railways and the manufacture of rolling stock are among the other industries now employing far fewer men than in the past in some of the Development Areas. This situation reflects not only changes in demand but also great advances in productivity, as a result of which fewer men are needed to meet a given demand.
5. These changes have not yet worked themselves out. The figures in Table 1, while not comprehensive, illustrate the problem in the three regions where unemployment has been highest.

Table 1
(Figures to nearest thousand)

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1959</th>
<th>1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total insured employees in agriculture, mining and shipbuilding in Scotland, Wales and the Northern Region</td>
<td>767,000</td>
<td>706,000</td>
<td>466,000</td>
</tr>
</tbody>
</table>

6. Thus, to take Scotland, Wales and the Northern Region alone, they have lost 300,000 jobs in agriculture, mining and shipbuilding in 16 years – a decline of 8% from 1950 to 1959, and a further and more severe decline of 34% from 1959 to 1966. In spite of this, these three industries still account for over 11% of employment in all the Development Areas, as compared with 5.4% for the whole of Great Britain. The Development Areas therefore remain particularly vulnerable to any further shrinkage in the numbers needed by this group of industries.

7. Unemployment in these regions would have been more substantial than it has but for the outward migration which has taken place. Over the period 1955 to 1964, outward migration of employees from Scotland, Wales and the Northern Region, taken together, exceeded inward migration by 200,000. Their population nevertheless rose, because of natural increase; and employment also grew, but only by 3% as compared with the national average of 8%. An appreciable improvement would be needed in the number of new jobs created in order to make full use of the available labour resources of these regions together with a reduction in net migration.
8. The problem of the structure of industry in particular regions of high unemployment has been set out in detail in a number of reports over a period of years, including the White Papers on the North East and on Central Scotland in 1963 (Cmnd. 2206 and Cmnd. 2188); the White Paper on the Scottish Economy in 1966 (Cmnd. 2864); the Northern Economic Planning Council's report which was published in October 1966 under the title "Challenge of the Changing North"; and a report on Economic Development in Northern Ireland in 1964 (Cmd. 479 published by H.M.S.O., Belfast).

9. Limited remedies were first attempted between the two world wars. From 1945 onwards successive Governments have set themselves systematically to promote employment in new or expanding enterprises in the problem areas. The boundaries of the areas selected for attention have varied over the years, and a wide range of measures has been used including, for instance, special help for industrial training and for public services needed by industry. But there have been three main instruments. First there have been programmes of assistance for private capital investment in the areas of high unemployment. Second, there has been direct investment in factory building by the Government itself. Finally, there has been the control of new projects by the system of industrial development certificates, now reinforced by building controls and by the requirement of office development permits in the Midlands and the South East; an object of these controls is to help in steering projects to the Development Areas.

10. The present Development Areas, and the present system of investment incentives, were established under the Industrial
Development Act of 1966. Reflecting the present Government's broad regional approach to the problem, the Development Areas now comprise most of Scotland and Wales, the Northern Planning Region, Merseyside and most of Cornwall and North Devon. Details of these areas were specified in the Schedule to the Development Areas Order 1966, which is reproduced at the end of this paper, and a map showing their boundaries appears in these pages.

11. The Development Areas now account for roughly 20% of employment in manufacturing industry in Great Britain, and for about the same percentage of total employment. In addition to the areas of high unemployment, they include some parts of Britain, such as the Scottish Borders and mid-Wales, which have experienced a high level of net outward migration - reflecting in part lack of diversified employment opportunities rather than high unemployment.

12. The policies developed since the war, in conjunction with private initiative and effort, have led to the establishment and expansion of many major projects in the Development Areas - chemical plants, synthetic fibre factories, motor works, to name a few - and a whole host of other enterprises. The industrial climate of the Development Areas is being transformed. In spite of this, and because the contraction of the older industries has gone on side by side with the growth of the new, since the war and up to 1966 unemployment rates in what are now the Development Areas remained in general at something like twice the national average. Table 2 sets out figures illustrating this point for the years 1959-1966. These are figures of "wholly unemployed, excluding school-leavers" which for many purposes give a closer indication of the underlying trend.
than do figures of total unemployment, including those who are not working because of temporary stoppages and school-leavers who have not yet started work. As statistics relating to the present Development Areas were not compiled before 1966, the figures for earlier years have been estimated so as to provide a true comparison with those for 1966.

Table 2
UNEMPLOYMENT RATES (wholly unemployed) 1959-1966
Annual Averages - percentages

<table>
<thead>
<tr>
<th>Year</th>
<th>Great Britain</th>
<th>Development Areas</th>
<th>Rest of Great Britain</th>
<th>Difference between Development Areas and Rest of Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>2.0</td>
<td>3.8</td>
<td>1.6</td>
<td>2.2</td>
</tr>
<tr>
<td>1960</td>
<td>1.5</td>
<td>3.2</td>
<td>1.1</td>
<td>2.1</td>
</tr>
<tr>
<td>1961</td>
<td>1.3</td>
<td>2.8</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>1962</td>
<td>1.8</td>
<td>3.6</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td>1963</td>
<td>2.2</td>
<td>4.4</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>1964</td>
<td>1.6</td>
<td>3.5</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td>1965</td>
<td>1.3</td>
<td>2.8</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>1966</td>
<td>1.4</td>
<td>2.7</td>
<td>1.1</td>
<td>1.6</td>
</tr>
</tbody>
</table>

13. The problem of regional imbalance is not at all unique to Britain. Nor are these figures of regional unemployment extremely high as compared with some periods in the past or with some countries or regions overseas at the present time. But forced unemployment for any length of time has destructive effects on those who experience it, quite apart from its consequences for the economy. Moreover, the level of unemployment in some of these regions has been accompanied by net outward migration which is widely regarded as exceeding the degree of geographical mobility of labour which is socially and economically desirable. There is therefore every reason for wanting to reduce this
disparity in economic activity between the Development Areas and the rest of Britain.

Recent Developments

14. Under the Industrial Development Act, 1966, cash grants were introduced in place of certain tax allowances for capital expenditure on plant or machinery used in the manufacturing, extractive, and construction industries in the private sector and in scientific research related to those industries; the grant scheme also covers capital expenditure on computers, ships, hovercraft, and mining works. The standard rate of grant for all these items is 20%, as a temporary measure this has been increased to 25% for expenditure incurred in 1967 and 1968. In order to maintain a greater incentive to investment in Development Areas, the rate of grant for eligible plant or machinery, mining works, and certain computers was fixed at 40%; and this Development Area rate of grant has been increased to 45% for expenditure incurred in 1967 and 1968. In contrast with the plant and machinery grants previously available in the development districts, the new investment grants are not dependent on the provision of additional employment. The fact that investment grants (unlike the tax allowances which they replace) do not depend on the level of profits of a firm can also be of particular assistance to new enterprises set up in Development Areas. The Exchequer expenditure involved in the extra 20% on the grants for Development Area investment is about £40 million a year at current rates of investment.

15. Further important assistance is given under the Local Employment Acts for projects which are expected to provide new jobs in Development Areas. This employment-linked assistance (as distinct from investment grants, which are given irrespective
of the employment created) may take a number of forms -
general-purpose loans or grants; grants for buildings or for
adaptions or extensions to buildings; or the provision of
Government-built factories for sale or rent at advantageous
terms. Any project providing employment in the Development
Areas can be considered for these loans and grants, subject to
the recommendation of an independent Advisory Committee. The
Board of Trade's ability to offer assistance has been extended
both by a widening of the range of inducements under the
Industrial Development Act and by the introduction of the wider
development areas, and it is anticipated that the Department may
spend over £50 million on these programmes in the year 1967-68.

16. Since the Government's measures of economic restraint of
July 1966, the relative position of the Development Areas as a
whole, as reflected in the unemployment figures, has not
developed so unfavourably as in previous periods of restraint.
There are indications that the intensified regional policies of
recent years are having an increasing effect, and that a higher
proportion of total new industrial investment is going to the
Development Areas. This is suggested by a recent shift in the
balance between the Development Areas and the rest of the
country in approvals given for industrial building. This trend
has still to produce its full effects, as have the most recent
measures under the 1966 legislation. Even though there will be
a further and not wholly predictable run-down in the older
industries, which has to be set against the new employment
resulting from these measures, progress in narrowing the gap
between the regions can be hoped for over the next few years.
Nevertheless, on a careful assessment of the prospects, it is
impossible to foresee with confidence more than a limited
reduction in the disparity in unemployment levels between the
Development Areas and the rest of Britain, or a growth in employment fast enough to cut down migration from the Development Areas to a great extent. Therefore, even though it is only a short time since the new measures in the Industrial Development Act gained the force of law, there is a case for considering further action which might contribute towards closing the gap more quickly.

17. Such action might consist of an intensification of existing measures to promote employment in the Development Areas, which would be a matter for decision and administration by the responsible Ministers and Departments. Or it might also take the form of a new departure along quite different lines, if a workable and acceptable measure were to present itself. It is under this head that the proposal discussed below has been worked out for consideration.

The Proposal for a Regional Employment Premium

18. The essence of the proposal is that the existing grants and other assistance for capital investment should be supplemented for a period of years by payments towards the labour costs of manufacturing industry in the Development Areas. The administrative machinery for this is already available as a result of the Selective Employment Payments Act 1966. Under this Act an employer who has paid Selective Employment Tax on employees in a manufacturing establishment can receive a premium consisting of the amount of tax paid plus a sum of 7s. 6d. a man per week, with smaller sums for women, girls and boys. The new proposal for consideration is that, where the establishment is in a Development Area, the employer would receive an extra premium in the range of £1 to £2 a man per week for the duration of the scheme, with appropriately smaller amounts for women, girls and boys. The rates for part-time workers would have to be
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considered. In what follows, the term regional employment premium is used for these proposed extra payments.

19. Payments on this basis would be equal to about 5% - 10% of labour costs. If one took a figure midway in this range for purposes of illustration, the total payments of regional employment premium for manufacturing establishments in the present Development Areas would be roughly £100 million a year.

20. Legislation would be needed, and some adjustments would naturally have to be made to the Ministry of Labour's existing administrative arrangements for making selective employment payments. However, provided that the regional employment premium was confined to those categories of employers in Development Areas who already receive the manufacturer's premium, there should be no major difficulty from the point of technical feasibility and no substantial increase in administrative costs.

21. The remainder of this paper sets out the economic case in favour of the proposed regional employment premium; discusses some of the counter-arguments; and goes on to explore some of the other questions which would have to be considered, including the geographical scope of the premium, its industrial effects, and some problems arising within the Development Areas.

The Economic Case

22. The economic case for the proposal rests on three main propositions:

First, that the efficient management of the economy and the optimum use of manpower require major new measures to be taken to produce a more even distribution of industrial development as between the different regions, and as a result to secure a further substantial narrowing of the unemployment gap between the Development Areas and the rest of Britain;
Second, that the proposed regional employment premium would have this effect over a period of years, and that there are no practicable alternatives which by themselves could be expected to do so on the same scale;

Third, that - provided these payments are confined to manufacturing industry in the Development Areas - their effects on the pressure of demand and the balance of payments will not be such as to require offsetting taxation to release resources for the subsidy.

23. Let us look in more detail at each of these arguments in turn.

Do we need it?

24. For most of the time since the war manpower has been a scarce commodity in Britain as a whole. If it has been in surplus supply in the Development Areas, that is because of the uneven distribution of demand for labour. When the level of national economic activity has been relatively high, the pressure of demand for labour in the centres of maximum employment, especially the South and the Midlands, has built up from time to time to very high levels, with consequent and well-known inflationary effects and damage to the balance of payments. Even at these times the degree of unemployment in the Development Areas has represented a waste of scarce human resources. When action has become imperative to restrain the pressure of demand in the areas of high employment - and because this has involved measures affecting the whole economy - then unemployment in the Development Areas has been pushed up to an extent which has not proved acceptable for any length of time. This has led to a reaction against the measures of restraint and to pressure for relaxations.
25. In the next ten years the number of people of working age is not going to change appreciably, while the number of dependants will increase. There will therefore be an even greater need for the nation to make use of its full potential labour force. But the scope for doing this, without a recurrence of the conditions of excess demand which have led to balance-of-payments difficulties in the past, will be limited unless a more even distribution of the demand for labour throughout the country can be achieved. The more even the demand for labour, the higher can be total national employment without inflationary consequences and without prejudicing the balance of payments.

Would it work?

26. The regional premium payments would be designed to produce this effect by reducing the labour costs of manufacturing industry in the Development Areas, thus making it more competitive and enabling it over a period of time to increase its relative share of the total output of manufacturing industry in Britain. For this, it would be essential that the premium payments should go primarily into reducing costs and prices rather than into extra wage increases. This gain in competitiveness would put existing manufacturers in the Development Areas in a position to increase output and employment, while other firms would have an additional inducement to set up there. National firms with branches both in the Development Areas and in the rest of the country would have an incentive to expand production in the former. In the longer run these developments could have a cumulative effect in generating faster economic growth in the Development Areas, and the service industries there would also stand to benefit from the secondary effects of the measure. It should also in time lead to a
reduction in the net outward migration from the Development Areas.

27. The proposal is not advanced as a short-term contracyclical measure. Though there should be some immediate impact, on the whole it is believed that the effects in the very short-term would be rather limited. But over a period of, say, 3 - 5 years it could narrow the unemployment gap very substantially. Any estimate on this point is bound to be highly speculative but, subject to this important reservation, examination suggests that, with a premium of the size indicated in paragraph 18, the average disparity between unemployment in the Development Areas and the country as a whole might be reduced by something like one half over a period of years, over and above the degree of success expected from existing programmes. The speed at which this improvement took place would depend, among other things, on the extent to which the increase in output in the Development Areas required additional investment to go with the employment of additional labour.

28. The proposed assistance towards labour costs would act in conjunction with the existing incentives to capital investment. It would help to meet the criticism which is sometimes levelled against special regional investment incentives that, in the absence of assistance towards labour costs, they tend to tip the balance in favour of locating capital-intensive projects in areas of labour surplus rather than in areas of labour shortage. The investment grants by themselves could not be further raised to produce an additional stimulus comparable with the effect of the proposed employment premium - if only because the total of capital expenditure capable of attracting grant is much smaller than the labour costs which would attract employment premium. In manufacturing industry the annual wage and salary bill is
about five times the total annual investment and about seven times the annual investment in machinery.

Duration and Amount

29. The regional employment premium is not put forward as a permanent new feature of regional policies, but it would not be worth while, nor effective as an inducement to new industry, unless some assurance could be given that it would continue for a period of years. This should be such as to allow time not only for the premium to be fully reflected in the performance of existing Development Area factories, but also for new factories to be built in the Development Areas with an assurance of premium for a reasonable pay-off period. On this basis, if the scheme were put into effect, it should be with the intention of maintaining it for not less than, say, five years. The objective would be to taper the arrangements off and eventually eliminate them when the present disparities have been substantially reduced and their recurrence need no longer be feared. (The question of winding up the premium arrangements is discussed further in paragraph 40.)

30. The size of the regional premium should ideally be determined at whatever figure was judged likely to be most effective in reaching this goal within this kind of time span. In practice a figure at the upper end of the range of £1 to £2 a man per week, which was mentioned earlier on, would probably be regarded as excessive. But, if the figure were whittled down too far, it might still raise all the practical issues which a decision in favour of the scheme would entail without holding out the same promise of a major advance in regional policies.

Paying for the Premium

31. The way is now clear to consider the final proposition which
completes the case for the proposal on economic grounds. This concerns the financing of the premium. The regional premium will, of course, have to be paid for in the sense that the Exchequer will have to provide funds for the scheme and account for them as it must do for all programmes of Government expenditure, old or new. But this in itself does not determine the question whether additional taxation would have to be raised specifically to finance the regional premium.

32. Any subsidy tends to increase demand and output. In the normal way, unless the situation was ripe for an increase in total demand on resources including imports, it would be necessary, other things being equal, to consider financing any new grant payments by taxation or by some other means (such as a cut in other expenditure) which would produce an offsetting reduction in demand and thus free resources for the purpose.

33. But there are strong grounds for holding that this would be an exceptional case in which special measures to finance the scheme by taxation would not be necessary. These arguments are inherent in the very case for a regional employment premium for manufacturing industry, because it is part of this case that the rise in demand and output in the Development Areas would be accompanied by some shift in demand and output away from the rest of Britain. Although it is believed that the combined effect would be a net increase in the national product, there should be some slackening of pressure of demand for labour in the South and Midlands which would mean that this could occur without an inflationary chain reaction. Provided that the premium was confined to the manufacturing sector, it is believed that the net effect on imports and exports produced by the changes in demand and output in the Development Areas on the one hand, and in the rest of Britain on the other, should not involve any worsening in the balance of payments.
On this analysis - in which once again the assumption is implicit that the premium payments would not be swallowed up by extra wage increases - then neither balance-of-payments considerations nor the need to contain the pressure of demand would require taxation or other measures specifically to finance the extra premium in the Development Areas. Indeed to the extent that the scheme succeeded in helping to produce a more even distribution of employment, thus making possible a lower national unemployment rate, it might in time enable the general level of taxation to be lower than it would have been in the absence of the scheme.

35. It must be stressed that this analysis does not hold good for other measures which are designed to increase employment in the Development Areas but which do not have a similar direct effect on manufacturing costs and on the distribution of demand. For instance, it could certainly not be argued that higher expenditure on investment in the Development Areas need not be accompanied by arrangements for extra financing or that, if they were not so accompanied, damage could be avoided to the balance of payments.

Some Counter-Arguments

36. Clearly there is room for differences of judgment on a number of points in the analysis thus far. Some of these are considered briefly below, but no attempt is made to cover in advance all the ground which is likely to be gone over in detailed discussion of the issues.

37. First, the premise that a radical new approach is needed may be questioned. It may be argued that, when the present period of readjustment is over, a progressive improvement in the economic position of the country as a whole, combined with a relative
improvement in the Development Areas as a result of existing programmes will result in employment levels which would reduce the necessity for major new discriminatory measures. The economic case for the premium proposal does not, however, stand or fall by the prospect of any particular unemployment figures since, whatever the precise figures, a more even distribution of unemployment would secure a fuller use of total manpower, and would make it much more possible to run the economy at a lower total unemployment rate without overheating in the Midlands and the South and the consequent chain reaction affecting cost levels and the balance of payments.

38. Next, it may be argued that the economic advantages of the scheme to the country would at least in part be offset by encouraging the siting of industry in locations where its gross costs (before receipt of the premium payments) might be permanently higher. If there is validity in this point, it must arise in connection with any effective measure, existing or new, to steer industry to the Development Areas. It is, of course, a question of balancing the costs against the benefits, including the gain from bringing otherwise idle manpower into use, from a national point of view. In the case of the proposed regional premium, the upper limit on the differential costs of firms which might be induced by this scheme to go into the Development Areas would be represented by the amount of the premium payments; otherwise the premium would not be sufficient to induce them to move. The benefits to be set against these costs would include the gain to the management of the economy, which cannot be quantified, and the net addition to national employment and output. The premium proposal is based on an assessment that on both counts there would be a substantial balance of advantage to the country as a whole.
It may be argued that the foregoing discussion does not take adequate account of the importance of a continued flow of manpower through migration into the more favourable locations for industry, and of the brake which would be placed on expansion there if this flow were substantially reduced. But there are a number of factors to be set against this; quite apart from the problems involved in the disruption of families and the settlement of the workers who have to move into already congested areas, a serious loss can be inflicted on the areas losing manpower, where outward migration may fail to reduce unemployment and may even increase it. For the loss of population can result in a reduction in local demand and the process of decline may tend to be cumulative.

40. Nevertheless, the point may still be made that, if Development Area firms were competitive from a commercial point of view only with the assistance of the regional premium, this could create serious difficulties when the time came to reduce or remove the premium. There is, of course, no inherent reason why Development Area enterprises, once fully launched, should not make their own way without continuing assistance. The question raised is whether a marginal project or a marginal increase in output which owed its existence to the premium in the first instance would be able to survive curtailment of the premium. Clearly there is a problem here, but the premium proposal has been put forward in the belief that it can be substantially overcome by the gains in productivity which should follow from a faster rate of development and a higher throughput. Moreover, it is not unrealistic to expect that the operation of the premium for, say, five years, together with continuation of existing regional measures, should improve the structure of industry and raise the level of economic activity in the
Development Areas to an extent which would make them much more capable of adjustment to change.

Finally, the realism of the assumption that the premium payments would go primarily into improving the competitive position of Development Area manufacturers, and not be dissipated in wage increases, may be questioned. However, against the background of the relatively large unused labour resources in the Development Areas, there should be room for an appreciable rise in the demand for labour in those areas without causing excessive pressure on wage levels. Moreover, both sides of industry would have a responsibility to co-operate in ensuring that the object of the scheme - a reduction in labour costs - was not frustrated. It would be equally essential that this reduction in labour costs should be reflected in more competitive prices; experience suggests that in fact reduced costs are generally reflected in lower prices over a period of time.

Geographical Scope of the Scheme

The present Development Areas were announced in the White Paper on Investment Incentives in January 1966 (Cmnd. 2874). They were determined by the Board of Trade in accordance with the provisions of the Industrial Development Act, 1966, which state that the Development Areas "shall be those parts of Great Britain where, in the opinion of the Board, special measures are necessary to encourage the growth and proper distribution of industry; and in exercising their powers ...................
the Board shall have regard to all the circumstances actual and expected, including the state of employment and unemployment, population changes, migration and the objectives of regional policies".
43. Under this legislation it is possible to make orders adding places to the initial list of Development Areas, or taking them off the list. These powers have not yet been used and the proposal for a regional employment premium has been worked out on the basis that it would be introduced in the Development Areas as they are now, or with only limited boundary adjustments in exceptional cases, being designed to reinforce the existing measures of assistance for the Development Areas.

44. Because the regional employment premium would substantially increase the extent of the preferential treatment accorded to the Development Areas, it would inevitably lead to increased representations for similar treatment on behalf of other areas. But it would not be possible to satisfy demands for a substantial extension of the Development Areas without diluting the preference for the existing Development Areas and reducing the effectiveness of the scheme in remedying their special problems. This is a difficulty which will have to be taken into account in reaching a decision on the proposed regional employment premium.

Industrial Effects

45. Similarly it will be necessary to take into account the implications for the productivity and efficiency of industry in the rest of Britain, as well as in the Development Areas. It must be recognised that the advantages of the premium for manufacturing industry in the Development Areas would have, as the opposite side of the coin, some relative disadvantage for manufacturing industry in other areas. The effects would vary from industry to industry and from case to case. In some industries production is largely concentrated in particular parts of the country, so that the Development Areas and other
regions are hardly in competition. In other cases there are firms with establishments both inside and outside the Development Areas. But there would be cases where, to the extent that the regional premium enabled industry in the Development Areas to increase its share of the market, industry elsewhere would tend to have a reduced share - though in the longer run economic activity in these other areas would benefit if a more even distribution of employment enabled the country to run with a lower national unemployment figure, which would mean a bigger total domestic market.

46. The potential effects on industry generally outside the Development Areas should not be exaggerated. No more is claimed for the proposed regional premium than that it should reduce the above-average unemployment, without wholly eliminating it, in 20% of the country - measured in terms of manufacturing employment - in which case the obverse effects spread over the remaining 80% of the country would be correspondingly limited. Nevertheless this is clearly another factor which will have to be carefully weighed.

Problems within the Development Areas

47. Within the Development Areas, the proposed regional premium would accentuate the present differentiation between manufacturing establishments which already attract the existing selective employment premium and, on the other hand, those establishments which bear selective employment tax without refund. This, too, may well be regarded as a point of difficulty, though in fact all economic activity in the Development Areas would stand to benefit indirectly through the increased prosperity which the regional employment premium would be designed to generate.
This increased differentiation might lead to renewed suggestions that refunds of selective employment tax should be paid in respect of employment in the service industries in the Development Areas. But a main object of introducing this tax was to broaden the tax base by selective imposition of the tax on the service industries, which were not subject to the purchase tax and revenue duties levied on the output of manufacturing industries. It would be difficult to accept that there should be a narrower tax base in the Development Areas. The incidence of the tax on the Development Areas taken together is much the same as on the country as a whole, and there do not seem to be any strong grounds for criticisms that the tax runs counter to the Government's general regional policies. A wide range of economic activity in the Development Areas should benefit directly or indirectly from measures of assistance to manufacturing industry; to pay refund of selective employment tax in respect of service activities in the Development Areas would involve further large amounts without contributing to economic growth in the Development Areas on a comparable scale.

The basic economic reason for this is that the market for most services is to a large extent a local one, and refund of the tax for service establishments in the Development Areas would give them little competitive advantage over services in other parts of Britain or abroad – retailers in Glasgow, for instance, are not in direct competition with retailers in Birmingham or overseas. The payments of refund to service establishments, unlike the premium payments to manufacturers, would not add significantly to real output in the Development Areas, but would add to purchasing power in those areas; part of this would be spent on the products of other areas and on imports, and these effects on demand and the balance of payments might require some
offsetting increase in taxation. Apart from these economic arguments, the registration for refund of all service establishments in the Development Areas would add substantial administrative complexity to the arrangements.

49. The Development Areas include some parts where an exceptionally small proportion (from 10% to 15%) of the total number of employees are in manufacturing industry. The South West Development Area – which covers only a part of the South West administrative region – the Scottish Highlands and Islands, mid-Wales and North West Wales are in this category. A high proportion of employment in these sub-regions is in agriculture and other occupations which attract refund of selective employment tax, and a further proportion of the working population is self-employed and therefore does not pay the tax. Nevertheless, although statistics of the incidence of the selective employment tax are not compiled on a sub-regional basis, it is clear that the net yield of the tax as a percentage of the wage and salary bill must be rather higher in these sub-regions than it is either in Britain as a whole or in the Development Areas as a whole.

50. It does not follow that the considerations set out earlier on against relief from the tax for service industries in the whole of the Development Areas have any the less force with regard to these sub-regions, and it is equally doubtful whether their special problems would be nearer a solution as a result of such reliefs. What is true, of course, is that the proposed regional employment premium would not provide a solution in these sub-regions (though they would share with the rest of the Development Areas the additional inducement for the establishment of new manufacturing projects) any more than the existing selective employment premium does. But it would not be a
reasonable criticism of either the existing arrangements or the proposed new premium, both designed to help growth in manufacturing industry, that they do not do the job which they are not meant to do of promoting development in parts of the country where the proportion of manufacturing industry is low and cannot be rapidly increased.

51. It is more constructive to look at the problems of these areas with a view to making the most of the kind of resources and potentialities which they do possess. This is precisely the role of the Highlands and Islands Development Board, which is engaged in an expanding programme for the development of tourist facilities and other enterprises. The potential of other primarily rural parts of the Development Areas throughout the country, including the scope for further encouragement of the facilities for tourism, is being carefully examined by the Departments concerned.

Northern Ireland

52. In Northern Ireland collection of the selective employment tax and the premium and refund arrangements are the responsibility of the Northern Ireland authorities, as are the various programmes for industrial development. It is to be expected that, if regional employment premium were introduced in the rest of the United Kingdom, the Northern Ireland Government would wish to apply similar arrangements to manufacturing industry there. If it proved difficult to accommodate this measure within the existing financial arrangements between the Exchequers of the United Kingdom and Northern Ireland, it can be assumed that there would be consultation on this point.

Conclusion

53. To sum up, this memorandum has set out the case on economic grounds for believing that the operation of a regional employment
premium for a period of years in the Development Areas, at a rate probably within the range of £1 to £2 a week per man in manufacturing establishments, should help to bring about a substantial reduction in the disparity between unemployment there and in the rest of Britain, and accelerate the progress in this direction which is hoped for from the development of existing programmes. Clearly a more even distribution of employment would represent a great gain in the management of the economy and the fuller use of manpower. At the same time, the scheme would involve a heightened differentiation between different parts of the country and the industries in them, and the report has indicated some points of difficulty which would arise on that account.

In economic affairs there can hardly be a course of action - whether it involves intervention or refusal to intervene - which is free from drawbacks. It is for the Government to decide whether the balance of advantage for the nation would justify them in submitting a proposal for legislation to Parliament. Consultation and public discussion will not cause real points of difficulty to disappear, but they should lead to better understanding of the issues and they will enable the Government to take reactions to the proposal into account. Consultation with both sides of industry will also be important in ensuring that, if the suggested regional employment premium is introduced, it goes forward in a way best designed to achieve the objectives of improving the competitive position of manufacturing industry in the Development Areas, with a consequent raising of their levels of employment and rates of economic development.
The following are the areas described in the Schedule to the Development Areas Order, 1966.

1. The Scottish Development Area consisting of the employment exchange areas of Scotland except those of Edinburgh, Leith and Portobello.

2. The Northern Development Area consisting of the employment exchange areas of:

   - Alnwick
   - Amble
   - Appleby
   - Ashington
   - Aspatria
   - Barnard Castle Group (Barnard Castle and Middleton in Teesdale)
   - Barrow-in-Furness Group (Barrow-in-Furness and Dalton-in-Furness)
   - Bedlington
   - Berwick-upon-Tweed
   - Bishop Auckland Group (Bishop Auckland, Evenwood, Crook and Shildon)
   - Blyth
   - Carlisle Group (Brampton and Carlisle)
   - Chester-le-Street Group (Birtley, Chester-le-Street and Houghton-le-Spring)
   - Consett
   - Darlington Group (Aycliffe and Darlington)
   - Durham
   - Grange-over-Sands
   - Guisborough
   - Haltwhistle
   - Hartlepool Group (Hartlepool and West Hartlepool)
   - Haswell
   - Helmsley
   - Hexham
   - Horden
   - Kendal
   - Keswick
   - Loftus
   - Malton
   - Millom
   - Morpeth
   - Northallerton
   - Penrith
   - Pickering
   - Prudhoe
   - Richmond
   - Saltburn
   - Scarborough
   - Seaham

/Seaton Delaval
Beaton Delaval
Spennymoor

Stanley Group
(Lanchester and Stanley)

Stokesley

Sunderland Group
(Pallion, Southwick, Sunderland and Washington)

Tees-side Group
(Hillingham, Middlesborough, Redcar, South Bank and Stockton and Thornaby)

Thirsk

Tyneside Group
(Blaydon, East Boldon, Elswick, Felling, Gateshead, Jarrow and Hebburn, Newburn, Newcastle upon Tyne, North Shields, South Shields, Walker, Wallsend, West Moor, and Whitley Bay)

3. The Merseyside Development Area consisting of the employment exchange areas of:

Birkenhead Group
(Bebington, Birkenhead and Wallasey)

Ellesmere Port

Hoylake

Liverpool Group
(Bootle, Crosby, Garston, Kirkby, Liverpool, Old Swan, Regent Road (Liverpool) and Walton)

Neston
Prescot
Runcorn
St. Helens
Widnes

4. The Welsh Development Area consisting of the employment exchange areas of Wales and Monmouthshire except those of Abergavenny, Cardiff Group (Barry, Bute Docks, Cardiff, Llantwit Major and Penarth), Chepstow, Colwyn Bay, Cwmbran, Llandudno, Monmouth, Newport Group (Newport and Newport Docks), Rhyl, and Shotton Group (Buckley, Flint, Holywell, Mold and Shotton).

5. The South Western Development Area consisting of the employment exchange areas of:-

/Barnstaple
Barnstaple
Bideford
Bodmin
Bude
Camelford
Penzance Group
(Penzance, St. Ives, St. Just-in-Penwith and St. Mary's (Isles of Scilly))
Penzance Group
(Redruth Group
(Cambourne, Hayle and Redruth)
Camelford
Rodruth Group
(Cambourne, Hayle and Redruth)
Penzance Group
(Bude
St. Mary's (Isles of Scilly))
Ilfracombe
Wadebridge
Launceston
Liskeard Group
(Liskeard and Looe)
Ilfracombe
Launceston
Liskeard Group
(Liskeard and Looe)
St. Austell
Truro

NOTE:- Firms in Skelmersdale New Town and Winsford Urban District will also be eligible for Development Area benefits as if they were included in the Merseyside Development Area, by virtue of Section 15(6) of the Industrial Development Act.
3rd April, 1967

CABINET

THE "TORREY CANYON": WHITE PAPER

Note by the Secretary of State for the Home Department

The Prime Minister has decided that the White Paper should be published at noon on Tuesday, 4th April. Attached is a copy of a draft of the White Paper which has been revised on the lines suggested at a meeting of the steering group of Ministers on 31st March (MISC 145(67) 5th Meeting), and approved by the Prime Minister.

2. In order to meet the very tight timetable it will be necessary to keep amendments to an absolute minimum. I should be grateful if any essential amendments could be telephoned to Mr. A. S. Baker (Whitehall 8100, extension 44 or 184) by 5 p.m. today.

R. H. J.

Home Office, S.W.1.

3rd April, 1967
THE
"TORREY CANYON"

Presented to Parliament by the Secretary of State for the Home Department
by Command of Her Majesty
April, 1967

LONDON
HER MAJESTY'S STATIONERY OFFICE

Price Net

Cmnd.
The Torrey Canyon was a tanker of 118,285 tons dead weight owned by the Barracuda Tanker Corporation, a subsidiary of the Union Oil Company of California, and registered in Liberia. She was on charter to the British Petroleum Company Limited and carried oil in all but two of her 18 tanks. She was insured for a total of £5½m., one third of the insurance being carried in London, mostly by Lloyd's, and the remainder in the United States of America. She carried a crew of 36.
THE "TORREY CANYON"

I. Summary

At 0930 hours on Saturday 18th March 1967 the Torrey Canyon was reported aground on the Seven Stones reef between the Isles of Scilly and Lands End. She was bound for Milford Haven with a cargo of 120,000 tons of Kuwait crude oil, and it is believed that she struck the reef when travelling at about 17 knots.

Within an hour a Royal Navy helicopter was over the ship. But the heavy swell in the area during the first two or three days made it hazardous to get any other craft alongside in order to carry out an inspection, which would have involved the transfer of equipment. On 20th March, when the Chief Salvage Officer of the Navy Department joined the salvage crew (of the Bureau Wijksmuller) on the ship, it became clear that many of the 18 cargo tanks were damaged and that an estimated 30,000 tons of oil had spilled into the sea.

The threat of oil pollution was evidently on a scale which had no precedent anywhere in the world. Without waiting for an assessment of damage, ships of the Royal Navy on the afternoon of 18th March began a continuous operation of spraying detergent in order to disperse the oil which had escaped ; and they were later assisted by chartered commercial vessels. Large-scale preparations to deal with oil pollution on the beaches were also put in hand.

From their first visit to the ship on 20th March representatives of the Navy Department offered to provide all possible assistance. This included a detailed hydrographical survey of the reef around the ship, heavy lifts by helicopters from the salvage vessels to the ship and the continuous ferrying of salvage personnel. But weather conditions began to deteriorate on 24th March and a change in wind direction on 25th March brought oil for the first time to Cornish beaches; 100 miles of coastline between Perranporth and The Lizard were affected. On the evening of 26th March high seas and strong winds caused the ship to break her back, releasing possibly a further 30,000 tons of crude oil into the sea. On 27th March the Government decided that all hope of minimising pollution through towing away the ship or any part of her must be abandoned ; and the following day the ship was bombed by aircraft of the Royal Navy and the R.A.F. in order to set on fire the oil remaining in her.

Subsequent paragraphs of this paper describe the action taken so far on the Government's behalf and indicate how the Government propose to deal with the continuing threat of oil pollution from the Torrey Canyon and with the general questions prompted by this disaster.

II. The ship

The overriding concern of the Government throughout has been to preserve the coasts from oil pollution and to adopt the course most likely to achieve this end—irrespective of legal or financial considerations based on liabilities under international law.
There were three possible methods of disposing of the oil within the ship. First, to pump the oil out into other vessels. Secondly, to refloat the ship and to tow her away, with as much as possible of her cargo within her, as quickly and safely as possible. Thirdly, to burn the oil in the ship where she had grounded.

**Pumping the oil out.** The difficulty about the first course was that, owing to the danger of explosion, it was impracticable to install on board the generating equipment which would have been required to push the oil out. There was constant danger of a major explosion in view of the quantity of oil which had escaped, the presence of gas under pressure, and the pounding of the ship on the rocks. The chief salvage officer of the Dutch salvage team died, and other members of the team were injured, as the result of an explosion which took place on 21st March. The alternative course of having a small pumping ship standing off the Torrey Canyon and feeding into another tanker standing off in safer waters would have been prolonged and extremely hazardous even in calm conditions, and was quite impracticable in the conditions which prevailed.

**Refloating the ship.** The salvors hoped to refloat the ship. Although she was extensively holed, she retained a certain amount of buoyancy because the decks were completely sealed and the oil remaining in the tanks, being lighter than sea water, was for the most part held in position by the pressure of the water below and the strength of the deck above. The salvors intended to increase this buoyancy by pumping compressed air into the tanks.

Until the ship broke up the best professional advice available to the Government was that, although the chances of refloating were not as high as the salvors believed, this course still held possibilities of success. In this respect the interests of the Government and of the salvors coincided. Whether those interests would diverge at a later stage if the ship were successfully refloated was another matter; and since it seemed likely that the salvors would in the first place wish to bring the ship to some safe anchorage in the West Country or elsewhere in the British Isles, and might thereafter wish to tow her to a port in the United Kingdom, the Government made it clear to all concerned that they would not allow the ship to enter British territorial waters. The right of the Government to refuse admission to territorial waters was not questioned.

The possibility of cutting the ship, and towing away part, with oil still in that part, was considered. But this operation would have involved the difficulty of getting heavy equipment to the ship and a great risk of explosion, and had to be ruled out as impracticable.

Had the attempt to refloat the Torrey Canyon been successful, the Government were determined that the course taken by the tow should minimise the risk of further pollution. Their view was that the best course would have been to tow the ship into mid-Atlantic, if possible beyond fishing grounds and the influence of the Gulf Stream, and to sink her. They were prepared to buy out the salvors in order to ensure that they would have complete control over the ship immediately she was refloated. The worsening weather brought this prospect to an end.
Setting the oil on fire. The possibility of seeking to destroy the oil by setting it on fire was considered from the outset. But it was decided to hold this course in reserve, for three reasons. First, the solution of towing the ship away, if that proved practicable, was clearly better. Secondly, such previous experience as could be drawn upon was not encouraging; a tanker which caught fire in the Persian Gulf burnt for over two months and only a little more than half the oil cargo was consumed, leaving an obnoxious tarry residue. There was a serious risk that, so long as the ship remained whole, an attempt to set the oil on fire might be only partially successful and might indeed increase the risk of pollution instead of eliminating it. Thirdly, a problem on this scale was without precedence; and exploring possible means of opening the deck of the tanker, exposing the oil to the atmosphere, and setting it alight, was bound to take some time.

Investigations on this last point were however urgently proceeding, under the general direction of the Government's Chief Scientific Adviser. To tackle the problem on board would have involved a delicate piece of explosive surgery on the deck. Large charges would have had to be placed to weaken the deck at selected points and to explode immediately before the explosion of larger charges which would have been inserted into the tanks. This would have been a most hazardous undertaking, which could have been carried out only during a spell of favourable weather. Experiments held out greater hopes of being able to fire the oil on the sea. One thousand gallons of Kuwait oil was discharged on to a lake, artificial wind and waves were created and the oil set on fire by "bombs". All but 1 per cent. of the oil was destroyed. In the light of this experiment the necessary sodium chlorate "bombs" were tested for firing crude oil and sent to Cornwall, to be held in readiness, on the afternoon of Monday, 27th March.

A considerable change in circumstances had meanwhile taken place. Up to the afternoon of 26th March the attempts to refloat the ship were being pressed forward, and not without hopes of success. But the weather was further deteriorating, and on the evening of that day the ship began to break up. This created a new situation in which the chances of getting the ship away diminished almost to vanishing point. There was still some slight possibility of towing off a section of the ship, but this possibility disappeared during the following morning.

On the evening of Monday 27th March the Government decided to attempt to destroy the remaining cargo by opening the deck over each tank by HE bombs and setting fire to the oil.

On the morning of Tuesday 28th March all shipping in the area was warned, and the owners of the ship were informed of the Government's decision. In a series of strikes, the covers of the tanks in the ship which had remained intact were opened by bombs dropped by R.N. Buccaneers and aircraft of the R.A.F. in order to release the oil to set it on fire. Incendiary sodium chlorate "bombs" were dropped by R.N. helicopters, and napalm and petrol by the R.A.F., to ensure that all the released oil was burnt. The purpose of the bombing, it should be emphasised, was not to sink and destroy the vessel, but to open up what remained of the cargo tanks and to burn the oil in them.
The fire had to be rekindled by subsequent strikes; and practically all
the oil in the wreck and in the immediate vicinity was, it is believed,
destroyed by 30th March.

III. Oil at Sea

Even if it had been possible to contain the oil remaining in the ship
and destroy it in or close to the vessel, extensive pollution would have
been inevitable because of the spilling-out on impact, both in the sea and
along the coastline of South-West England. Quite apart, therefore, from the
measures which were taken to dispose of the Torrey Canyon and her
remaining cargo, immediate measures were taken to deal with the oil
which escaped from the ship.

Four hours after the Torrey Canyon ran aground, ships of the Royal
Navy were on their way from Plymouth with detergent. This was sprayed
on to the oil floating on the surface in order to emulsify and disperse it.
The operation was continued and extended during the days which followed
and commercial vessels were chartered in addition to ships of the Royal
Navy. The operation has effectively dispersed large quantities of oil and
is now being concentrated on areas close inshore.

Other possible ways of dealing with oil at sea were investigated. They
include absorbing the oil with materials such as tanners’ waste and
vermiculite, which would coagulate the oil and remain on the surface; and
sinking the oil by coagulation with particulate matter such as fuller’s earth,
fly ash, sand or cement. The possibilities of coagulation on the surface
are still being tested, but sinking the oil has been rejected, at any rate
for the time being, because oil carried to the bottom of the sea may later
be released. Fishing grounds are extensive in the affected areas, and carry­
ing the oil to the sea-bed might be more harmful than allowing it to
move on the surface.

Some ideas which have been put forward, such as the treatment of oil
slicks with carbon tetrachloride or other chlorinated solvents, would create
a situation more dangerous than the one which already exists because of
the toxicity of the agents proposed.

Booms are being placed in the mouths of suitable harbours, bays, inlets
and estuaries. The Government made plans to contain the oil in the
neighbourhood of the ship by means of a boom of expandable neoprene
blocks. But it proved out of the question to use it in the weather which
prevailed by the time the blocks were available on 28th March. This boom
was subsequently erected across part of the mouth of the Fal. A consider­
able number of other booms have also been constructed with great speed.

Work on the development of boom protection is being supervised by a
special Group at Plymouth consisting of naval and civilian experts. Advice
is being provided to local authorities and harbour interests on the designs
of booms which are best suited to particular local conditions.

Mechanical methods for removing the oil from the surface of the sea
are being used where local conditions allow, including the seaward side of
boom defences. They include sucking the oil from the surface in dredges,
and sucking the oil mixed with sea water from the surface and subsequently
separating the two. These methods require the use of gravel dredges fitted
with special pumps.
IV. Oil on the coasts

The measures taken by the Government prevented a great deal of oil from reaching the coast but in view of the amount discharged on the initial impact some oil, as was inevitable, was driven on to the beaches. The oil began to arrive on Saturday 25th March and more must be expected to reach the coast in the weeks to come.

The Government took immediate action to assist with advice the local authorities principally affected. On 19th and 20th March administrative and technical officers from the Ministry of Housing and Local Government went to Plymouth. Meetings took place with the Cornish authorities during 20th-22nd March and a memorandum of guidance was distributed to them on 22nd March. Since then, advisory staff has been built up at Plymouth and at the main centres along the coast.

Policy and advice for dealing rapidly with the situation—which is substantially affected by the weather and the chemical action of sea water upon the oil—must be flexible. Immediately, the local authorities were afforded demonstrations of beach cleaning methods, that is by the spraying of detergent shortly before the tide comes up and by hosing the beach subsequently. Local authorities have been instructed in other methods of treatment: for example, bulldozing the oil into lumps of critical size which can then be burnt either on their own or with the help of additives, and in giving effect to these various methods they have had advice from Headquarters at Truro and Plymouth as well as large scale assistance from the Army.

Experiments are continuing about the best method of dealing with rocky coves and with beaches which are heavily contaminated and of preventing the contamination of mud flats or saltings.

V. Danger to marine and wild-life: and air pollution

The Government are advised that deep water fishing will not be affected nor will there be any health hazard through eating the fish. Detergent may affect plankton in areas which have been heavily treated, but these effects will be local and confined to surface waters. In shallow and estuarial water, oil, and perhaps detergent, could affect shell fish; some oysters have been moved from their present beds to tanks and other grounds, and booms are being erected to protect creeks carrying oysters.

The Government have established liaison with national and local organisations responsible for the conservation and protection of wild life, such as the Nature Conservancy, the Council for Nature, the Royal Society for the Protection of Birds, the British Trust for Ornithology, and the Royal Society for the Prevention of Cruelty to Animals, and are keeping in close touch with fishery interests. Measures to deal with birds affected by oil are being co-ordinated by the R.S.P.C.A. It may be necessary to move small populations of specially rare species. Some areas important for wild-life will be protected by booms.

Monitoring arrangements have been made so that any air pollution due to burning of oil will be quickly detected.
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VI. Administration

An intensive study of all the possible means of preventing and mitigating pollution, and applying the remedies recommended in the varying circumstances of beaches along a deeply-indented coastline, has involved a large-scale combined operation. In the initial phase, the lead was taken by the Royal Navy, and the Parliamentary Under Secretary of State for Defence for the Royal Navy was sent to Plymouth on Sunday 19th March, as were a number of officials from the Departments most closely involved. In the light of Mr. Foley’s report Ministers that evening authorised an initial expenditure of up to £4m., without prejudice to any ultimate financial arrangements, in order that there should be no delay in building up the work of oil clearance. Mr. Foley’s task was to supervise arrangements for offshore work and for the procurement of detergent and other materials and equipment. The two other Services were rapidly called upon to assist and a pattern of co-operation with the local authorities was evolved for Cornwall and Devon which has subsequently been extended throughout the counties along the south coast.

A Working Party of expert scientists, under the Government’s Chief Scientific Adviser, were set up to consider the scientific problems involved: removal of any oil left in the wreck; destruction or dispersal of the escaped oil at sea; prevention of the oil reaching beaches, harbours and estuaries; removal of oil from beaches and harbours; and reduction of the biological hazards to marine, shore and bird life from both oil and detergent. The Working Party sought advice from other experts; had experiments carried out by Government and industrial laboratories; and screened numerous suggested methods to deal with the individual problems.

Local Headquarters have been established at Plymouth, with sub-offices at Truro and Exeter, to co-ordinate activity in Devon and Cornwall; at Portsmouth for Dorset, Hampshire, Somerset and Gloucestershire; and at Folkestone for Kent and Sussex. Each of these local Headquarters is in the charge of a Minister from the Ministry of Housing and Local Government, and the Minister of Housing, who is himself based on Plymouth, is in command on the spot.

Jersey and Guernsey are represented at the Portsmouth Headquarters, and men and materials are being sent from the mainland to the Channel Islands. Early warning arrangements have been made with the local authorities on the coast of South Wales and the same general pattern of cooperation has been built up as on the south coast of England.

A prominent feature in all parts of the threatened areas has been the readiness with which private people and local organisations of all kinds have contributed resources in labour, materials and equipment. The arrangements which were so swiftly made for the production and transport of detergent and other materials required a massive co-operative effort, which was maintained and developed even in the difficult conditions created by the bank holiday week-end.

The main brunt of dealing with the oil pollution on shore is falling upon the local authorities and they have shown both quickness and efficiency in dealing with the mess. Despite the help which they have received from the Government some of them could not have carried out the wide range
of extra work required without incurring crippling rate burdens. In addition, therefore, to other forms of direct help the Government are providing financial assistance through the following methods. Local authorities are not being asked to contribute towards the cost of detergents or towards the expense of troops used for clearance work. Moreover, Exchequer grant will be payable to local authorities to meet 75 per cent. of any additional expenditure reasonably incurred on actual clearance or on preventive measures. The Government have also announced that if, after the payment of this grant, authorities are left with a burden in excess of the product of a 2d. rate, additional grant will be paid.

The Government acknowledges the offers of assistance which have been received from all parts of the world and are particularly grateful for offers made by the President of the United States Administration. Men and equipment generously provided by the United States Third Air Force are now working on some south coast beaches.

It is hoped that the funds available to the voluntary bodies concerned with the preservation of wild life can be augmented by contributions which have been offered by many private people at home and abroad. It is not practicable to make use of all offers of assistance but a register of volunteers is being kept, and every effort will be made to take advantage of the services offered.

A team of French naval officers visited Plymouth on 24th March, offered assistance and discussed the methods being used to deal with the oil both at sea and on shore. Since then, the French authorities have received daily situation reports.

VII. The future

No balance sheet can at present be drawn up. Even the direct costs which have been incurred on Government account, mainly by the Ministry of Defence, cannot be identified whilst urgent operations continue. It will also be some time before the charges falling to local authorities and grant-aided from the Exchequer can be calculated. It is not likely to be possible to make an accurate estimate of losses already sustained by private interests of one kind and another; but present indications are that the scale of damage still in prospect is likely to be less daunting than at one time was feared.

The Government are re-examining the problems which may arise from the carriage of hazardous cargoes in or through waters where any accident may affect British interests. This will include an evaluation of the methods which have been used in relation to the Torrey Canyon and also of many other suggestions which this particular disaster has brought to notice.

The Government are now considering the lessons to be drawn in respect of national and international law and practice from the Torrey Canyon incident. They have taken the initiative in convening an early meeting of the Intergovernmental Maritime Consultative Organisation to consider what changes are now required in international maritime law and practice. The Government believe this to be the best means of bringing ships carrying oil
under closer control with a view to safeguarding coastlines and marine life against the increasing risk of large-scale accidents involving pollution. The law relating to international shipping is highly complex and in a number of respects quite out of date. Formulation of proposals to improve its condition will be pressed forward with urgency.
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CABINET

AGRICULTURE AND THE COMMON MARKET

Note by the Secretary of the Cabinet

In accordance with the Cabinet's instructions (CC(67) 14th Conclusions), the attached memorandum on the common agricultural policy of the European Economic Community and on the possibilities for easing our agricultural difficulties if we were to join the Community has been prepared by the Official Committee on the Approach to Europe. It is circulated for consideration by the Cabinet on 6th April.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

3rd April, 1967
PART I
The Common Agricultural Policy of the EEC

Basis of Community Policy

1. The Treaty of Rome provides that the Common Market shall extend to agriculture and to trade in agricultural products; and that a common agricultural policy shall be developed and fully implemented by the end of the transitional period, i.e., by end 1969. The Treaty defines the objectives of the policy as being to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilise markets, to guarantee supplies, and to ensure their delivery to consumers at reasonable prices. It also provides that in order to achieve these objectives a common organisation for agricultural markets should be established, excluding discrimination between producers or consumers anywhere within the Community, and that one or more agricultural guidance and guarantee funds may be set up to finance the agricultural system.

2. The Treaty does not prescribe the actual form which the common agricultural policy should take, nor the measures for establishing and operating the common organisation of agricultural markets in the various products. But, under the Treaty, the Community has since 1962 been adopting a series of detailed regulations and decisions to lead to the eventual establishment of a common market for agriculture and to give effect to a common agricultural policy. Some of the regulations have yet to be made, and in no case (except for some horticultural products) has the stage of full implementation of the common market organisation been reached. It will not be possible to assess the effects of the common agricultural policy by reference to practical experience of its full operation until some time after both commodity regulations and common prices have been in force. But sufficient detail has been settled for a meaningful summary to be made of its main elements:

   (i) the common organisation of markets for particular commodities;
   (ii) common price aims throughout the Community for particular commodities;
   (iii) arrangements for financing the policy;
   (iv) rules governing State aids to agriculture.
The Common Agricultural Policy of the EEC

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(i) the common organisation of markets for particular commodities;
(ii) common price aims throughout the Community for particular commodities;
(iii) arrangements for financing the policy;
(iv) rules governing State aids to agriculture.
3. In negotiating and applying the Common Agricultural Policy the Community has adopted a pragmatic approach. The condition of agreement among member countries, which on the essential elements of commodity prices and Community financing has been reached only with extreme difficulty, has often been provision for exceptions to the general rules. The present members, however, have been able to press for such exceptions as the price of their agreement to the arrangements in question. Our position would be much less favourable in this respect.

4. In detail the separate regulations for the various commodities differ quite widely, but they are all based on the same underlying principles. These are that the protection of national markets against supplies from other Member States should be progressively eliminated and a common market - freely open to all Community producers - established; that producers are to look to this common market for their returns, and not to price guarantees or subsidies; and that the common market shall be "managed" with the object of securing that it yields the appropriate level of returns to producers and in other respects serves the objectives of the common agricultural policy (see paragraph 2 above).

5. The common market is to be managed through various devices designed to support prices in the market. The operation of these devices can best be illustrated by reference to the cereals regulation. This defines the aim of the common organisation for cereals in terms of target prices, that is the prices at which the Community is aiming in operating its support system. The regulation provides for a target price for each of the various grains on the wholesale market at Duisburg (where local supplies are shortest in the Community). From the Duisburg target price, a deduction is made for cost of transport from Rotterdam (the main entry-point for supplies from outside the Community - i.e. from "third countries" - to the Duisburg market) to arrive at a threshold price i.e. the lowest price at which imports can cross the Community's threshold (frontier) without undermining the target price. The Community market is then protected against lower-priced imports by the imposition of levies, on all consignments entering the Community, representing the difference between the threshold price and the lowest price at which imports are being offered (c.i.f. Rotterdam) from any source. The levies are varied from time to time to reflect changes in the offer prices of cereals in the world market. Thus, once the target price has been determined the Community market is insulated from the effects of fluctuation in world market prices.

6. As a converse of the levies, export subsidies are payable to enable Community exporters to compensate for the higher internal prices and so compete in world markets. The common market organisation for cereals also includes arrangements for support-buying (e.g. for disposal as stock-feed) by official agencies at prescribed intervention prices set somewhat below the target prices.
7. The main features of the arrangements for other principal commodities are set out in Annex A. The commodity regulations themselves do not prescribe the levels of the various forms of common prices (see paragraph 9 below), nor do they lay down the manner in which finance is to be provided for export subsidies and market intervention (see paragraph 10).

**Common Prices**

8. The Community arrangements envisage the gradual adjustment of price levels for each commodity to a common Community level. For some commodities this is to be effected through the fixing of a community target (or comparable) price; for others the common producer price is expected to result from the establishment of a common market in the commodity in question. Common prices are being introduced for the major commodities in the Community at various dates up to July 1968. As a general rule, each commodity regulation provides for the separate fixing each year of the relevant common prices, though in practice the Six have tended to reach their decisions on prices and related matters in a series of "package deals", and are moving towards a single set of price decisions annually.

**Financing the Common Agricultural Policy**

9. The Community has, by regulation, created an Agricultural Guidance and Guarantee Fund. The Guidance Section subsidises improvements of a structural kind in agricultural production and marketing; the Guarantee Section finances market intervention and export subsidies. Under arrangements agreed by the Six for the period July 1967 - December 1969, Member States are to make Exchequer payments to the Guarantee Section equivalent to 90 per cent of the proceeds of levies on imports, and will meet the rest of the Fund's needs - that is, any balance required by the Guarantee Section as well as the requirements of the Guidance Section - by national contributions on a scale of fixed percentages. No decision has yet been taken on financial arrangements from 1970 onwards. In 1962 the Council decided that in the common market stage, receipts from the levies should go to the Community and be appropriated to Community expenses, but this decision has not been ratified by Member States.

10. Based on predictions of the levels of Community production, consumption, imports and exports of the various commodities, and of Community and world prices, the Commission have estimated annual expenditure from the Guarantee Section in 1970 at over £460 million. Under the present arrangements, applying up to the end of 1969, annual expenditure from the Guidance Section is limited to £100 million. Thus the estimate of total annual requirements for the Fund on which the Community is working amounts to some £580 million.
State Aids to Agriculture

11. The EEC's policy on state aids to agriculture - which would govern their attitude towards our production grants and other forms of assistance - has not yet been defined in detail. Article 92, in effect, prohibits state aids that distort competition between Member States (but what constitutes distortion of competition is a matter which the Council can decide under Article 94); Article 93 provides for a comprehensive review of aids in Member States and empowers the Commission (subject to any unanimous overriding decision by the Council) to require the abolition or modification of any that it deems to be incompatible with the Common Market. Generally, the market regulation for each commodity has included a provision applying Articles 92 to 94 to that commodity, and the Commission has subsequently examined and pronounced upon aids granted by Member States to the production of the commodity in question. So far this has been done on an ad hoc basis, but a Commission proposal for a regulation laying down criteria for judging whether particular aids are admissible is now under consideration. Under this proposal any aid specifically related to the price of a return for a particular product would be deemed incompatible with the Common Market. Exceptionally, however, member countries have in practice been allowed to breach this principle.

Comparison of EEC and United Kingdom Systems

12. The general objectives of the Community's agricultural policy (paragraph 2 above) are practically identical to those of our own, as set out in the Agriculture Act, 1947; but their methods for achieving these objectives are fundamentally different. The EEC is largely self-sufficient in temperate foodstuffs, whereas we import about a third of our requirements and have a complex network of international trading relations. In 1964 about one in seven of their total working population were engaged in agriculture, compared with about one in twenty-five in the United Kingdom. (Before 1964 both agricultural working populations were declining, theirs by about 5 per cent per annum.) And structurally, the Community's agriculture in general is far behind ours. These disparities largely account for the following essential differences between the EEC's regime for agriculture and our own.

13. Under the Community system producers' returns depend largely on how successfully market price levels can be sustained by the levies and tariffs on imports from third countries, by export subsidies and by market intervention for some commodities. If the management of the market fails to yield the desired result, the effect is felt by the producer. Under our
system, producers collectively are assured, in respect of each product, that their collective receipts from the market will be supplemented by deficiency payments to yield the guaranteed price determined by the Government for the product. Moreover, the individual commodity regulations in the Community, in general, separately provide for the fixing of relevant common prices each year; whereas under our system guaranteed prices are determined in the light of a comprehensive review of the industry's costs and incomes, production and consumption trends and not only commodity by commodity, and the industry has assurances about the minimum levels of the guarantees for a period of years ahead.

4. The second essential difference lies in the method by which support for agriculture is financed. Under the EEC system the main cost of support is borne directly by the consumer in the market prices paid for agricultural products and direct Government aid is largely channelled to improvements of a regional or structural kind. Under the United Kingdom system, broadly speaking, the consumer buys at the world market price, and farmers' returns are brought to the determined level by deficiency payments and direct grants at Exchequer cost.

5. The third main difference is in the regime applied to imports. The EEC system depends largely on raising the price of imports to a level which safeguards the essential interests of Community producers by preventing their market from being undermined. The United Kingdom system does not seek to raise the price of imports (except in the case of cereals, and then to prices far lower than EEC price levels), but guarantees to home producers an average a minimum return through the deficiency payments system. (We do however adopt other methods of regulating imports, primarily in order to ensure market stability and so avoid inflating the cost of deficiency payments to the Exchequer, as well as damage to the market of our suppliers, e.g. New Zealand. Bacon and butter are the best examples).

6. These differences find reflection in the generally higher level of market prices which the Community system seeks to maintain. The Community's common price structure also reflects the fact that most of the Six are high cost producers of cereals and that, historically, their cereals prices have been generally far higher in relation to livestock prices than has been the case in the United Kingdom. Producer prices for wheat in the Common Market are expected to be about 40 per cent higher than our own and for barley about 20 per cent higher. The common prices envisaged for other products in the EEC are in general nearer to the level of our own prices, but on the other hand higher cereal feed prices would put up costs for our livestock producers. A table comparing EEC and United Kingdom producer prices for the main commodities is appended at Annex B.
Implications of Adoption by the United Kingdom of the EEC's Agricultural Arrangements As They Stand

British Agriculture

17. The differences between the two support systems make direct comparison of producer prices very difficult. But on the basis of present United Kingdom prices and those so far fixed for the Community in the Common Market stage, adoption by the United Kingdom of the Community arrangements as they stand would have these results. Cereals (which account for 12 per cent of total farm sales) would be more profitable than now, and this combined with reduced profitability for some other commodities would lead to a substantial further expansion in cereals production from under 18 million tons in 1973 under National Plan assumptions to some 20 million tons. Beyond this, various physical and climatic factors increasingly limit the expansion of production. The higher beef prices in the EEC should provide some incentive to expand beef production (now 15 per cent of total sales). Higher feed costs would reduce profit margins on pigs, poultry, eggs and milk (which now account for about 50 per cent of total farm sales). In the absence of intervention arrangements for pigs (proposed by the Commission but not yet adopted), and given the risk of cyclical over-supply in a Community embracing the bulk of our overseas suppliers, our producers would face greater instability of returns than at present. Some sections of the horticultural industry would be severely affected by removal of their existing protection against favourably-placed competitors in the Community.

18. The changes in profitability for different commodities would lead to the need for a substantial redeployment of resources, especially capital. Broadly, northern and western parts of the United Kingdom, where farmers are largely dependent on livestock products, would be particularly affected. The degree to which they were affected would depend in part on whether we had to discontinue some of our direct grants (e.g. hill cow, calf and hill sheep subsidies) which are of special benefit to large numbers of farmers in those areas. It might be, however, that these could be replaced by regional and other grants approved and perhaps in part financed by the Community.

19. Our producers would no longer have the relative security provided by the price guarantees and long-term assurances, coupled with comprehensive annual reviews, under the Agriculture Acts. But because of the boost to cereals in particular, net farm income in total might be at least as good under the Community's arrangements as it is now. It would, however, be differently distributed between commodities, types of farm and regions - except, in the latter case, to the extent that changes in production could be brought about by methods approved by the Community.
Agricultural Imports from the Commonwealth

20. If we were to adopt the Community's agricultural arrangements as they stand, our agricultural imports from the Commonwealth would be affected by three main factors - the levy system, which would raise the price of Commonwealth supplies sharply and institute a small preference against them in favour of Community supplies; the reduction in our import needs following the stimulus to increased United Kingdom production (particularly of cereals); and the effect on consumption (e.g., of butter) of higher retail prices.

21. A serious problem would arise over New Zealand, whose agricultural exports to the United Kingdom (£176 million in 1964–65) account for nearly 50 per cent of her total exports. We take 85 per cent of her better exports (170,000 tons in 1964–65, worth £55 million) and 80 per cent of her cheese exports (80,000 tons, worth £17 million). There is no prospect of her finding alternative markets for anything like these quantities. Her position on butter would be further complicated if Denmark and the Irish Republic, both important producers, also joined the Community. New Zealand's exports of wool to the United Kingdom and the EEC are worth about £25 million and £45 million respectively, and these exports also would be at risk to the extent that exports of mutton and lamb were adversely affected. We take 80 per cent of her mutton and lamb exports (300,000 tons, worth £50 million). New Zealand's exports of wool to the United Kingdom and the EEC are worth about £25 million and £45 million respectively, and these exports also would be at risk to the extent that exports of mutton and lamb were adversely affected. We take 80 per cent of her mutton and lamb exports (300,000 tons, worth £50 million). The Community have not yet made a market regulation for mutton and lamb, but New Zealand's exports to the United Kingdom would face the common external tariff of 20 per cent.

22. The Community's proposed arrangements for sugar provide for individual national production quotas until 1975, and for levies on imports. (The French Overseas Departments share in France's national production quota and imports into the Community from one Associate - Surinam, a small exporter - enter the Community free of levies.) About 70 per cent of United Kingdom sugar consumption comes from Commonwealth countries under the Commonwealth Sugar Agreement, which runs until 1974, at prices much higher than the world price. A major problem would arise in reconciling the Commonwealth Sugar Agreement with the sugar regime of the EEC. Three of the Commonwealth countries involved (Barbados, St. Kitts and Mauritius) depend on sales of sugar and sugar products for over 85 per cent of their visible exports; Fiji for over 50 per cent; Guyana, Jamaica, Swaziland and British Honduras for at least a third. The Community is already a surplus producer of sugar, and EEC prices would stimulate production in the enlarged Community. The prospects are uncertain for the early negotiation of an International Sugar Agreement providing for the control of production and exports in the interests of more remunerative world market prices.
23. Among other significant Commonwealth supplies that would be affected are cereals from Australia and Canada and dairy produce from Australia. Apart from their concern over sugar, the Caribbean countries would also face serious problems if they were to lose their present highly protected markets in the United Kingdom for citrus, bananas, cigars and rum.

Balance of Payments

24. Acceptance of the Community's agricultural arrangements would adversely affect our balance of payments because of (a) the increased volume and higher cost of imports from the rest of the Community, and (b) the net cost of the United Kingdom's contribution, including the transfer of levy proceeds on imports from other sources, to the Guidance and Guarantee Fund.

25. Calculations made by officials have been based on a hypothetical comparison, at 1964-65 import prices, between what our situation would be if we were operating fully the Community's present arrangements by 1972-73 and the projected situation at that time under the conditions of our own selective expansion programme. Under the present financial arrangements we should be required to pay into the Fund 90 per cent of our levy receipts, and a fixed contribution. On the other hand we could probably expect to benefit from the Fund for market intervention (e.g. on wheat and barley), export subsidies, and aids for structural improvements. To allow for possible underestimates of the Fund's total requirements or our receipts from it, and for the wide margin or error inevitably involved in this highly speculative exercise, the net cost to our balance of payments has been put in the range of £175 million to £250 million. This estimate is based on the level of import prices in 1964-65 compared with the price levels adopted for the Common Agricultural Policy by the EEC, making due allowance for changes in the volume of domestic production up to 1972-73 and changes in the level of United Kingdom demand resulting from the higher EEC prices.

26. Changes in world prices before entry would affect the net cost to the balance of payments of adopting the C.A.P. In broad terms, a 5 per cent increase in import prices across the board would reduce the balance of payments cost of entry by some £50 million because we should in any event be already bearing this additional cost at the time of entry. On the other hand, insofar as world prices fell, as for some commodities they might, we should be foregoing the gain which would accrue to our balance of payments under our present system and the cost of entry would thus be correspondingly greater.
27. If world food prices should rise while we were operating our present agricultural support system of deficiency payments, the cost of the support system to the Exchequer would fall while the balance of payments burden of our food imports would rise; and the higher import prices would be reflected in the cost of living. If world food prices were to rise, and we were a member of the Community, the higher cost of imports from third countries would be offset by the lower cost of levy payments to the Community's Agricultural Fund, since the variable levies would fall pari passu with the rise in import prices - so long as the Community's price arrangements remained unchanged. And there would be no cost-of-living effect, nor any greater stimulus to domestic food production. The Community's agricultural system is, in fact, insulated against outside change as ours is not.

28. The Community might in such a situation be disposed to raise its own producer prices; and this may well happen anyway if the movement of prices in general and of wages should continue to be upwards with the inevitable consequences for agricultural costs. As to world food prices, there are factors which could make for higher levels in the 1970s for cereals and beef, though such factors are not in evidence for dairy products, sheep-meat and pigmeat and fruit; while the outlook for world sugar prices is quite uncertain, depending as it does upon the possibility of negotiating an international agreement for the control of production and sales. Those commodities (including tropical foods) for which prices might increase comprise rather less than half our total import bill. Therefore an increase of rather more than 10 per cent in the prices of these commodities would be necessary to achieve the same impact of £50 million on the balance of payments as would be achieved by a 5 per cent increase in food import prices generally.

Cost of Living

29. If we were to apply as they stand the Community's present arrangements and the prices envisaged thereunder, retail food prices in the United Kingdom would rise because (a) consumers would have to meet the full cost of home-produced food (now carried in part by the taxpayer under the deficiency payments system) and (b) the prices of imported food would be raised to the higher Community levels (for third country supplies this would be by means of levy). After allowing for changes in the pattern of consumption induced by the adoption of Community arrangements and prices, it is estimated that our food costs might rise by some £400-450 million at the wholesale stage. Given the uncertainty about the extent of any consequential addition for processors' and distributors' margins (e.g. on account of the higher inventory value of their stocks) the total increase at the retail stage could be anything from about £550 million to £770 million - equivalent to some 10 to 14 per cent on retail food costs of about £5500 million, or 2 ½ to 3 ½ per cent on the cost of living.
PART II

Possibilities of Easement of our Agricultural Difficulties

30. It became clear on the Prime Minister's tour of Community capitals, as the Cabinet were informed, that we could not hope to alter the basic elements of the common agricultural policy. The following paragraphs examine what might be done, short of this, to safeguard essential interests.

The Situation on Prices

31. The main problem our farming industry would face within the Community is not that overall production would fall, but that our pattern of production would be disrupted because the Community's pattern of prices is so different from our own. For the United Kingdom the Community's prices for cereals are much too high and its livestock prices (beef excepted) too low. Cereals are capital-intensive and livestock generally labour-intensive - though the small livestock, especially fowls, which can be kept in very large units are becoming the former rather than the latter. The United Kingdom has a more mechanised farming industry, the Community has much more farm manpower and even today a largely peasant economy. These conditions may well change with improved farm structure in the Community; but within the period that we should have to adjust to the common agricultural policy they cannot be expected to change enough to ease our problem significantly.

32. The Six are committed to re-negotiation, by the end of 1969, of their interim arrangements for the Guidance and Guarantee Fund but this does not imply a re-negotiation of their commodity arrangements. Price levels are fixed every year but early major changes in the price relationships of the major commodities are not to be expected. Any alterations we were able to secure would have to be piecemeal over a period.

Transitional Period

33. The United Kingdom's farm problem would therefore remain. So, too, would the balance of payments and the cost-of-living problems. We could slow their impact by negotiating an adequate transitional period for moving from our farm support system and our price levels to the Community's.
This would anyway be essential. We could not scrap our system and increase our wheat price, for instance, by 40 per cent overnight. The Six are evidently ready to agree to a transitional period. The question is how long it should be and what we could negotiate. The Six will effectively have had a period of some seven years to make ready for the full impact of the CAP. With our very different system of farm support, and with major price changes to make, we could reasonably aim to secure no less a period. We do not think it appropriate to consider in this paper what our negotiating position should be. It is clear that the longer the transitional period the more manageable would be the cost-of-living impact of the CAP (estimated at 2½ to 3½ per cent); the full balance of payments cost would likewise be incurred more gradually; and if the same transitional period were to apply to Commonwealth food imports for which special arrangements were not to be made, this would ease that problem.

**Commodity Regulations**

34. Community farm prices are not, however, the whole of the agricultural problem. There are also the commodity regulations for the organisation of the markets for farm produce, and these too the Six would expect us to accept. For some commodities we should be faced with problems which are not related, or directly related, to the prices set for those commodities. We would refer particularly to these commodities.

(a) **Milk and Milk Products**

35. Our system of market organisation is very different from that of the Community. We have a guaranteed price for liquid milk but not for milk products such as butter and cheese, which yield only the world price to our dairy producers. There is consequently every incentive to the Milk Marketing Boards, which market the milk for producers, to supply the liquid market in preference to others; and the returns to producers are seasonally varied so as to encourage the production of milk in the winter months, when it is more expensive to produce, sufficiently to ensure an adequate liquid supply.
36. The Community system does not give primacy to the liquid milk market. Only one-third of their output, against two-thirds in the United Kingdom, goes to that market. The remaining two-thirds goes for butter and cheese and other milk products, and their producers receive much the same prices for milk for those products as they do for liquid milk for the home. Three other points are pertinent. Firstly, the Community might question the retention of the collective marketing system of the Milk Marketing Boards as being contrary to the strict letter of Community doctrine; and milk producers would then have to sell to local dairies, who would have little or no incentive to supply the liquid market in preference to others. Secondly, the Community milk price for producers is now somewhat lower than our own, while our producers would have higher feed costs—because of the higher cereals prices—in the Community; so the maintenance of our present volume of production would be in jeopardy. Thirdly, the Community's system would foster summer rather than winter milk production.

37. Clearly we should be likely to face a winter shortage of liquid milk for the housewife. Nor could we be at all sure that the shortage could be met from elsewhere in the Community. This would create social and political difficulties, and there would at the least have to be some understanding that acceptance of the Community’s milk regulation and milk price should not be allowed to bring about an insufficient supply of liquid milk for the British consumer. The rational solution would be for us to maintain our existing arrangements for liquid milk including the present powers of the Milk Marketing Boards, while accepting the Community's regime for milk products. We would hope that the Community's new-found pragmatism would be helpful in finding a solution.

38. The special arrangement required for the continued supply of New Zealand butter and cheese would also bear upon the operation of the Community's milk and milk products regulation; but the meeting of New Zealand's needs would not remove the United Kingdom's liquid milk problem.

(b) Sugar

39. The Community’s sugar regulation provides for national sugar quotas for members, and a quota would fall to be fixed for the United Kingdom. The Community’s sugar price is higher than the present United Kingdom price. United Kingdom beet production should therefore be able to expand in some measure and we should seek to provide for this. At the same time we should want to arrange for supplies from the Commonwealth Sugar Agreement (CSA) countries to be continued to the United Kingdom market, for which they at present have assurances up to the end of 1974. Present CSA supplies and United Kingdom production together meet almost the whole of the United
Kingdom's consumption. In the interests of other members the Community might therefore prove willing to meet our C3A request, if at all, only at the expense of the United Kingdom quota. Accordingly we should need to establish generally before entry not only the C3A position but also that of the United Kingdom. The position on sugar is exceedingly complex and would necessarily be the subject of extensive detailed negotiations after entry.

(c) Plant

As stated in paragraph 48 above, in an enlarged Community our producers would face greater instability of returns if there were no intervention arrangements. The Community are thinking of introducing such arrangements, and this would accord with our needs.

The Problem of Adjustment

41. Assuming a lengthy transitional period of moving to the c.a.p., and the safeguarding of our position under the commodity regulations where this was essential, considerable numbers of our present farm enterprises would still become uneconomic over the transitional period, particularly in dairying, pig and poultry keeping and horticulture - and hill and upland farming if the special forms of help they now receive should not prove admissible in the Community. The West and North would in general be hit harder than the South and East. These farmers would either have to go out or switch to other types of production, and this would require fresh capital investment for which the smaller farmers at least would not have the resources. There would be a serious problem of replanning much of our farming, and this could not be done under the existing support system at the Annual Reviews since that system would be being phased out. Special assistance for readjustment to the c.a.p. would be necessary through some scheme of production replanning grants. We should require recognition of this need by the Six and should also seek their acceptance that the cost of the production replanning grants could properly fall as a charge upon the Community's Agricultural Fund. If this could be negotiated the balance of payments cost of the c.a.p. would be lessened over the transitional period, during which the production replanning grants would need to be payable.
The Balance of Payments Problem

42. At the end of the transitional period, however, we should still be left with the full burden of the balance of payments cost of the C.A.P. which has been tentatively estimated as being between £175 million and £250 million a year. A way would need to be found of reducing the balance of payments cost without running full tilt against Community doctrine. This might be done by pressing the Six to accept an arrangement under which the cost of our production grants would be met without limit of time from the Community's Agricultural Fund. These production grants are an integral part of our support system and at present amount to some £115 million a year - over and above the deficiency payments which account for the other £240 million of the cost of agricultural support. Some of these production grants would be likely to prove consonant with the C.A.P. and others not. We might have to accept that we should be reimbursed only for those production grants which were allowed to be continued; but we should bid for the reimbursement of our present expenditure, with the idea that any production grants which proved incompatible with the C.A.P. would be replaced by others. If this could be negotiated the balance of payments cost of the C.A.P. would be permanently diminished; and there would also be substantial savings to the Exchequer, over and above what was being saved on the deficiency payments, which would thereby have the means of meeting the cost of the production replanning grants if the Community were not willing to take them on charge as well as the existing production grants. It should however be borne in mind that since in principle levy payments are to be made after the transitional period not to the Agricultural Fund but "to the Community for Community purposes", there may be possibilities of alleviating the balance of payments problem elsewhere than in the agricultural field (e.g. possible recoupments for scientific research or aid to the less developed countries). In view of her interest as prime beneficiary from the Community Fund, and the potential magnitude of the United Kingdom contribution, France, for her part, can be expected to insist that the financial arrangements for the single market stage (i.e. after 1969) should be defined before our entry, thus covering the United Kingdom's position.

43. Lastly, there would be need to persuade the Six to agree to the introduction of a form of Annual Review for the better guidance and direction of the C.A.P. The National Farmers' Unions attach great importance to this; the previous Government pushed it hard in the 1962-3 negotiation; there are clear signs that the Commission (and the French farmers' organisations) are well disposed; and a Review arrangement would make good sense. By an Annual Review is meant an annual study of the economic condition and prospects of agriculture which would serve as a guide for any necessary adjustments of farm prices for the different commodities. This would need to be conducted at
at Community level with appropriate participation on the part of farm organisations. The Community Review might well be preceded by reviews conducted by the Member States at national level, which should assist the overall Review. This could be a most valuable means not only of associating the farm organisations of the Community with the development of the common agricultural policy but also of making the operation of the CAP more flexible and responsive to changes of circumstance.
1. The regulation for beef and live cattle provides for common guide prices (which it is considered farmers on average should receive in a normal year) supported by a common external tariff and variable import levies, by support buying at the discretion of Member States - within prescribed price limits - and by export subsidies.

2. The regulation for milk and milk products reflects the fact that the dairy industry in the Community, unlike that in the United Kingdom, is orientated primarily to the manufacturing rather than the liquid consumption market. There is a target price, which the system aims to yield to Community producers, for all milk sold during the year, through the operation of levies on imported dairy products, market intervention on certain products and export subsidies.

3. For pigs and pig products, poultry and eggs, there are no target prices. Imports from third countries are subject to levies comprising an element of protective duty plus a variable amount representing the prevailing difference between feed grain prices inside and outside the Community. Supplementary levies are imposed if frontier prices of imports fall below prescribed minimum levels (sluice-gate prices) based on reasonable costs of production. A proposal for market intervention arrangements is being considered for pigs, but not apparently for poultry or eggs.

4. The Community has not yet made a regulation governing the common market organisation for sugar, but it has agreed on the main features of the arrangements, which are basically similar to those for cereals. There are to be target and intervention prices for refined sugar, a threshold price and a variable levy on imports from non-Community sources (the French Overseas Departments counting as part of the Community for this purpose). In addition, there is to be a minimum beet price for Community growers and, between 1968-69 and 1975-76, production quotas on both a national and a factory basis. Limits are placed on the Community's financial responsibility for market intervention and export subsidies.

5. Under the Community’s regulations for horticultural produce, tariffs between Member States have to be eliminated and a common external tariff introduced. For fruit and vegetables common standards of quality are being applied to produce sold within the Community; support-buying and
export subsidisation, at Community expense, is provided for in respect of some commodities; there are minimum import prices, enforced by countervailing duties and on occasions suspension of imports, for produce from third countries; and financial assistance for the formation of growers' co-operatives to operate schemes for compensating growers holding produce off the market to sustain reserve prices. A market regulation for non-edible horticultural produce is due to be introduced by July 1968.

6. So far, there is no common market regulation for potatoes; protection from third-country imports is afforded by the common external tariff. Nor is there yet any regulation for mutton and lamb (on which there is a common external tariff of 20 per cent): the Community treats wool as an industrial product, and there is a nil duty on raw wool.
UNITED KINGDOM PRODUCER PRICES AND COMPARABLE EEC PRICES

United Kingdom Producer Price

<table>
<thead>
<tr>
<th>Product</th>
<th>1966/67 (Forecasts)</th>
<th>EEC Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat (£/ton)</td>
<td>25.3</td>
<td>35.5(1)</td>
</tr>
<tr>
<td>Barley (£/ton)</td>
<td>24.5</td>
<td>30.3(1)</td>
</tr>
<tr>
<td>Beef Cattle (shilling/live cwt.)</td>
<td>184.0(2)</td>
<td>228.3(2)</td>
</tr>
<tr>
<td>Pigmeat (shilling/score deadweight)</td>
<td>45.8</td>
<td>50.0(3)</td>
</tr>
<tr>
<td>Milk (pence/gallon)</td>
<td>38.0</td>
<td>37.2(4)</td>
</tr>
<tr>
<td>Eggs (pence/ dozen)</td>
<td>32.0</td>
<td>41.0(5)</td>
</tr>
<tr>
<td>Sugar Beet (£/ton)</td>
<td>6.1(6)</td>
<td>6.15(6)</td>
</tr>
</tbody>
</table>

The U.K. producer prices given above relate to 1966/67. At the 1967 Annual Review guaranteed prices for fat cattle, sheep and pigs, milk, wheat and sugar beet were increased, and for barley and eggs reduced. These changes will affect producer prices in 1967/68.

Notes:
1. Estimated ex-farm prices (average for July–June year) arrived at by adjusting the agreed intervention prices at Rotterdam for transport charges from farms and for the scale of seasonal increases.
2. E.E.C. price assumed at 95 per cent of the common guide price. This price relates to "average quality" cattle which are of a lower average quality than U.K. cattle certified under the fatstock guarantee schemes, to which the U.K. price relates. U.K. producers also receive calf subsidy, worth about 20s. per cwt.
3. Average of market prices during 1965 (calendar year) in the EEC for pigs of approximately 9 score deadweight.
4. Proposed ex-farm price; taken as being 95 per cent of the proposed target price.
5. Average of producer prices during 1965 (calendar year) in the EEC for standard quality eggs.
6. The United Kingdom producer price is derived from the guaranteed price by adjusting for transport costs. E.E.C. price is the proposed common price and includes the right of producers (not enjoyed by United Kingdom producers) to the return of pulp, worth about £0.6 per ton on the sugar beet price.

Producers in the United Kingdom and in EEC countries also receive various State aids which indirectly affect their returns but which cannot be quantified in terms of particular products.
PARLIAMENTARY PROCEDURE

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL

The Ministerial Committee on Parliamentary Procedure have considered the First, Second, and Fourth Reports of the Select Committee on Procedure and I now seek the agreement of the Cabinet to the recommendations of the Ministerial Committee that:

1. The proposal of the Fourth Report of the Select Committee on Procedure for an experiment in voluntary timetabling of the Finance Bill, backed by a new Sessional Order, should be adopted (paragraphs 2–3).

2. The Speaker should be authorised by resolution of the House, to set, at his discretion, a maximum length for any speeches at any stage of any debate (paragraphs 4–5).

3. The proposal in the Select Committee's Second Report for shortening the period of notice of the subjects of Private Members' Motions should be accepted, but decisions on the other proposals in that Report relating to urgent and topical debates should be deferred until the Select Committee have completed their work (paragraphs 6–7).

Finance Bill Procedure

2. In their Fourth Report of this session the Select Committee on Procedure discussed three possible changes in the handling of the Committee stage of the Finance Bill—(a) committing the whole Bill to a Standing Committee, (b) dividing it between a Standing Committee and Committee of the whole House, and (c) keeping the Committee stage on the floor of the House but applying a voluntary timetable to it. There were advocates within the Committee of each of the first two changes but the Committee plainly doubted whether either would commend general support in the House. On (c) they went on to say, however:

"Both those Members who favour sending all or part of the Bill to a Standing Committee and those who believe that no change should be made are . . . prepared to support an experiment in voluntary timetables for proceedings in the House and requiring a new Sessional Order . . ." (i.e., an Order to
allow Ministers to move a Resolution which could be debated for a short time setting up a Business Committee of the type provided for in Standing Order 43 with power to determine the number of days to be allotted to the Bill and its further stages and the allocation of time within the overall total).

3. The Ministerial Committee on Parliamentary Procedure were agreed that this proposal for a voluntary timetable should be accepted on an experimental basis and without prejudice to more radical changes in the future. It would make for greater certainty in the Finance Bill timetable, should avoid late night sittings, and could provide a precedent for the subsequent introduction of timetabling for all Bills. The proposed new Sessional Order, though it would enable the Government fully to protect its position if agreement on a timetable through the usual channels could not be obtained, would be more likely to be used (if it had to be used at all) in circumstances when such an agreement, having been obtained, subsequently broke down.

Length of speeches

4. The Select Committee's First Report of this session included a recommendation that speeches by back-benchers be limited to 15 minutes, and that front-bench speakers be invited by resolution of the House to limit themselves to half an hour. In the debate on procedure on 14th December, 1966, I said that we proposed to consider this further in the context of the report on SO 9.

5. The Ministerial Committee were opposed to this proposal on the ground that it would appear to create first-class and second-class Members and that it could be unfair to the back-bencher who was leading the attack, for example, on an opposed Private Bill or on a particularly contentious Order. Instead, the Ministerial Committee recommend an experiment whereby the Speaker should be authorised by a resolution of the House to declare, at any time in any debate, that he intended to limit all speeches to a specified length during a period also specified by him. It would be open to him to extend the time in any individual case if a Member was unduly interrupted. I understand that the Speaker would be willing to operate such an arrangement.

Urgent and topical debates

6. The main recommendations in the Select Committee's Second Report of this session are:

1. Relaxation of the operation of Standing Order 9

(a) Motions to adjourn the House for which leave is given under this order should be debatable, at the Speaker's discretion, at the beginning of business on the following day.

(b) The Speaker should be freed from following precedent, and required to give no reason, in admitting or refusing debates under SO 9.
(c) The rules for debates under SO 9 should be relaxed, e.g., so that they may include reference to matters excluded by the rules of adjournment debates, and any matters which could be brought within the scope of Ministerial action.

(2) Opposition opportunities for urgent debates
The Opposition should be able to take up to four half days on urgent debates with a limit of one such debate in a calendar month; these days would be drawn from their 29 Supply days.

(3) Private Members' time
(a) There should be a shorter interval between the choice of Private Members' subjects and debate (the present intervals average 16 days).
(b) Friday morning sittings should run from 10 a.m. to 5 p.m. to allow two debates.
(c) Monday evening debates on topical subjects selected by the Speaker should run for two hours (instead of half an hour).

7. The Ministerial Committee recommend that, apart from the proposal to shorten the period of notice of the subject of Private Members' Motions, a decision on the proposals outlined in the preceding paragraph 6 should be deferred until the Select Committee have completed their work and a balance can be struck between changes which would work to the benefit of Government and Opposition respectively.

R. H. S. C.

Privy Council Office, S.W.1.
5th April, 1967.
CABINET

THE FUTURE OF PRICES AND INCOMES POLICY: STATUTORY POWERS

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

The Cabinet invited me on 4th April (CC(67) 17th Conclusions, Minute 2) to circulate a memorandum assessing the implications for proposals for statutory powers as a whole of a decision to omit the power to prevent retrospective payment of a wage increase following the imposition of a standstill.

2. The object of taking powers beyond the present Part II of the Prices and Incomes Act is to secure moderation in prices and incomes increases. Since none of us believes that this can be achieved wholly or even mainly by statutory powers, we must plan on the assumption that there will be a considerable measure of voluntary support for moderation. But our immediate aim must be to damp down the reactions by management and unions to the lifting of standstill and severe restraint so that the transition is not too abrupt. Otherwise we could quickly lose much of the benefit which we have secured over the past nine months.

3. The Cabinet agreed that we should seek further temporary legislative powers for this purpose. I made clear my own view that if it was to be sufficiently effective such legislation ought to include the power to prohibit the implementation of pay increases with retrospective effect. But a decision by the Cabinet against the inclusion of provisions for this purpose would not, in my view, reduce the need for legislation. The maximum delay of one plus three months under Part II as it stands is too short. Settlements are already being made for implementation after 30th June and the Government will wish to refer some of them to the National Board for Prices and Incomes (NBPI). With the present maximum standstill of four months the parties would in such cases be free to implement the settlements during the second half of 1967. It is right, therefore, to extend the maximum period of delay to one plus six months in cases where the NBPI recommends use of the power to require a further standstill of three months after publication of its report.
4. But the dropping of power to bar retrospection makes it necessary to think again about our proposal to take power to require price reductions (as opposed to delaying price increases). It would be bound to strike management as a serious disturbance of a reasonable balance between the treatment of prices and pay, the more so because retrospective increase of prices is in most cases quite impracticable. There could be few cases in which the supplier could recoup himself for the lower price which the standstill had compelled him to hold for several months. Moreover, if subsequently a supplier tried to increase prices by a larger amount than he had previously notified, it would be open to the Government to refer him again to the NBPI with a consequential further standstill.

5. Much as there is to be said for taking power to require price reductions, I accordingly think that it would be impossible to justify this to management if we drop the power to bar retrospection. If, therefore, the Cabinet still consider this essential, then I think that we should seek the following temporary statutory powers:

(i) Power to enable the Government, at their own discretion, to implement recommendations by the NBPI that a price or pay increase should be deferred (or implemented in part or in instalments) for a further period after the Board has reported subject to a maximum of six months from the date of reference to the Board.

(ii) Power to secure a temporary reversion of a price or pay increase which has already occurred but which merits examination by the NBPI.

(iii) Removal of the cause of actions for breach of contract relating to the period of standstill and severe restraint (amendment of Section 30 of the Prices and Incomes Act).

M. S.

Department of Economic Affairs, S.W.1.

7th April, 1967
ATTENDANCE OF MINISTERS BEFORE SELECT COMMITTEES

Memorandum by the Lord President of the Council

The Ministerial Committee on Parliamentary Procedure have considered the problems which are likely to present themselves to Ministers when invited to give evidence before Select Committees. The Estimates and Public Accounts Committees, being concerned primarily with matters of administration, do not summon Ministers as witnesses. But the new Specialist Committees, which are not prevented from considering policy matters, have been encouraged to expect Ministers to appear before them. Influenced no doubt by this the Select Committee on Nationalised Industries are now inviting a number of Ministers to give evidence on a matter currently under investigation; namely the relationship between Ministers on the one hand and the Chairmen and Members of Nationalised Boards on the other. If, as we may expect, new Specialist Committees are added next Session, attendance before Select Committees may well become part of a Minister's responsibility to Parliament, nearly as important as his participation in Debates on the floor. It is important, therefore, to work out as soon as possible a code of practice for Ministers such as has been evolved at official level by experience of appearing before the Estimates and Public Accounts Committees. There is, in particular, a need for uniformity of practice between Ministers in relation to matters which may be sensitive in one Ministry but not in others.

2. The Ministerial Committee consider that a convention should be established with the Chairmen of Committees that Ministers, before giving oral evidence, should put in a written memorandum of evidence on the matters which the Select Committees wish to discuss with them. It should be understood that subsequent questioning will normally be confined to the scope of the memorandum. It might be wise to establish an arrangement that officials should continue to be the main source of evidence on matters of fact and administration and that Ministers will only appear where policy issues are being raised.

3. Whether Ministers should appear in private or in public session is a question on which no simple rule can be laid down. Similarly, if Ministers attend in closed session, no rule can be laid down whether they should seek to give evidence informally and off the record or whether they should simply confine themselves to requesting the exclusion from published evidence of specific passages or information which should not be disclosed in the public interest. Circumstances will obviously vary. It would probably be unwise, on a matter as delicate as the relationship between Ministers and Nationalised Boards,
for Ministers to give evidence in public session. On the other hand there might be no objection, for example, to the Minister of Agriculture's giving evidence in public to the Specialist Committee on Agriculture if that were his wish. It has been suggested that Select Committees might gain more from the presence of Ministers if the sessions were private and informal and no record of evidence was taken. But that is a matter for the Select Committees themselves and the Ministerial Committee do not think that it would be prudent for the Government to give the appearance of trying to strike a bargain about Ministerial attendance.

4. The Ministerial Committee think, however, that the Cabinet should decide clearly against Ministers giving in evidence or discussing:

(1) Information relating to the private affairs of individuals, individual companies or institutions on which any information held by Ministers or their officials has been supplied on a confidential basis. Relations with individuals, companies or institutions would be seriously jeopardised if any threat appeared to the seal of confidentiality under which information is now given.

(2) Information affecting national security which would normally be withheld from the House in the national interest.

(3) Matters which are the subject of sensitive negotiation with Governments or other bodies.

(4) Specific cases where the Minister has or may have a quasi-judicial or appellate function, e.g. in relation to planning applications and appeals.

(5) Matters on which Government policy has been decided and on which legislation is shortly to be presented to the House.

R.H.S.C.

Privy Council Office, S.W.1

7th April, 1967
CABINET

IMPLICATIONS OF ENTRY INTO EUROPE FOR MOBILITY OF LABOUR AND IMMIGRATION POLICY

Note by the Secretary of the Cabinet

The attached report which has been examined by the Official Committee on Approach to Europe is circulated for consideration by the Cabinet at their meeting on THURSDAY, 13th APRIL, 1967.

(Signed) BURKE TREND

Cabinet Office, S.W.1.
11th April, 1967
IMPLICATIONS OF ENTRY INTO EUROPE FOR MOBILITY OF LABOUR AND IMMIGRATION POLICY

Note by the Chairman of the Official Committee on Approach to Europe

The attached report, based on a study by a Ministry of Labour study group on mobility of labour and social policy, explains the provisions of the Treaty of Rome dealing with the free employment of workers within the European Economic Community (EEC) and examines their possible implications for the United Kingdom, especially for employment and immigration policy.

2. The report states that it is not yet known whether the next Regulation to be implemented under the Treaty, in the summer or winter of 1967, will complete the transition to free movement of labour, or whether it will provide for a final stage of the transitional period in which labour permits will still be required. The draft Regulation at present being prepared by the Commission does not provide for the abolition of any requirement that workers of other Community states should have a permit (in Belgium this permit is already given automatically on sole proof of nationality; in other countries the permit is given automatically if the immigrant has a job to go to), but the proposed new Regulation is only at a very preliminary stage.

3. Nor is it clear whether ultimately EEC citizens will merely be free to take up firm offers of jobs in member states, or whether they would have a right to obtain admission to any member country, including the United Kingdom, in search of work, provided that they can show that suitable vacancies exist. This point and the one in paragraph 2 above will need further clarification.

4. It should be borne in mind that right of free movement within the Community is based on nationality, not on residence or previous employment, and applies only to nationals of the European territories of the Community. Thus, Algerian citizens, or citizens of associated states, resident in or employed in one Community country do not and will not have the right to move freely to other Community countries. Even workers from French overseas Departments (such as Réunion and Martinique) do not qualify. The only exception, in the case of associated states, is Greece, where the Treaty of Association provides for free movement by the end of a transitional period (i.e. not earlier than 1973).
5. This means that we should not be required to allow entry to citizens of non-European territories or associated states, even after they had been admitted to another Community country and had worked there for a period. This means, in turn, that we could continue to give priority to citizens of Commonwealth countries, if we so wished over citizens of any of the Community's non-European territories or associates. It also means that citizens of Commonwealth countries would not, purely by virtue of their having been employed or resident in the United Kingdom, be entitled to move freely thereafter to other Community countries. For the position regarding the preference of Commonwealth citizens over Community nationals see paragraph 19.

6. A further point which the report brings out is that, at the moment, there is no surplus labour in the Community. Available Italian manpower is substantially less than the unfilled vacancies in other Community countries. In general it may be expected that such factors as language and climate would militate against any large influx of Italian labour into this country. In this connection it should be remembered that one of the greatest obstacles to growth is the shortage of labour - of the right kind and in the right places - and that on purely economic grounds an influx of labour is to be welcomed.

7. The member countries themselves have shown a pragmatic approach to the obligations of the Treaty relating to the free movement of labour and have paid special attention to the problem of achieving a balance between supply and demand in the Community labour market. They can be expected to recognise problems which the United Kingdom may experience in this field, particularly in the event of economic recession.

8. The report concludes that -

(i) The requirements by the Treaty of Rome on mobility of labour would not be likely to lead to any substantial additional influx of labour from the Continent to this country (paragraph 19). The availability of supplementary benefit without any conditions of nationality or residence (which has no parallel in the EEC countries) is unlikely to have any substantial effect (paragraph 20(a)).

(ii) Trade unions may be expected to see difficulties about abandoning the present arrangements for controlling the admission of foreign workers, and especially the ending of the system of consultation with the unions before permits for certain types of work are granted. This concern may be greater at local than at national level. There could also be difficulties if unions were faced with threatened or actual unemployment as a result of competition from EEC workers; the Trades Union Congress has expressed concern about the problem of the unemployed immigrant worker (paragraphs 20(b) and 21). To meet these anxieties we should wish to maintain for a transitional period, as other members of the Community did in joining, some safeguard to provide priority for national workers in particular areas or occupations and to retain some discretion on the timing of our giving it up,
(iii) In the United Kingdom we discriminate very little against business­men and professional workers on grounds of nationality and we do not think that acceptance of the Treaty provisions on establishment and services is likely to have much effect on the mobility of these classes of people. The more difficult aims of this part of the Treaty, like mutual recognition of professional qualifications, are not likely to be implemented for some years (paragraphs 29-33).

(iv) Entry to the EEC might lead to pressure for the adoption of a system of immigration control more on Continental lines, with the emphasis on internal controls rather than at the point of entry; and in any event in time it might prove impracticable to maintain our present methods (paragraph 18).

(v) The principal difficulty about accepting the provisions of the Treaty of Rome on mobility of labour lies in its implications for immigration from the Commonwealth. Our Commonwealth policy is to control immigration from both the Old and New Commonwealth because we wish, for sound reasons, to limit the numbers entering from the New Commonwealth and do not wish to be seen to discriminate in favour of the Old Commonwealth. If this Commonwealth policy remains unchanged, the provisions of the Treaty of Rome will result in preference being given to EEC citizens over immigrants from the Old as well as the New Commonwealth. This will give rise to pressure to alter our Commonwealth policy, e. g. by returning to unrestricted Commonwealth immigration or by discriminating between immigrants from the Old and New Commonwealth.

(Signed) W. A. NIELD

Cabinet Office, S.W. 1.
11th April, 1967
NOTE ON THE IMPLICATIONS OF ENTRY INTO EUROPE FOR MOBILITY OF LABOUR, MIGRATION AND EMPLOYMENT

The Treaty of Rome

1. Article 3(c) of the Treaty of Rome sets out as one of the Treaty's aims the abolition of obstacles to the free movement of persons, services and capital within the European Economic Community (E.E.C.). The provisions dealing with the free movement of workers are contained in Articles 48-51 of the Treaty.

2. Article 48 provides for the free movement of labour to be secured by the end of the transitional period i.e. not later than 1970. Subject to limitations justified by reasons of public order, public safety and public health, workers will have the right to accept offers of employment actually made and will have freedom of movement and residence for this purpose, and a conditional right to remain in the territory of a Member State after having been employed in that territory. All discrimination based on nationality affecting employment, remuneration and other working conditions is in consequence to be abolished. The Article does not apply to employment in public administration.

3. Article 49 empowers the Council of E.E.C. to lay down regulations which will progressively give effect to the intentions of Article 48 by 1970. These regulations are to cover such matters as (a) collaboration between national employment services, (b) the establishment of appropriate machinery for matching offers of and requests for employment and for balancing labour supply and demand in conditions which will avoid serious threats to the standard of living and employment in the various regions and industries and (c) breaking down obstacles to the freeing of the movement of workers or any which involve discrimination by nationality in the choice of employment.
4. Article 50 is concerned with the exchange of young workers and Article 51 with social service benefits.

Progress made by E.E.C. - Regulation 38/64

5. The Regulation currently in force and made under Article 49 of the Treaty is Regulation 38/64. It superseded Regulations 15 and 18 on 1st May, 1964 and is due to last until 31st December, 1967.

6. After that date the present Regulation is due to be replaced by a further Regulation, which is now being prepared. It is not known whether the new Regulation will represent the final implementation of Article 48 of the Treaty or whether it will be the final stage of the transitional period under which labour permits will still be required.

7. The present Regulation 38/64 applies to seasonal and frontier workers, as well as to those who move permanently. It includes the following provisions:

(a) the priority of the national labour market is abolished: E.E.C. nationals may take up employment on equal terms with "home" nationals in any member state, though permits are still required.

(b) Member states may, however, give priority, for a period of two weeks only, to "home" nationals in any occupation or region where there is a considerable labour surplus, except that under Article 6 of the Regulation this does not apply to foreign workers who have been employed for a minimum of one year.

(c) The rights of workers from other member states are defined. They include:-

(i) equal treatment with "home" nationals as regards their applications for vacancies;

(ii) the right to the same conditions of employment, pay and terms of dismissal as "home" nationals;

(iii) the right to housing on the same terms as "home" nationals.

(iv) the right to bring in dependants, including his or her spouse, children up to the age of 21 and dependent relatives in the ascending or descending line and also those of his or her spouse.
Moreover, member states must encourage workers to bring in all dependants who live with them, subject to the worker's ability to provide suitable housing for them.

(v) after a period of employment of 2 years in a member state the right to a permanent labour permit enabling the worker to take up any employment on the same conditions as "home" nationals.

(vi) the right to benefit from instruction in vocational training schools and rehabilitation centres.

(d) Employment Exchanges must give equal treatment to their own nationals and those of other member states.

(e) Legislation discriminating against the employment of foreign workers must not apply to E.E.C. nationals.

(f) Obligations of member states arising out of special relationships they may have with non-European territories are not affected by the Regulation. (Article 53 (3)). On the other hand, workers from such territories do not benefit from the Regulation in the territory of other member states.

8. The Regulations also provide for co-operation between Member States and the Commission in the operation of a vacancy clearance service. It provides for an annual report on the position of the labour market and that Member States should take account of this in giving priority to E.E.C. Nationals.

9. The Regulations provide for a tripartite Consultative Committee and a Technical Committee of officials from Member States to advise the Commission.

Experience in implementing Regulation 38/64 in E.E.C. countries

10. Under the terms of the Regulation, an annual report has to be issued. The report dated February, 1966 contained statistics relating to the first nine months of 1965 together with some estimates for the whole year and a graphical comparison with previous years. The statistics showed that between January and September, 1965, E.E.C. countries issued 688,000 permits to foreigners taking up first jobs in their countries. Of these, 220,000 went to E.E.C. nationals, the majority (198,000) to Italians, mostly for work in
West Germany and France. The remaining 468,000 permits were issued to nationals of countries outside E.E.C, mainly to Spaniards, Greeks, Portuguese and Turks. Many of the permits issued to Spaniards were for seasonal work in France.

11. The estimates show that the total number of permits issued has been increasing yearly since 1959. In 1959, about 220,000 permits were issued, some 140,000 (63%) of them to E.E.C. nationals. In 1965, about 950,000 permits were issued, some 300,000 (31%) to E.E.C. nationals. In both cases the majority of permits issued to E.E.C. nationals went to Italians. Thus, within E.E.C., the picture is of a drift from Italy to the North and West, but it is noteworthy that, despite the priority given to the E.E.C. labour market, member countries are making increasing use of workers from outside E.E.C. to meet their labour shortages. However, the total number of permits issued in the first 6 months of 1966 was about 339,000 compared with 391,000 in the same period in 1965, i.e. a decrease of 52,000 or about 13%. The figures for E.E.C. nationals alone for the same periods were about 129,000 and 151,000 respectively, showing a decrease of 22,000 or about 15%. Although community demand for labour fell, in August 1966 there were about 725,000 unfilled vacancies of which some 530,000 were in Germany. Italian manpower available was estimated at 160,000.

Present conditions for the issue of permits to aliens for employment in U.K.

12. Foreign workers are controlled under Article 4(1)(b) of the Aliens Order, 1953. This provides that a foreigner who wishes to enter the U.K. to take up employment must produce to the Immigration Officer a permit issued by the Ministry of Labour or the Ministry of Labour and National Insurance in Northern Ireland. No formal rules are laid down for the issue of permits and each application is treated on its merits. The issue of permits is subject to the foreigner not being under 18 years of age and to three general conditions:

(a) the proposed employment of a foreigner is reasonable and necessary in the circumstances;

(b) the employer has made adequate efforts to find suitable labour from among British subjects, citizens of the Irish Republic and
foreigners who are regarded as permanent U.K. residents;

(c) the wages and other conditions offered are not less favourable than those commonly accorded to British employees for similar work in the same trade and district.

Permit holders may not change their job without permission and their permits are valid for a maximum of one year in the first instance, although they can be extended. After 4 years in approved employment, the worker may be granted leave to settle permanently free from restrictions.

During the past three years, 1964-66 an average of 24,800 permits a year (representing 39% of the total of all permits issued to foreigners) have been issued to E.E.C. nationals for work in Great Britain. Of these, an average of 9,650 went to Italians, and this figure is rising.

**Aliens' Immigration Control**

14. Our present system of immigration control is based on a full examination at the port of arrival of all aliens who, under the Aliens Order, 1953, require leave to land from an immigration officer. The Order provides for the refusal of leave to land and removal without appeal of any alien who has insufficient means, who is coming to take specific employment without prior permission from the Ministry of Labour, who has been convicted of an extradition crime abroad or who is undesirable on mental or medical grounds. In addition, current policy allows for the refusal of leave to land on other grounds, e.g. the intention to take up unauthorised permanent residence or to look for work.

The consequences of entry into E.E.C. on immigration control

15. Entry into the E.E.C. and consequent compliance with the requirements of the Treaty of Rome would mean that the provisions of the Aliens Order and our accepted policy on the admission of aliens outlined above could not be applied to nationals of the E.E.C. countries who would be subject to Regulation 38/64 and its successor, and to Council directives No. 221 and 240. Directive No. 221 regulates the circumstances in which E.E.C. nationals may be refused admission on grounds of public policy or law and order, public safety and health, and makes provisions relating to appeals against refusal before removal. Directive No. 240 provides for the abolition of
restrictions on the movement and residence within E.E.C. of workers who come within the terms of Regulation 38 and of their families.

16. It is considered that the obligations which would devolve on this country to admit E.E.C. workers in accordance with Regulation 38 and these Directives could be provided for by administrative action under the Aliens Order. A particular problem arises, however, in relation to Northern Ireland where, by the Safeguarding of Employment Act (Northern Ireland) 1947, the employment of persons who are not Northern Ireland workers is prohibited without an employment permit except in certain cases; this will have to be further considered in consultation with the Northern Ireland authorities.

17. But it will be necessary to consider how far it would be practicable to maintain our system of immigration control in its present form. Provisional admission to this country pending appeal against refusal of entry is basically inconsistent with our present control arrangements, but this question is at present being examined by the Committee on Immigration Appeals, which is due to report within the next few months. Any appeals system that might be established following this report would almost certainly suffice to meet E.E.C. requirements.

18. The provisions of the Treaty of Rome reflect the present control arrangements in the member States, with the emphasis on an internal system of control rather than a control on immigration. Entry into E.E.C. might lead to pressure for us to alter our arrangements, to come more into line. It is not possible at this stage to be more specific about this aspect.
Economic and political aspects of the migration problems arising from joining EEC

19. Abolition of the priority of the national labour market removes the safeguards afforded to British workers by our present rules governing the issue of permits. The effect of this on the possible movement of workers must be conjectural. Unskilled labour has not generally been accepted here hitherto except for hotel seasonal work and for certain less attractive jobs and uncontrolled movements of surplus manpower from abroad could be embarrassing; but on the whole in present circumstances it does not seem likely that any influx would reach unmanageable proportions. It seems likely however that it will be possible to negotiate temporary safeguards for the protection of the national labour market in particular occupations and regions. As was pointed out in paragraph 11, EEC experience is that the number of workers coming into the Community from outside has increased more rapidly over recent years than the number of migrants from within EEC. From the estimates referred to at paragraph 10 above, relating to 1965, it would appear that while we issued fewer permits to EEC nationals than West Germany and France, the number of permits issued even by these two countries fell short of the numbers issued by us if permits issued to Italians are excluded. This would tend to confirm the impression that entry into EEC would not give rise to any special problems in terms of the volume of migration for employment from the rest of the EEC.

20. Political and other factors may present more serious difficulties.

Points which need to be considered are:-

(a) Whether the full implementation of the Treaty of Rome will confer on EEC nationals the freedom to look for work in the territory of other member states. When we were previously contemplating entering EEC in 1962, representatives of the Commission took the view that there would be no question of this. They envisaged that the vacancy clearing machinery would be retained and that in practice most workers who went to another member state to take up employment would do so through this machinery.
On the other hand they did not contemplate that movement would take place exclusively through this machinery or even that workers would be obliged to have a firm offer of a particular job before being admitted to a member state. They would have the right to be admitted if they could produce some evidence (including for instance a press advertisement) of a vacant job for which they were not prima facie unsuitable. In fact a recent report from our Labour Attache, Brussels, says that in Belgium although EEC citizens need a work permit they receive one automatically and do not have to be recruited officially or have a job to go to. If this practice is common and had to be adopted by the United Kingdom there would be some alarm in trade union and other circles. The Commission's representatives considered in 1962 that in practice any unregulated influx of foreign workers was not likely to be a large-scale problem since, in their experience, most workers were unwilling to move to another country without the firm offer of a job. But, whereas in the six Common Market countries migrant workers cannot qualify for social security benefit or assistance until they have actually started work, those who came to the United Kingdom could qualify immediately for supplementary benefit, even if they had never lived or worked in this country. This might possibly encourage a worker to choose the United Kingdom rather than any of the Six if he was leaving his own country in search of employment and was free to enter the other countries of the Community without an offer of employment. But it is unlikely that the Community would require its members to admit migrant workers who had no offers of employment or that any substantial number of workers from the Six would undertake a journey to the United Kingdom without any prospect of finding employment here.
Those who failed to keep their employment (having come here under Community rules) and who became a charge on public funds could not, it seems, be deported since the power to deport cannot be used for economic ends — Directive 64-221 — Article 2(2).

(b) Despite agreement with the trade unions at national level, there could be local difficulties if unions were faced with threatened or actual unemployment as a result of competition from EEC workers. Many trade unions are accustomed to consultation before permits are granted and might resent it if permits were granted automatically. In particular, unions in the entertainment field might have objections.

Anxieties expressed by the TUC

21. The implications of the Community's Labour Policy were raised by the TUC Economic Committee at a recent meeting with the First Secretary of State. Their main concern appeared to be the effect that the presence of unemployed immigrant workers from the Community, resident in the United Kingdom under the Community arrangements, might have on the employment prospects of British workers, particularly in the event of a recession. In this connection, the TUC Economic Committee raised the question of the rights of workers from the Community, who had lost their jobs after holding employment in this country, to stay here in search of further work. As indicated in paragraph 22 we expect to be able to make use of certain safeguards for national workers when there is a surplus of labour. These however would not necessarily apply (see paragraph 7b) to workers from EEC countries who had been employed in this country for a minimum of one year. We would nevertheless expect that the provisions in the Treaty of Rome for consultation between members would enable us to arrange for
suitable measures to be taken to control the flow of labour between countries in the event of an economic recession. We know that there was some anxiety particularly in Germany at the end of 1966 about the position of "foreign" workers vis-a-vis nationals but we understand that this referred to workers from non-member states e.g. Turkey, Greece and Spain. The European Commission recently, in reaffirming the principle of equality between Community nationals has also stressed the principle of priority for the Community labour market in view of the fall in the total demand for workers from other countries in the traditional "immigration" countries of the Community. It seems therefore that problems of the kind described by the TUC have arisen in the Community because of the presence of large numbers of workers from countries other than the Six rather than as a result of the movement of labour between the Six.

Safeguards for the national labour market

22. There are at present three types of safeguards to ensure that the equilibrium of labour supply and demand should not be upset:-

(i) During the transitional period, Member States may give priority to national workers for a period of two weeks in any occupation or region where there is a considerable labour surplus;

(ii) Under Article 29 of Regulations 58-64, the Commission produces an annual report on the position of the labour markets within the Community and Member States must take account of this when making their estimates for the following year in order to achieve a balance between offers of, and applications for, employment;

(iii) There is a general safeguard under Article 103 of the Treaty of Rome which provides for consultation between Member States and the Commission on measures to be taken in the light of prevailing economic circumstances.
It would help to overcome the initial misgivings mentioned above in trade union and other quarters if we were able to maintain a safeguard of the kind mentioned in (1) above, providing priority for national workers in particular areas or occupations for a transitional period as the other members of the Community did on joining. Presumably we could not maintain such safeguards indefinitely when they had been given up by all our EEC partners but we would wish to retain some discretion on the timing of our giving them up.

The problems of Commonwealth immigration

23. The Commonwealth Immigrants Act 1962 applies to citizens of other independent Commonwealth countries, to citizens of the United Kingdom and Colonies who derive their citizenship through a connection with an overseas territory, and to citizens of the Irish Republic. As the Republic forms a common travel area with the United Kingdom, Irish citizens are in practice free to come and go; but otherwise the control under the Act, including the provisions relating to deportation, applies equally to the citizens of all Commonwealth territories and the Irish Republic. Those who wish to come for employment are expected to obtain Ministry of Labour vouchers before coming. Voucher holders are entitled to remain here permanently and may change their job at will and vouchers are issued at a rate fixed from time to time by the Government. This is necessary because of the social problems that would be created by the large numbers of people of Asian or African race who would otherwise come here with their families in search of work, but it has been extended as a matter of principle to citizens of Canada, Australia and New Zealand on whom, however, there is no other need to impose an immigration control.
When it was decided to control immigration from the Commonwealth it was envisaged that vouchers would be issued at a rate which would enable not only specially qualified Commonwealth citizens to enter freely but also those with jobs to come to, and that there would be some vouchers available for would-be migrants who did not come within these two categories. On this assumption and on the assumption that the entry of an EEC worker into a member country would be contingent on there being a job available for him, our posts in Commonwealth countries were authorised in October, 1961 to say that it might be assumed that a scheme for control of Commonwealth immigrants would be no less liberal than the provision for EEC workers under the Treaty of Rome.

The rate at which vouchers are issued has however never met the demand, and has been progressively reduced in an effort to keep the inward flow of workers and their dependants within bounds. Since August, 1965, the rate has been 7,500 a year (excluding a special issue of 1,000 a year to citizens of Malta until the end of July, 1967 - by which time the position will have been reviewed). Vouchers are at present issued only to applicants with certain specified qualifications (doctors, dentists, trained nurses, qualified teachers, science graduates, etc. - Category B) and to those, whatever their qualifications, who have specific jobs to come to - Category A. Applications are so numerous that new applicants without the special qualifications listed may now have to wait for a matter of years before their applications are considered.

Commonwealth citizens are allowed to bring in a much narrower range of dependants than EEC nationals would be able (and encouraged) to do. Children of EEC nationals would, for example, be admitted up to the age of 21, compared with 16 for Commonwealth citizens' children. Grandfathers and grandsons of EEC nationals might also qualify. The stricter controls upon Commonwealth immigration introduced in 1965 were partly due to the fact that Commonwealth dependants were arriving in substantial and increasing numbers, and the issue is still very much a live one.
Possible effects on the present voucher scheme

27. How far accession to the EEC would be affected by the interpretation of Article 53(3) of Regulation 38/64 about the nature of special relationships with non-European territories (see paragraph 7(f) above) is not clear. Provision (a) for uniformity of operation for vacancy clearance within the Community; (b) the establishment of a priority system to clear vacancies as far as possible by a labour force of nationals of Member States and (c) the channelling of the efforts of Member States to the finding of adequate offers of, and requests for, employment such as those at present contained in certain Articles of Regulation 38/64 could affect our present practice of issuing vouchers to Commonwealth immigrants to fill particular jobs (Category A) if a surplus of manpower from EEC Member Countries existed in respect of that kind of employment. In practice, the issue of vouchers to Commonwealth citizens with special qualifications and skills who seek work in the United Kingdom (Category B) would probably not be affected since the qualifications now required before a voucher can be issued are in universally short supply.

Contrast between control of the Commonwealth citizen and freedom of movement for EU citizens

28. Even if accession to the European Community did not directly affect the administration of the Commonwealth immigration control, nevertheless, the contrast between the strict control over Commonwealth citizens and the freedom of movement we would have to accord to nationals of other Member States of the Community (and the wider range of dependants those nationals would be free to bring into the United Kingdom) would be very marked. Although it will have to be seriously examined, the middle course of lifting the control for citizens of the old Commonwealth countries (to which there would be no practical objection) would offend against the principle that the control should apply equally to the citizens of all overseas Commonwealth territories. It would seem most important that entry into the EEC should not restrict our freedom to seek the best solution of these difficult problems and to modify the Commonwealth immigration control from time to time in any way which may seem desirable.
Mobility Among Professional Workers and Businessmen

29. Articles 52 to 66 of the Treaty require the progressive abolition within the Community of restrictions on the right of nationals of a member state (whether physical persons or companies) to engage in non-wage-earning activities in the territory of another member state, whether or not the activity involves setting up an establishment in the other state's territory.

30. In 1961, the Council approved a programme to be completed by 1969 for the issue of directives aiming at the removal of discrimination in almost the whole of industry, in wholesale and retail trade, in public works contracts, in insurance and in certain liberal professions. So far only 18 of these directives have been approved and the Community have lagged far behind their time-table.

31. At present we discriminate against foreigners as such in certain limited respects e.g. not allowing them to be employed as masters and other certificated officers of certain British ships (or to hold such certificates). But in general our legislation and practice does not discriminate against foreigners as such. It does not seem therefore that the relevant provisions should present insurmountable problems for the United Kingdom or that in general they would have a marked effect on the movement of Community personnel into the industrial and commercial fields here.

Mutual recognition of professional qualifications

32. In the professions, the need to obtain the appropriate British (or British recognised) qualification is a practical deterrent to aliens who might wish to practise here. Article 57 of the Treaty, however, requires the Council (in order to facilitate access to non-wage-earning activities) to issue directives for mutual recognition of diplomas, certificates and other evidence of qualifications. The implementation of this Article, coupled with the removal of barriers to immigration from other member states, might well have an effect on mobility of personnel both ways in particular professions and activities. But mutual recognition of
qualifications particularly in the medical, para-medical and legal fields, and harmonisation of legislation as a corollary, may give rise to acute difficulties in the Six (as it would no doubt in the United Kingdom) and progress in the issue of directives is likely to be slow. It is therefore quite possible that at the time United Kingdom joined the Community (if she does) these difficulties would still be unresolved and the United Kingdom would be able to take part in the formulation of directives.

33. It should be noted that nothing in the Articles of the Treaty referred to above or in measures taken under them is to invalidate national rules prescribing special treatment for foreign nationals on grounds of public policy (ordre public), public security or public health. Nor do activities involving the exercise of government action come within the scope of the Articles. The Treaty has no requirement for discrimination in favour of Community nationals; it is assumed that the United Kingdom would be able to offer to Commonwealth citizens or citizens of non EEC countries the same treatment as would be required for Community nationals.

Conclusion

34. To sum up, it seems unlikely that United Kingdom membership of the EEC would lead to a substantial additional influx of labour from the Continent to this country (paragraph 19). The availability of supplementary benefit without any conditions of nationality or residence (which has no parallel in the EEC countries) is unlikely to have any substantial effect. (paragraph 20(a)). The trade unions may see difficulties about changing the present arrangements for control and consultation (see paragraphs 20(b) and 21). The provisions on mobility among professional workers and businessmen should not have much effect in the United Kingdom (paragraphs 29-33). Accession to EEC might lead to our present form of immigration control having to be modified (paragraph 17) and would create major difficulties in relation to our control of immigrants from the Commonwealth (paragraphs 27 and 28) and possibly from the US and from EFTA countries.
EUROPE: COMPARISON OF CEREAL IMPORTS
BY THE UNITED KINGDOM AND THE
EUROPEAN ECONOMIC COMMUNITY

Note by the Secretary of the Cabinet

At their meeting on 21st March, 1967 (CC(67) 14th Conclusions) the Cabinet asked for comparative figures of imports of cereals by the United Kingdom and the European Economic Community. These are attached.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

11th April, 1967
### CEREAL IMPORTS - 1965-66

#### UNITED KINGDOM - CEREAL IMPORTS - 1965-66

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(a) Wheat includes flour in terms of wheat equivalent.

#### UNITED KINGDOM - CEREAL IMPORTS - 1965-66

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(a) Wheat includes flour in terms of wheat equivalent.
CABINET

THE THIRD LONDON AIRPORT: DRAFT WHITE PAPER

Note by the President of the Board of Trade and the Minister of Housing and Local Government

At their meeting on 6th April the Environmental Planning Committee approved our proposal to establish a third London Airport at Stansted. The First Secretary of State has arranged for the Chairman of the Regional Economic Planning Council for the South East to be informed of the Government's decision.

2. We are accordingly circulating herewith the text of the White Paper which it is the intention to publish on Monday, 17th April.

D. P. T. J.,
A. G.

Board of Trade, S. W. 1.

12th April, 1967
Contents:

Section I  - Introduction

   II  - Need for a third London airport

   III - Role of the third London airport

   IV  - Consideration of the Inspector's report

   V   - Alternatives to Stansted

   VI  - The case for Stansted

   VII - The Government's conclusions and their implementation

   VIII - The next steps

Appendices
1. The report of the Inspector on the Stansted Public Inquiry and the Government's decision on the report have now been made public. This White Paper explains the reasons for the Government's decision.

I - Introduction

2. The Interdepartmental Committee on the Third London Airport, which reported in 1963, found that a third airport would be needed for London, probably in the early 1970s. They recommended that the new airport should be suitable for all kinds of traffic and should be capable of development to a large capacity without restricting the capacity of London's present airports. They found that the area in which such an airport could be sited was severely limited by considerations of air traffic routeing and of ground access. A large number of sites were considered by the Committee, over a dozen of them in some detail; and of these they concluded that Stansted, though not ideal, was by far the most suitable for a third major airport for London. Stansted's main advantages were, they considered, that -

(a) its choice would permit the development of a satisfactory air routeing system for both Heathrow and the new airport,
(b) part of the site was already in use as an airport and the surrounding terrain was suitable for airport development,
and (c) in comparison with the principal alternatives it was near to London and had the promise of satisfactory access.

3. In publishing the report on the Interdepartmental Committee in 1964, the previous administration endorsed their conclusion that Stansted was the right site for London's third airport. Full public discussion of the report was expected and welcomed. As part of this process of discussion, the present Government appointed an independent Inspector, Mr. G. D. Blake, M.A., F.R.I.C.S., F.A.I., to hold a public local inquiry to hear and report upon local objections to the proposal. On aviation matters of a technical nature the Inspector had the assistance of a Technical Assessor, Mr. J. W. S. Brencker.

4. The Inquiry opened on 6th December 1965 and ended on 11th February 1966, after sitting for 31 days in all. Its purpose was
defined as follows:­

"To hear and report on local objections relating to the suitability of the choice of Stansted for an airport and the effect of the proposed development on local interests. It will be open to objectors to suggest modifications to the outlined scheme of development or to propose alternative sites, but not to question the need to provide a third major airport to serve London."

5. The Inspector submitted his report at the end of May 1966. He did not give a firm recommendation either for or against development of Stansted as London's third airport, but considered that a further review should be undertaken of the whole problem. In the ensuing months the Government accordingly carried out, in the light of the Inspector's suggestion, a comprehensive and searching re-examination of the many complex issues. The results are set out in the Sections that follow.
II - Need for a third London airport

Traffic forecasts and capacity at the London airports

6. The need for a third London airport depends fundamentally on two considerations - the capacity of the existing major London airports (Heathrow and Gatwick) and the likely growth of the traffic wishing to use them.

7. The capacity of an airport, measured in terms of aircraft movements (i.e. landings and take-offs) per hour, depends, first, on the number and layout of its runways and their dimensions; secondly on the air traffic control procedures in operation (which are governed in turn by prevailing weather conditions, by the state of navigational technology and by considerations of safety); thirdly, on local factors, such as the existence of other active aerodromes nearby and the sensitivity of the surrounding area to noise. When credit is taken for the improvements that can be expected in ATC and piloting procedures and technology, these considerations point to maximum sustainable hourly capacities in all weathers at the existing two London airports of 64 movements an hour at Heathrow and 45 movements an hour at Gatwick in the early years of the next decade. Higher rates of movement than this will be achieved from time to time, but if a higher sustainable capacity is used for airport planning an unacceptably high incidence of delay and diversion will result.

8. The figures of capacity given above, however, presuppose a number of projected developments; but it is not yet certain that all of them will materialise. They assume, for instance, the lengthening of the No. 1 runway at Heathrow and the construction of a second runway at Gatwick, both of which may be the subject of public inquiries; they assume the extension westwards of the controlled airspace of the London Terminal Area, and the successful operation of new air traffic control procedures that have yet to be fully proved, notably the scheme for the independent use of parallel runways at Heathrow; and they assume no significant change in the degree of restriction on the capacity of either airport arising from noise control measures. Thus, the figures given above represent the highest rate of movements it will be possible
to sustain; in practice any one of several factors may cause actual capacity to fall short of this.

9. The next step in assessing the need for the third London airport is to produce forecasts of the growth of London's air traffic over the next 15 years.

10. The forecasts contained in the Report of the Interdepartmental Committee on the Third London Airport (which were prepared in 1962-63) have accordingly been reviewed and new forecasts produced. These new forecasts are based in the first place on an analysis of the growth of United Kingdom air traffic in the past, taking into account actual traffic figures in the years since the preparation of the previously published forecasts. An examination has also been made of the total market in the United Kingdom for international travel and the share that air transport has occupied, and might in future occupy; and account has been taken of the likely effect of the Channel Tunnel. On that basis three forecasts of air passengers using the London airports have been devised - forecasts almost certain to be exceeded (the "lower limit"), forecasts unlikely to be exceeded (the "upper limit"), and most likely forecasts. The future size and average loading of aircraft have been estimated, including the use of "jumbo" jets, and this data has been used to convert the forecasts of passenger traffic into forecasts of aircraft movements.

11. The tables in Appendix 1 show the traffic figures for London over the past six years and the forecast of London's traffic from now until 1980. They also provide an indication of the present division of traffic between London and Gatwick and a forecast of how Heathrow's traffic will develop in the next few years.

12. Table 2 of Appendix 1 shows that on the most likely forecast of the traffic growth Heathrow traffic will exceed airport capacity in 1970. By further spreading of peaks and by transferring movements to Gatwick, this date can be put back; but in the absence of such measures, the third airport would have to be in operation by 1969, since at least one year is needed for the orderly transfer of movements to it.
The question therefore is: how far can the growth of Heathrow's traffic after 1969 be absorbed by further peak spreading at Heathrow or by the use of spare capacity at Gatwick?

13. For many years now there has been some peak spreading at Heathrow, and the problem is to assess how far it is possible to continue the process of peak spreading and yet offer an adequate service to airlines and their passengers. It is clearly impracticable to expect traffic to move from the summer peak to the winter trough, or to expect passengers who are seeking a speedy mode of transport to change their chosen day of travel to any significant extent.

14. There remains therefore the possibility of spreading peaks through the hours of the day. This depends first on the amount of spare capacity in the non-peak periods (the "troughs") of the day - Heathrow's capacity during the night hours, 11.30 p.m. to 6.00 a.m., is already strictly limited by the Government in the interest of noise control; secondly on the extent to which airlines can spread their schedules; and thirdly on the ability of the air traffic control system to handle the resultant pattern of demand. There are obviously uncertainties in the evaluation of these factors; but after a careful study the Government considers that, against the rate of traffic increase foreshadowed by the "most likely" forecasts in Table 1 of Appendix 1, enforced peak-spreading at Heathrow could postpone the need for new airport facilities by up to three years.

15. The scope for the transfer of services to Gatwick after Heathrow has reached saturation will depend on the capacity available at Gatwick, and this will depend on whether a second runway can be provided. With one runway Gatwick has, in theory, the potential to accept three years growth from Heathrow. With two runways Gatwick would, at most, have a five-year potential. How far this potential could in fact be realised cannot be precisely determined at present, but it will hinge upon how far airlines have scope for moving individual services, or blocks of services, to Gatwick. This in turn would be affected by the likelihood that in future years these (or other services) would again be moved to a third airport. Taking these considerations into account the
Government believes that transfers of traffic from Heathrow to Gatwick might put off the need for a third London airport by two to four years, depending on the availability of a second runway at Gatwick.

16. By applying these estimated postponements to the date by which a new London airport would otherwise have been required - 1969 - we arrive at a new date of 1974 or 1976. This date cannot, however, be regarded as a reliable estimate of when a third London airport will be required: it assumes not only that it will prove possible to expand both Heathrow and Gatwick to their full planned capacities - and this, as explained above in para. 8, is by no means certain - but also that it proves possible to achieve the degree of peak-spreading contemplated in paragraph 14 above. The assumptions made here about movement rate, peak-spreading, and transfers to Gatwick point to the mid-1970s as the time by which a third London airport would be required for a substantial volume of traffic. Were any of the assumptions invalidated, the Interdepartmental Committee's forecast of "the early 1970s" would be the most likely estimate.

17. The Government is therefore convinced that there are no grounds for expecting that the need for a new airport to serve London can be postponed beyond the middle years of the next decade, and believes that in practice the requirement for the airport may come rather earlier than this.

Development of regional airports and air services

18. The question of the need for a third London airport was explicitly excluded from the scope of the Public Inquiry (see para. 4 above). Nevertheless it is often suggested - and the Inspector himself hinted at the possibility in his report, paragraphs 46 and 47 - that the need for a third London airport could be avoided, or at any rate indefinitely postponed, by the further, and possibly induced, development of regional airports and air services. Superficially, this is an attractive proposition from the point of view both of London and of the main provincial centres. It conflicts, however, with the weight of available evidence.

19. First, it is clear that most of the problems the regions may have
in respect of civil aviation are connected with air services rather than airports. Nearly every part of the country is already provided with good aerodrome facilities, which are, except in the case of London's main airports, generally under-utilised and uneconomic, while Prestwick and Manchester (as developed) afford good facilities for intercontinental services.

20. The argument must be, therefore, that provincial air services should be promoted and developed in order to avoid the need for a third London airport and this in turn relies on the assumption that much of London's present traffic is, in fact, potential provincial traffic compelled to pass through the London airports because London is the only centre with the required spread and frequency of services. This does not correspond with the realities of the situation. Air services at London and at the provincial centres are complementary. The Government seeks to encourage the development and growth of air services both in the regions and in the growing market in London and the South-East. Subject to the obtaining of traffic rights from other countries where necessary, it is for the airlines to mount and operate air services whenever they foresee a demand that can be met economically. Experience has shown that the airlines are in fact prepared to run commercial risks by starting up unprofitable services where there is a reasonable hope that the traffic will before too long build up to a profitable level.

21. Furthermore, a survey conducted for the Board of Trade by the Social Survey in 1965, of the origin and destination in the United Kingdom of international passengers passing through Heathrow and Gatwick, indicated that as much as 80 per cent of London's international traffic is generated by the London conurbation and South-East England.* This survey was not conducted on such a scale that its results can be accepted as of great precision but it gives sound indications of the broad orders of magnitude. In addition, the continuing International Passenger Survey of the Board of Trade provides some evidence in confirmation: it

*In this context the expression "South-East England" means the area covered by the South-East and East Anglia Economic Planning Regions.
shows that two thirds of the holiday visits and three quarters of the
business and other visits by overseas residents are spent in one location
in the United Kingdom. London is the most popular place for all such
visits. Of visitors travelling by air about 60% stay at London only. Of
the remainder, half include London in their itinerary. There is not
doubt that London is the main attraction for the substantial number of
overseas residents travelling on international flights into and out of the
London area airports.

22. If, then, say 20 per cent of London's international passenger
traffic is generated by regions outside South-East England this
might amount to a demand for direct services between the regions and abroad
of a little over one million one-way seats a year at present traffic
levels, or about 3 million one-way seats a year by 1975. In fact, of
course, some of the international travellers generated by the regions
will always wish to pass through London for personal or business reasons.
It is, therefore, only the residues that represent the true frustrated
demand for direct air services between regional airports and abroad.

But these passengers do not represent demand at any one regional airport;
they are spread throughout all parts of the United Kingdom. Moreover,
the potential demand at any one regional airport is further greatly
fragmented because of the very many different destinations to which
passengers wish to travel. Thus, the potential demand for new direct
services between regional airports and overseas is split up into fragments
most of which are so small as not in the foreseeable future economically
to justify a direct air service. It is likely that, at most, a fifth
of the total potential demand - say 250,000 one-way passengers now,
rising to 600,000 in 1975 - represents demand that it may be practicable,
by one means or another, to divert from London to regional airports.
Passenger traffic of this order, however, corresponds to no more than
half of one year's growth of traffic through London, so that its diversion
to regional airports could only defer the requirement for a third
London airport for, at the most, one year.

23. There is no doubt that the number of services operating directly
between regional airports and overseas will continue to increase, as it
has in the past. The Government welcomes this trend, and has taken full
account of it in the traffic forecasts given earlier in this Section; but it is nevertheless forced to the conclusion that this factor will not significantly affect the need for a third London airport or the date by which it will be required.

The significance of freight traffic

24. The current fast growth of air freight has lately received publicity, and has provoked the suggestion that the right way to handle freight traffic in the long-term may be to build an airport, not necessarily close to London, that would be devoted entirely, or almost entirely, to the handling of air freight and would serve as an air freight centre for the whole country. Whatever the merits of this idea, it is unlikely for the reasons given below to affect the dates when the London airport will be required, set out in paragraph 16.

25. In the first place the recent fast growth of air freight has only taken place at the London airports; it has not been reflected in other parts of the country. Secondly, it is noteworthy that more than half of all freight is carried on passenger flights: not only does this immediately tie a large proportion of freight handling to passenger airports, but it also creates a bias in favour of the handling of all-cargo aircraft at the same airports because of the need, which the airlines recognise, for a fully integrated freight service including expeditious interchange arrangements. Moreover, whether or not the growth of all-cargo operations at the London airports continues, the growth of London's passenger traffic forecast in Appendix 1 will by itself necessitate the provision of a third London airport by the mid-1970s.
III - Role of the third London airport

26. In Appendix 1 to the report on the Public Inquiry (paragraph 47) it is suggested that no thought has been given to the possibility of using the projected airport for short haul traffic only. As the report says, this possibility, if accepted, would mean that there could be a limitation on the length of runways required and, therefore, other sites than those mentioned at the Inquiry could come into consideration. This view is not entirely consistent with the suggestion in paragraph 45 of the same Appendix that the site for the third London airport should be capable of being enlarged. In fact much thought has been given to the role of the proposed airport.

Nature of traffic at the third airport

27. Apart from Heathrow the United Kingdom possesses only two airports planned to cater for all kinds of long haul operations - Prestwick and Manchester. For London and the South East generally there is another major airport at Gatwick, but apart from diversions it is suitable only for short and medium haul traffic. Gatwick's present runway is considerably shorter than the two main runways at Heathrow and, though it can be extended, the topographical features of the site will never allow it - or the projected second runway - to accept all kinds of long haul traffic without restrictions. This means that the role of Gatwick will continue to be that of an airport for short and medium haul services and for diversions. Its position south of London makes it eminently suitable to cater for the numerous services of this type between London and western Europe.

28. The density of development around Heathrow and the noise problem arising from its particular situation make it almost impossible to develop Heathrow further by the construction of additional parallel runways. Thus, when Heathrow becomes saturated, more and more of its growing traffic will have to be transferred to Gatwick and (later) to the third London airport. If neither Gatwick nor the third airport were able to take long-haul aircraft, the whole of the transfer would consist of short and medium haul services. This would progressively upset the balance of services that continue to be provided at Heathrow, turning
it increasingly into an exclusively long haul airport. The effects of this would be that:

(a) interchange facilities at Heathrow would be progressively reduced;

(b) the inevitable moves from Heathrow to one of the other London airports by foreign, as well as British, airlines operating short-haul services would be even more unpopular than otherwise, and in that situation retaliation must be expected against our national airlines in foreign countries;

(c) traffic growth at the London airports would be stunted because long and short-haul services act as feeders to one another and some passengers would prefer to change services at, say, Paris and Amsterdam rather than suffer the inconvenience of long journeys between London's airports;

(d) the revenues of airlines using London - notably of course, British airlines - would suffer, and so, consequently, would the revenues of the British Airports Authority;

(e) passengers having no other choice open to them would have to travel between the London airports, thereby adding unnecessarily to traffic on the ground;

(f) all this would reduce London's attractiveness as an international air traffic centre and interchange point, with long-term adverse effects on our tourist trade.

29. For all these reasons, and to provide the greatest flexibility for the organisation of London's air traffic as far ahead as possible, the third London airport should be multi-purpose (i.e. it should cater for long, medium and short haul services, both passenger and freight). A multi-purpose airport also needs to be able to cater efficiently for traffic to all points of the compass, or as near that ideal as practicable.

Capacity of the third airport

30. It has been suggested that the new airport should be big enough to meet all London's future air traffic needs, so as to release the ground occupied by existing airports for other purposes and to remove the disturbance created by air traffic to an area where it would be of
little importance. The Government has investigated the practicability of providing such an airport.

31. To meet London's forecast traffic demand in the 1980s, an airport incorporating three pairs of parallel runways would be needed. (The number of runways would be greater if they were not all parallel.) Such an airport would have to be at least four miles in width, in order to ensure safe separation in the air for three parallel traffic streams. This compares with one and a half miles for an airport with two pairs of parallel runways. Moreover, in order to achieve a simple ground movement pattern, the airport might well extend in length to seven miles. An airport with not all its runways parallel would require an even larger area, as the runways would have to be sited so as not to cross, nor to be crossed by, taxiways.

32. Thus a single London airport would require a very large site. The search for a suitable site for the third London airport has shown that no area of the size required for an airport at which more than two pairs of parallel runways could be in use at any one time exists within convenient reach of London. In consequence it will not be possible to build an airport capable of taking all London's traffic in the 1980s. It may also be undesirable, since a very large airport would give rise to considerable difficulties in the ground handling of aircraft and in the transfer of passengers to and from the city centre.

33. Nevertheless, the great difficulties experienced in providing and agreeing a site for a third London airport make it desirable that this third airport should ultimately be capable of development to the largest practicable capacity — namely to that of two pairs of parallel runways.
IV - Consideration of the Inspector's Report

34. There is, then, in the Government's view no doubt about the need to establish by the mid-1970s a new large and multipurpose international airport to serve London. The question to be decided is whether, in the light of the Inspector's report and subsequent investigations, there is any acceptable alternative to Stansted as the site for such an airport.

35. The Inspector's terms of reference requested him to "hear and report on local objections". Objections were raised mainly on the grounds of noise, the effects of the possible level of road traffic, town and country planning including the loss of the district's rural character, loss of farmland, and decline in house values.

36. The Inspector came to the conclusion that to place a major airport at Stansted "would be a calamity for the neighbourhood" and "could only be justified by national necessity". In his view the proposal "succeeded on the viability of air traffic" but there were strong arguments against it for other reasons. He concluded that "a review of the whole problem should be undertaken by a committee equally interested in traffic in the air, traffic on the ground, regional planning and national planning". The review, he said, should cover military as well as civil aviation.

37. A full summary of the Inspector's findings is set out in Appendix 2 under the headings of air traffic control, road and rail access, noise, loss of agricultural land, house values, regional planning, and national planning. The Government's conclusions on these findings are set out point by point in Appendix 3.

38. Apart from the difficulties of noise, access and loss of agricultural land, which would for the most part apply to any site within range of London, the Government was particularly concerned to give full weight to the regional planning objections. Although Stansted was mentioned in the South East Study as a possible site for a new town, the Government would not have chosen without the airport to put a major growth point in this relatively unspoilt part of north Essex, but would have preferred a site for the airport on the Thames estuary or somewhere to the north-west of London between London and Birmingham.
39. The Government therefore decided that it ought to go very thoroughly into all the possibilities before reaching a decision. There were two ways in which this might be done - by an independent commission, to whom evidence would need to be submitted by all the parties concerned, or by a review carried out by the Government itself.

40. The Government decided against an independent commission. In the first place, a decision either for or against Stansted was becoming urgent. Furthermore the Interdepartmental Committee on the Third London Airport had already made a thorough examination of the question in 1962 and 1963; the subsequent publication of their report and the Public Inquiry itself gave an ample and well-used opportunity to all interests outside the Government to put forward their own points of view. Accordingly, nothing useful seemed likely to be achieved by initiating a further round of public discussion of the same material. Not only would such a procedure inevitably have been very time-consuming, but it would also have involved both the Government and all the other interested parties in renewed work and expense in preparing and submitting evidence; and at the end of the day the decision would still have been for the Government to make.

41. Nevertheless, the Government thought it right to accept the Inspector's recommendation and decided therefore to carry out the further review itself. The review brought in the branches of Government representing all the interests mentioned by the Inspector in his recommendation - civil and military aviation, surface transport, national and local planning - and covered in addition economics, agriculture, and the military requirement for the Shoeburyness firing range. The review has now been completed and its findings are set out in this White Paper.
V - Alternatives to Stansted

Air traffic control implications

42. Before going on to discuss the alternative sites it would be as well to draw attention once more to the implications that air traffic control problems hold for the siting of a third London Airport. As the Interdepartmental Committee earlier pointed out in their Report, the siting of an airport that will eventually be at least the size of Heathrow presents air traffic control problems of such complexity that the choice of areas around London is severely limited. An account of the principal difficulties is given in Appendix 4. The working out of the various factors described in this Appendix, in combination with the route requirements of the London area, points to a third London airport site somewhere in the sector between the Heathrow - Birmingham and the Heathrow - Margate axes; and in order to avoid reducing the capacity of Heathrow it should be sited outside a line which runs broadly through Brackley - Northampton - Bedford - Bishop's Stortford - Chelmsford - Chatham - Folkestone.

43. The effects of the third London airport on military flying have also to be considered; these will depend on the extent to which the traffic patterns associated with any particular site impose restrictions on the use of hitherto uncontrolled airspace to the northeast or northwest of London.

Alternatives to Stansted put forward at the Public Inquiry

44. The sites mentioned at the Public Inquiry, apart from Stansted, were:

- Castle Donington (about 8 miles South East of Derby)
- Ferrybridge (near Pontefract, Yorkshire)
- Gunfleet Sands (in the North Sea, 5 miles off Clacton)
- Dengie Flats (Essex coast)
- Foulness (Essex coast, near Southend)
- Isle of Sheppey (Kent)
- Cliffe Marshes (Thames Estuary, Kent)
- Plumstead Marshes (South East London)
- Padworth (about 8 miles South West of Reading)

The relation of these sites to London can be seen on the map at Appendix 5.

Castle Donington and Ferrybridge

45. These two proposals were not put forward during the Inquiry as serious possibilities for a third "London" airport but to develop the argument that the need for the third London airport should be avoided by building up the air services serving the main provincial cities. As Section II explains, however, this is not possible because even with the growth of regional air services - and they will grow - London's own traffic will have outgrown the existing London airports by the mid-1970's.
It is clear, as the Inspector recognised (paragraphs 28 and 77 of his report), that both Castle Donington and Ferrybridge are much too far from London to serve as "London" airports and, therefore, they must be rejected.

**Gunfleet Sands**

46. The Government agrees with the Inspector's technical assessor that it would be impracticable to site a third London airport at Gunfleet Sands. The site is five miles out to sea; construction would be very costly and present enormous and possibly insuperable problems. The shore in the vicinity is also more than 60 miles from central London and access across the inshore shipping channel would be difficult.

**Dengie Flats, Foulness, Sheppey and Cliffe** - (These sites can be grouped together conveniently as the "Thames Estuary" sites.)

47. The fact that the proposed sites at Foulness, Sheppey and Cliffe are situated on low lying, marshy ground near the Thames Estuary means, on the one hand, that the land is of less value for agriculture or other alternative purposes, but on the other, that the construction of an airport would be more difficult and more expensive (to the extent probably of at least £15m.) than on a dry inland site. Much of the proposed site at Dengie Flats is in the sea, and the same problems of cost and difficulty of construction would arise as at Gunfleet Sands. Use of Dengie Flats, Foulness, Cliffe, and Sheppey would entail the removal of the firing range at Shoeburyness. (The question of the range is discussed in more detail in para.53 below). The selection of Foulness would also mean the complete closure of Southend Airport while the selection of the other three would very severely restrict its use by passenger services. The site at Cliffe is too restricted to accommodate an airport of more than two parallel runways of the separation necessary to achieve maximum capacity. Cliffe is also too far west to be able to function completely independently of Heathrow from the air traffic control point of view with the effect that the combined capacity of the two airports would be less than their potential separate capacities.

48. The Government are satisfied that, of these Thames Estuary sites, Sheppey is the most promising. It would not cause any significant interference with military flying. Enough flat land would be available for the construction of three or four well-spaced parallel runways (though the marshy and low-lying nature of the ground would make the work considerably more expensive than at Stansted). The noise problem would be relatively small. The agricultural land on the island is not of high quality (though if - as might well be necessary - new housing and other services associated with the airport had to spill over to the North Kent mainland, where the quality of the land is exceptionally high, the cost to agriculture would be more serious). Again, the loss of rural amenity might not be so grave as with some other sites. Finally, there seem to be no serious objections to a modest expansion of population in the area.
49. There are, nevertheless, serious drawbacks. The journey by road to Sheppey from central London in the mid-1970's would take, on a necessarily tentative estimate, about 100 minutes even in off-peak periods; and a fairly long link road would be required between the M.2 and the airport. It would also be difficult to provide rail access from central London: it would only be possible to provide a journey time of 70-75 minutes, and that only at great cost. Moreover, Sheppey's geographical position makes it relatively difficult of access from all parts of the country but S.E. London and Kent. An airport at Sheppey would also, as mentioned in para. 47, have the disadvantage of severely restricting the use of Southend Airport by regular passenger services, most of which would have to be accommodated elsewhere (in terms of air transport landings and take-offs Southend is the country's third busiest airport), and it would lead to the closure and re-provision elsewhere of the Ministry of Defence firing range at Shoeburyness. The cumulative effect of these difficulties would be to make Sheppey a very expensive site indeed to develop as the third London airport, as the following table shows:

<table>
<thead>
<tr>
<th>Approximate cost of developing international airport with two parallel runways at Sheppey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£M.</strong></td>
</tr>
<tr>
<td>Ultimate cost of basic airport facilities (land, terminal buildings, runways, taxiways, aprons, etc.) say,</td>
</tr>
<tr>
<td>Additional construction costs arising from marshy and low-lying nature of site:</td>
</tr>
<tr>
<td>Provision of access by - road:</td>
</tr>
<tr>
<td>rail:</td>
</tr>
<tr>
<td>Re-location of Ministry of Defence facilities at Shoeburyness:</td>
</tr>
<tr>
<td>Cost of interference with Southend Airport: say,</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Note: These do not purport to be precise estimates; in particular, the first item - the basic cost of building a new airport - is simply a rough indication of the order of cost for purposes of broad comparison.

50. The Government have consequently decided that for as long as it is possible to envisage better alternatives Sheppey's grave defects in accessibility and high costs must rule it out as a site for a third London airport.

Plumstead Marshes

51. Plumstead Marshes suffers from the same drawbacks as Cliffe, but to a much greater degree. It is also in the Government's view, as in that of the Inspector, too near London. It is very close to densely populated areas and a major airport there would encounter an acute noise problem from the very beginning.
Padworth

This site received a good deal of attention at the Inquiry. Its position in relation to Heathrow however is such that on more than 40 per cent of occasions (governed by strength and direction of winds) operations on parallel runways would to an unacceptable extent come close to or overlap with those of Heathrow. In addition, a civil airport at Padworth would have a serious effect upon military flying in central southern England, and would necessitate the re-provision of a wide range of facilities at a very large cost. The choice of Padworth would also mean the closure and replacement of the Atomic Weapons Research Establishment at Aldermaston and the cessation of flying operations at the Royal Aircraft Establishment at Farnborough. The noise problem would be likely to be worse than at Stansted. For all these reasons, the Government concludes that Padworth must be ruled out as a site for a third London airport.

Shoeburyness firing range

In carrying out this review of the alternatives to Stansted discussed in the Inspector's report the Government has not approached the problem of the Shoeburyness firing range with a closed mind. However, the facts are these: the Ministry of Defence will require the facilities at the range for as long as they can foresee; it is far from certain that the peculiarly suitable conditions at Shoeburyness for the work carried out at the range would be repeated anywhere else in the United Kingdom; lastly, if it were to prove possible to re-provide the facilities elsewhere this would cost approximately £25m. Since, then, there is no likelihood of the removal of the range making available any third London airport site more attractive than Stansted, the Government does not for the present propose to pursue further the practicability of resiting the range.

Alternatives to Stansted not discussed at the Inquiry

The Government has also re-examined the area to the northwest of London, towards Birmingham, because of its particular attractiveness from a regional planning aspect. Two representative sites were examined although they had not been put forward for discussion at the Public Inquiry. These were Bedford (Thurleigh), a Ministry of Technology airfield, 8 miles north of Bedford, and a hypothetical site midway between London and Birmingham in the area of Silverstone, about 13 miles south-west of Northampton. Bedford is at present required by the Government for purposes of aeronautical research, but this did not seem an adequate reason for ruling it out of consideration; and "Silverstone" (as the other site will be called) was chosen as an illustrative example of a site on the London - Birmingham axis. It must be emphasised, however, that in the absence of a full study there is no certainty that a suitable site for a large airport can be found in the area.
The principal advantage of "Silverstone" is on grounds of regional planning: it would fit in with the general sweep of planning for the region if a site could be found near enough to the planned expansions in the North Buckinghamshire and Northampton area for the employment generated by the airport to be geared to these expansions. A site here could have good surface communication northwards and westwards both by road and by rail. It is likely to be rather better than Stansted from the point of view of noise. It would also be better in the loss of agricultural land it would entail.

The most serious disadvantage of "Silverstone" is the effect it would have on military flying. By necessitating a wide extension of controlled airspace over Oxfordshire and East Anglia, it would render eight important R.A.F. and U.S.A.F. airfields effectively unusable for military flying and would place restrictions of varying severity on thirteen others. One of the eight is at present held in reserve, but the rest are well-equipped airfields with a long-term future. As the performance of modern military aircraft improves, and as the concentration of forces in this country grows as a result of withdrawal from overseas theatres, the problem of finding suitable bases becomes increasingly acute. The eight mentioned are all good airfields on which substantial money has already been spent, and it would be virtually impossible to find suitable replacements for them. On the hypothesis, however, that suitable alternatives could be found and the consequent disruption to military plans accepted, the cost of replacement would be very substantial and might reach £100m.

"Silverstone" also has other drawbacks. Access from London would not be as good as for Stansted: the road journey, via the M.1. and a special link road, would on a tentative estimate take about 100 minutes, even in off-peak periods: a site here could perhaps be brought within 75 minutes rail journey of Victoria or 60 minutes of Euston by a spur from the site to the London Midland Region's electrified main line. It would not be a good choice from the point of view of civil air traffic control, because it would complicate and lengthen air traffic routes between the other London airports and the north and would probably restrict the capacity of Birmingham Airport.

The Government, therefore, after giving very careful consideration to the possibility of siting the third London airport in the Silverstone district, has concluded that the drawbacks of such an airport - and particularly its very severe effect on military deployments - must rule it out so long as alternatives exist.

A similarly detrimental effect on military aviation is a feature of almost any site in this part of the country, including Bedford. Moreover, Bedford, while exhibiting all the drawbacks of a site relatively distant from London, does not offer the Silverstone district's considerable attractions from the regional planning viewpoint. The Government has decided therefore that this area does not merit further consideration.
VI - The case for Stansted

60. Before a decision can be taken on Stansted, its advantages and drawbacks must be compared with those of the other possible sites. The Government's comments on the Inspector's criticisms of Stansted are largely set out in Appendix 3.

Air Traffic Control

61. Stansted is satisfactory from the point of view of air traffic control, as the Inspector recognised; and the Government sees no prospect of any changes in the existing control pattern that would alter Stansted's advantage on this score. It would not seriously restrict operations at any other existing civil aerodrome, nor would it interfere with the Shoeburyness range. Stansted's effect on military flying would be tolerable, even though its development to full planned capacity would eventually render unusable the neighbouring U.S.A.F. base at Wethersfield (which would have to be reprovided if the military requirement continues) and would place certain limitations on other military airfields.

Terrain

62. The terrain at Stansted is suitable for the development of a large airport and is free of abnormal cost factors.

Noise

63. The Government does not believe that the nuisance from noise at Stansted would be as bad as the Inspector's report suggests: its reasons for believing this are set out at length in paragraphs 12-22 of Appendix 3 to this Paper. It is true that the noise problem at Stansted would be rather worse than at Sheppey, but it does not compare badly with other inland sites in this respect; estimates suggest that with both Heathrow and Stansted operating to the full capacity of two parallel runways the number of people around Stansted subjected to very high noise exposure would be only one twentieth of the number around Heathrow.

Road and rail access

64. The road route to Stansted would be by the M.11 (the section in question is likely to be completed by the early 1970's) and the off-peak journey time to central London would be about 70 minutes; a short link road would be necessary to connect the airport with the motorway. By
the provision of a spur between the airport and the main line at Bishop's Stortford and by other minor works Stansted could be brought (though admittedly by a circuitous route by way of Kings Cross and Brixton) within about an hour's journey by train from Victoria; and in the same way it could be made accessible to Kings Cross itself in less than an hour.

Cost

65. The cost of the proposal is estimated in very broad terms as follows:

- **Approximate cost of developing international airport with two parallel runways at Stansted**
  - Ultimate cost of basic airport facilities (land, terminal buildings, runways, taxiways, aprons, etc.), say £45 million
  - Deduct: Value of existing runway 41
  - Provision of access by - road 1
  - rail 5
  - Total £47 million

(See footnote to Table in paragraph 49).

Agricultural land

66. The area around Stansted consists of land of particularly high agricultural quality and the Government agrees with the Inspector that the loss of many thousands of acres at Stansted is a substantial argument against this location for a third London airport. Nevertheless their exhaustive study has not revealed an alternative site in an area of lesser agricultural importance which does not suffer from other disadvantages even more severe than the agricultural disadvantages of Stansted. The loss of land would be part of the high price to be paid for the benefits of the airport to the nation.

Regional planning

67. In the Government's view the strongest of the objections to Stansted is on regional planning grounds. The Inspector points out in his report that the airport would attract a considerable increase in
population which would have to be housed and serviced. He thought that if full value was to be obtained from the cost of creating a new major traffic focus suitable industries would also have to be accommodated. He concluded that the whole character of a large tract of land - at present predominantly rural and agricultural - would be completely altered and that on the evidence submitted to him development of this kind in this area would be bad regional planning. The evidence on planning is summarised in Appendix 4 of the Inspector's report.

68. The Inspector's argument that a third London airport would attract more economic activity to the South East is beside the point in the light of the evidence in Section II of this White Paper of the need for a third London airport. Leaving aside this argument, then, and the argument from the loss of agricultural land, the essence of the planning case is that the wedge of open country between the trunk roads to Cambridge and Colchester ought to be preserved as a natural lung for London and that large-scale development near Stansted might merge with the existing straggle of development up the Lea Valley to form a limb of the continuous built-up area of London.

69. The Government agrees that it would be desirable to keep this attractive stretch of open countryside unspoilt, but its value must be considered in relation to the airport needs and the availability of other practicable sites. A third international airport must be reasonably close to London. At the same time it must be sited where it will cause as little nuisance as possible to built-up areas. All open sites near London are potentially valuable and worth preserving as green lungs. It has not been shown, however, that the Stansted area is so much more valuable by its nature than any other area within range of London that it must be excluded from consideration for that reason alone.

Balance of advantage

70. Stansted has indisputable advantages over the main alternative on the scores of air traffic control, surface access, and cost; it is acceptable on grounds of noise; its terrain is good for airport development. Its acknowledged drawbacks are that the development would
entail the loss of good agricultural land and disadvantages in local and regional planning. After a careful consideration of all the possibilities, however, the Government believes that there is no alternative site for a third London airport that is superior to Stansted in its implications for agriculture and planning and is at the same time both technically suitable and capable of development at an acceptable cost.
VII - The Government's Conclusions and their Implementation

Summary and main conclusion

71. This White Paper, in Section I, has traced the history of the Stansted proposal since the publication of the report of the Interdepartmental Committee on the Third London Airport. In Section II it argues that the need for a new major airport to serve London is inescapable and probably cannot be deferred beyond the early years of the next decade. Section III has shown why London's new airport should be able to accept all kinds of traffic and should be capable of development to a large capacity. Section IV gives the Government's reaction to the Inspector's report and explains how the Government has implemented the Inspector's principal recommendations, that the problem should be further reviewed. In Section V all the alternatives to Stansted as the site for the third London airport that were discussed at the Public Inquiry, together with two other alternatives, have been discussed. Finally, Section VI has reviewed the case for Stansted itself and found that it still compares favourably with other possible sites.

72. Having, then, carefully considered the Inspector's findings and having completed the further review recommended by him, the Government has reached the conclusion that a new major airport to serve London should be developed at Stansted.

Proposals for Implementation

73. The present Stansted Airport (along with Heathrow and Gatwick Airports) is already owned and managed by the British Airports Authority, and the Government will look to the Authority to develop and manage the new airport within the same statutory framework of the Airports Authority Act 1965. Thus, the Government will still retain an important role in the development. It will, for example, continue to provide the navigation services at Stansted, as it already does at the Authority's other airports. It will also, under Section 3(2) of the Act, have power to approve, or withhold approval from, the broad lines and timing of the Authority's investment programme. Another important control that the Government will have over the operation of the new airport is...
the power in Section 14 of the Act to direct the BAA to take measures for "limiting noise and vibration or mitigating their effect". Nevertheless, subject to important public safeguards such as these, the Government will give the Authority the widest scope for imagination and enterprise in this important new development; it has full confidence in the Authority's ability and intention to respond to this challenge.

74. The development of a major airport at Stansted is bound to mean changes in the character of the surrounding area. An airport and the activities associated with it are likely to provide employment directly for upwards of 20,000 people and indirectly for many more in the service trades. A substantial influx of population can therefore be expected. Careful planning will be needed to mitigate the impact of population growth on the surrounding area and to provide tolerable living conditions for those who will need to live near the airport. The Government will be consulting the local planning authorities on whether the incoming population would be better accommodated in a new town or in expansion of existing towns. There will also be consultation with the local authorities, with the British Airports Authority, and with other organisations concerned on what can be done to mitigate hardship that development of the airport may cause to the existing population of the area.

75. The Government is, of course, aware that its conclusions on the third London airport question will be controversial and will cause deep disappointment in some quarters. Nevertheless, it must now be clear that all the many and complex issues have been thoroughly scrutinised both within the Government and in public. Now that it has reviewed the various arguments for and against the Stansted proposal, the Government believes that the time has come when a decision must be taken and that the decision should be to go ahead with Stansted, as the best of all the alternatives.
VIII - The Next Steps

76. This final section sets out the Government's proposals for obtaining, through Parliament, public endorsement of its conclusions.

77. To develop Stansted into a major airport the British Airports Authority will need much more land than they at present own. They will therefore both require formal planning permission and need to purchase the additional land either by agreement or compulsorily.

78. The Government does not intend to propose any special measures for dealing with the purchase of the additional land. If the BAA needs to resort to compulsory purchase, it will have to follow the normal procedures already approved by Parliament.

79. The Authority will require planning permission for the development of Stansted. In the light of the full consideration which will have been given to this proposal both at the Public Inquiry and subsequently by the Government itself, the Government propose to confer the necessary planning permission on the Authority by means of a Special Development Order under the Town and Country Planning Act 1962. This Order will shortly be laid before Parliament and the Government intend to afford an opportunity for a debate on the Order and on this White Paper.
LIST OF APPENDICES

Appendix 1 - Traffic statistics and forecasts

Appendix 2 - Summary of the Inspector's arguments

Appendix 3 - The Government's detailed comments on the Inspector's arguments.

Appendix 4 - Air traffic control factors affecting the siting of a third London airport.

Appendix 5 - Map showing sites mentioned by the Inspector and those discussed in the White Paper.
APPENDIX 1
(see paragraph 11)

Traffic Statistics and Forecasts

Table 1: Terminal passengers and air transport movements at the London airports.

Table 2: Terminal passengers and air transport movements at Heathrow Airport.

Table 3: Terminal passengers and air transport movements at Gatwick Airport.
### Table 1

**Terminal Passengers and Air Transport Movements at Airports in the London Area**
(Heathrow, Gatwick and Stansted)

#### Traffic in recent years

<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal Passengers (Annual Totals) (000s)</th>
<th>Air Transport Movements (Annual Totals) (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>6,954</td>
<td>172.8</td>
</tr>
<tr>
<td>1962</td>
<td>7,956</td>
<td>172.9</td>
</tr>
<tr>
<td>1963</td>
<td>9,106</td>
<td>183.4</td>
</tr>
<tr>
<td>1964</td>
<td>10,506</td>
<td>203.9</td>
</tr>
<tr>
<td>1965</td>
<td>11,858</td>
<td>221.1</td>
</tr>
<tr>
<td>1966 (Provisional)</td>
<td>13,390</td>
<td>244</td>
</tr>
</tbody>
</table>

#### Forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower Limit</th>
<th>Most Likely</th>
<th>Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Terminal Passengers (Annual Totals) (000s)</td>
<td>Air Transport Movements (Annual Totals) (000s)</td>
<td>Terminal Passengers (Annual Totals) (000s)</td>
</tr>
<tr>
<td>1967</td>
<td>14,300</td>
<td>244</td>
<td>14,600</td>
</tr>
<tr>
<td>1968</td>
<td>15,500</td>
<td>255</td>
<td>16,100</td>
</tr>
<tr>
<td>1969</td>
<td>17,000</td>
<td>257</td>
<td>19,400</td>
</tr>
<tr>
<td>1970</td>
<td>18,400</td>
<td>259</td>
<td>21,900</td>
</tr>
<tr>
<td>1971</td>
<td>19,900</td>
<td>266</td>
<td>24,900</td>
</tr>
<tr>
<td>1972</td>
<td>21,300</td>
<td>277</td>
<td>28,700</td>
</tr>
<tr>
<td>1973</td>
<td>22,800</td>
<td>296</td>
<td>32,900</td>
</tr>
<tr>
<td>1974</td>
<td>24,100</td>
<td>318</td>
<td>37,600</td>
</tr>
<tr>
<td>1975</td>
<td>25,600</td>
<td>337</td>
<td>42,600</td>
</tr>
<tr>
<td>1976</td>
<td>27,100</td>
<td>354</td>
<td>47,600</td>
</tr>
<tr>
<td>1977</td>
<td>28,500</td>
<td>354</td>
<td>52,500</td>
</tr>
</tbody>
</table>

**Notes:**
1. The above forecasts progress smoothly and are intended to indicate trends. Fluctuations about the trend from year to year must be expected.
2. The values for 1966 are provisional estimates.
3. The 1966 figures are inflated above the trend by the effects of the Seamen's strike from mid-May to early July.
Table 2
Terminal Passengers and Air Transport Movements at Heathrow
Traffic in recent years

<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal Passengers (Annual Totals)</th>
<th>Air Transport Movements (Annual Totals)</th>
<th>Air Transport Movements (Standard Busy Hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>(000s) 6,060</td>
<td>(000s) 146.7</td>
<td>38</td>
</tr>
<tr>
<td>1962</td>
<td>6,812</td>
<td>145.8</td>
<td>39</td>
</tr>
<tr>
<td>1963</td>
<td>8,027</td>
<td>137.3</td>
<td>45</td>
</tr>
<tr>
<td>1964</td>
<td>9,298</td>
<td>175.3</td>
<td>47</td>
</tr>
<tr>
<td>1965</td>
<td>10,492</td>
<td>192.4</td>
<td>51</td>
</tr>
<tr>
<td>1966</td>
<td>11,770</td>
<td>210</td>
<td>57</td>
</tr>
</tbody>
</table>

Forecasts

<table>
<thead>
<tr>
<th>Year</th>
<th>Lower Limit</th>
<th>Most Likely</th>
<th>Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Terminal Passengers (Annual Totals)</td>
<td>Air Transport Movements (Annual Totals)</td>
<td>Air Transport Movements (Standard Busy Hour)</td>
</tr>
<tr>
<td>1966</td>
<td>(000s) 12,700</td>
<td>(000s) 232</td>
<td>(000s) 57</td>
</tr>
<tr>
<td>1967</td>
<td>13,800</td>
<td>222</td>
<td>60</td>
</tr>
<tr>
<td>1968</td>
<td>15,100</td>
<td>232</td>
<td>63</td>
</tr>
<tr>
<td>1970</td>
<td>16,300</td>
<td>247</td>
<td>64</td>
</tr>
</tbody>
</table>

Notes:
1. The above forecasts progress smoothly and are intended to indicate trends. Fluctuations about the trend from year to year must be expected.
2. The values for 1966 are provisional estimates.
3. The 1966 figures are inflated above the trend by the effects of the Seamen's strike from mid-May to early July.
4. The Standard Busy Hour is the thirtieth busiest hour of the summer; the rate of traffic in this hour is normally equivalent to about 80% of the peak figure for the year and constitutes a useful measure of near-peak activity against which to plan capacity.
<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal Passengers (Annual Totals)</th>
<th>Air Transport Movements (Annual Totals)</th>
<th>Air Transport Movements (Standard Busy Hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>804</td>
<td>25.2</td>
<td>17</td>
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<tr>
<td>1962</td>
<td>1,042</td>
<td>26.1</td>
<td>18</td>
</tr>
<tr>
<td>1963</td>
<td>957</td>
<td>24.9</td>
<td>15</td>
</tr>
<tr>
<td>1964</td>
<td>1,114</td>
<td>27.5</td>
<td>15</td>
</tr>
<tr>
<td>1965</td>
<td>1,352</td>
<td>28.6</td>
<td>16</td>
</tr>
<tr>
<td>1966 (Provisional)</td>
<td>1,620</td>
<td>33</td>
<td>18</td>
</tr>
</tbody>
</table>

Note: See note 4 on Table 2 for explanation of the Standard Busy Hour.
APPENDIX 2
(see paragraph 37)

Summary of the Inspector's Arguments

(This appendix merely presents the Inspector's views and in no way comments on them)

1. The Inspector followed two lines of approach towards the problem. On the one hand he outlined the main criteria that in his view a new major airport should ideally meet and on the other he considered Stansted and the alternatives that were put to him in the light of these criteria and of the local objections.

2. The Inspector's ideal criteria for a major airport were:

   (i) Viability from the point of view of air traffic control.
   (ii) Convenient ground access for passengers and airline operators.
   (iii) A situation in respect of noise which would not inhibit operations.
   (iv) Conformity with regional planning and a national transport plan.
   (v) Sufficient land to allow for expansion.

3. The Inspector's views on the suitability of Stansted and other sites from each of the major aspects on which evidence was given were:

   (a) Air Traffic Control

   Stansted was the best site so far as routeing the flow of additional air traffic was concerned with maximum margins of safety and in conformity with existing routes and airports. Cliffe, Sheppey and Padworth might not be unworkable, but loss of capacity would have to be accepted at times. Foulness, Dengie Flats and Gunfleet Sands would not be possible in co-existence with the Shoeburyness Firing range, and Sheppey would also be affected by it to some extent. Plumstead Marshes was too near London and Castle Donnington too far away to be a "London" airport. Stansted would interfere less with the existing pattern of traffic from Heathrow and Gatwick than Padworth or Cliffe. It would interfere less with Southend Airport than Cliffe, Sheppey or the flats in the Foulness area. It might, however, be necessary to review the present pattern of air traffic control to obtain an ideal solution.

   (b) Ground Access – Road

   It was difficult to assess the impact of the potential airport traffic on existing ground links to the various sites because no origin and destination survey had so far been made of the passengers using Heathrow and Gatwick. The assumption throughout the Inquiry was that all passengers not using their own means of transport to the new airport would travel via the West End of London. With three London Airports operating, as many as 5,250 people could be delivered to London every hour – many only to go straight out again. This presented a frightening traffic problem. If the additional road traffic forecast for the new airport was superimposed on normal traffic, road access would not be reasonable, or even feasible, at any of the sites suggested, including Stansted. Thus a new and exclusive road traffic route was required. The estimates made by the Ministry of Transport of travelling times from London to the several suggested sites did not carry conviction because (a) they did not allow for varying volumes of traffic at different times and (b) they did not allow for the extra traffic which would be generated by the airport itself. The Ministry of Transport said that the traffic generated would saturate a dual two-lane motorway in twenty years time while an expert for the Essex County Council said that the traffic would saturate a dual three-lane motorway.
Apart from road access both Stansted and Padworth could be given rail links with London. The Padworth proposal was the neater of the two. In both cases British Railways would only be prepared to undertake the work if it would pay to do so, and it seemed that it would not pay in at least the earlier years of traffic growth. It was not sufficiently demonstrated that there was enough spare capacity at the existing London termini for either site for the additional traffic.

The amount of noise generated by an aircraft was likely to stay fairly constant in the foreseeable future and supersonic aircraft would probably not aggravate the problem. Noise would affect more people at Stansted (where a hospital and some twenty schools would have to be closed) than at any of the alternative sites. Padworth would, however, be little better. Sheppey would be the best site from the noise point of view. The approach route to Cliffe would be over water, but take-off noise would affect the Medway towns and Thurrock, though not intolerably in either case.

All the land likely to be required at Stansted was in one of the highest agricultural land classifications for fertility. Many thousands of acres of good farmland would be lost by siting the airport and associated housing and industrial development at and near Stansted.

The value of houses, near an airport in the lower price bracket, at least, was as high as in a quiet country area. However, a speedy decision was desirable for those wishing to sell their houses.

The airport would inevitably attract a considerable increase in population and, if full value was to be obtained from the total project, industries must be accommodated. Stansted was not the right place for a focus of this kind and the whole rural character of the district would be altered. A development of this nature at Stansted would be bad regional planning.

A third London airport of high capacity would increase the magnetism of the South East to all sorts of activities. Many long journeys would have to be made to London merely to reach the airport, thus increasing its traffic problems. This should be avoided if possible.
The Government's detailed comments on the Inspector's report

(Reference in this Appendix are to the Inspector's report unless otherwise stated)

1. The following paragraphs contain the Government's main comments on the Inspector's report, arranged under the same headings as the summary of the Inspector's arguments in Appendix 2.

(a) Air Traffic Control

2. Although the Inspector accepted that the case for Stansted on air traffic control grounds was proved, paragraph 40(1) of the report contains the implication that the Ministry of Aviation witnesses considered Stansted (and its alternatives) solely in relation to an existing route structure. This view would appear to be influenced by paragraph 13 of the Assessor's report, which suggests that there was a tendency on the part of the Ministry of Aviation to treat the existing airways and sequencing areas as virtually immutable. This is not a correct statement of the evidence presented by the Ministry of Aviation witnesses. The local airport approach and departure patterns, including holding areas, depicted on the maps which were presented at the Inquiry, assumed the use of simultaneous parallel landing techniques, which are still on trial. The structure shown for Heathrow was not the present one, but that which is planned to introduce when these procedures are brought into operation. The overall terminal area route structure adumbrated in the same maps was built up around these necessary local patterns, and the precise routes were mostly different from those that now exist. Such similarities as there were arose because our geographical situation in relation to Europe and the Americas means that the main traffic streams will want to proceed in the same directions as in the past. The broad direction of a route which was already optimum was not changed.

(b) and (c) Ground access - road and rail

General

3. The Inspector was clearly right to be concerned about the problem of surface access to the third London airport. The problem is, of course, but one aspect of the general problem of how to cope in the future with the growth of travel desires in the London area. It would be idle to pretend that easy solutions are in sight. Certainly, heavy investment in roads will continue to be needed, public transport facilities will have to be improved and extended and in some areas restraint of road traffic by one method or another may very probably be necessary. As for the specific problem of access to airports it is clear that facilities for mass transit will have to be provided between the airport and London by coach, surface rail or underground (or a combination of them) or, conceivably, by some less conventional form of transport.

4. Thus the Government acknowledges the problems associated with surface access to the third airport - any third airport. But it is nevertheless convinced that, of all the sites which appear to be possibilities, Stansted is the one at which the difficulties would almost certainly be at their least.

Amount of road traffic generated by a third London airport - Paragraph 14

5. The road traffic generated by the airport will certainly pose problems. This would, of course, be so at any site. But the total number of vehicles entering and leaving the airport is relevant only to the consideration of the layout and capacity of the road providing the immediate access to the airport. Moreover, the traffic estimate quoted in this paragraph is based on the assumption that the proportions of people entering or leaving the airport by...
private and by public transport would be the same as at Heathrow currently. Whether this will in fact be so depends among other things on the policies to be adopted by the British Airports Authority in relation to passenger processing, car parking space and so on. It is possible however that, if an attractive mass transit link to the third airport were provided, a substantial proportion of travellers would use it. Any measures of restraint of road traffic which were introduced in London might also tend to increase the proportion of people using a mass transit facility.

Access to Stansted compared with access to Heathrow - paragraphs 23(2)(b) and 48(2)

6. Throughout the Inquiry there was an understandable tendency to compare the possible sites for a third London airport with Heathrow. In terms of proximity and accessibility to central London, Heathrow is unique, and, short of the clearance of thousands of acres of suburbia to make way for a new airport, must remain so. It is against this background that the question of road access to a third London airport must be considered. Airlines operating at any of the possible third airport sites would be worse off than at Heathrow. This is inevitable. But surface access to Stansted appears in fact to be better than to any other possible site.

Estimates of journey times by road to Stansted - Paragraph 36

7. The estimates of journey time cannot of course be firm, relating as they do to a time some years ahead when we cannot predict precisely what road improvements will have been made, what traffic policies will be in force, or what volumes of traffic there will be. The estimates were simply the best that could be made at the time. The Inspector’s criticism that the time taken for the in-town sector could “vary enormously according to the state of the traffic” must again apply equally to traffic by road to central London from any “third airport” site. The volume of traffic generated by the airport itself would be relatively less significant the further the distance from the airport, and would not be likely to affect greatly the journey time to central London.

Effect of airport traffic on road congestion - Paragraphs 37 and 38

8. Use of the word “saturated” may be misleading. The lower and higher estimates of peak hour traffic referred to by the Inspector would correspond roughly to the “design capacity” of dual two-lane and dual three-lane motorways respectively—the capacity at which no vehicle travelling on the road impedes any other. “Saturation” implies the inability to carry additional traffic; this condition would not set in until flows substantially exceeded design capacity.

9. As already stated in paragraph 5 above, the total number of arrivals and departures is only relevant to the consideration of the road layout on the airport itself. It is true that in the case of Stansted a high proportion of this traffic might be expected to use the length of M.11 immediately to the south of Bishop’s Stortford. But the traffic would “fan out” as it approached London. Any airport terminal in London would be essentially a collecting point for passengers using coaches or other mass transit facilities which might be provided and not for passengers by car. The chances are that if the mass transit facility were good enough it would be used by the great majority whose origin and destination were reasonably near the terminal.

Feasibility of rail link between Stansted and Victoria - Paragraphs 39-41

10. British Rail have recently confirmed that in their view a rail service could be provided between Stansted and Victoria with a journey time of an hour, and that Victoria could accommodate the extra traffic. It is not clear on what evidence the Inspector challenged this. Whether such a link would pay over time would depend on many things— not least on the level of fares. The present coach service to Heathrow demonstrates that people are prepared to pay well above standard prices for a specialised service.
Volume of traffic passing through a central town terminal at Victoria — Paragraphs 44 and 45

11. The comments made here by the Inspector would again apply to any airport link with a town centre terminal. But airport traffic will form only a very small proportion of the total traffic in Inner London. In any case there is no certainty that existing air terminal policy will operate in the future. It is possible, for example, that passengers for central London using public transport might be delivered to several terminals, sited to suit various needs.

(d) Noise

General

12. In his report the Inspector appears to dismiss the case for Stansted on noise grounds. However, the reasoning that led him to this conclusion is open to question. In the first place it is clear that wherever a third London airport is sited it is bound to cause some noise nuisance. The crucial question is whether Stansted is likely to produce more noise nuisance than the practicable alternatives, and, if so, how much more. As the Inspector did not form a view on how much noise nuisance from a third London airport, wherever placed, would be inescapable, there is no means of assessing from his report the strength of the arguments against Stansted on noise grounds. Secondly, the Inspector's presentation of the Ministry of Aviation's evidence is to some extent distorted and open to misinterpretation. For these two principal reasons the Government believes that the Inspector's objections to Stansted on noise grounds are by no means fully justified.

13. On the first point, there are two obstacles to assessing and comparing the degree of noise nuisance likely to be experienced in areas surrounding possible sites for the third London airport. Firstly, no one knows, precisely, how noisy aircraft will be in ten or twenty years time, or how far air traffic control procedures will have changed. The pessimistic case is assumed here, as it was at the Inquiry: that the aircraft operating in twenty years time will be as noisy but no more so, than long and medium haul jets in operation today. It is also assumed that their technical characteristics and the air traffic control procedures in force will not make the noise of these aircraft, at similar positions in relation to the airport, less audible on the ground than they are today. Secondly, it is not easy to measure objectively the effect of noise on people. The most scientific method available is that developed by the Wilson Committee on Noise in its examination of the noise around Heathrow.

14. On this basis estimates were submitted at the Inquiry about the population in areas around Stansted and a number of the alternative sites where future noise disturbance would be at a level classed by the Wilson Committee as unacceptable or nearly so. Comparable estimates were also made for Heathrow and, since the Inquiry, for Silverstone. The situation considered in each case was jet aircraft operating in numbers equivalent to nearly the full capacity of two parallel runways. This would not be before the late 1980s at any of the sites except Heathrow, where it would be some time after 1970. The populations in the areas were the present ones, since the people who will be attracted by the employment offered by the airport and associated developments need not add to the total number of people that will be affected by a high degree of noise nuisance. This is because the area around an airport is subject to this degree of noise has the shape of an elongated oval aligned in the direction of the take off and landing areas. Thus any new development associated with an airport can be so situated as to be largely free of noise.

15. At Stansted it was estimated that about 3,000 houses or 9,000 people lay within the area that would eventually be subject to a high degree of noise nuisance. It is simplest to present the data for the most important sites in the form of indices related to the populations affected.
<table>
<thead>
<tr>
<th>Site</th>
<th>Noise Nuisance Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stansted</td>
<td>All jet traffic at a standard busy rate of 64 movements an hour (not before the late 1980s)</td>
<td>1</td>
</tr>
<tr>
<td>Sheppey</td>
<td>Apart from Heathrow where it will be some time after 1970</td>
<td>2</td>
</tr>
<tr>
<td>Silverstone</td>
<td>An about 20</td>
<td>2</td>
</tr>
<tr>
<td>Heathrow</td>
<td>About 20</td>
<td>4</td>
</tr>
</tbody>
</table>

Thus from the point of view of noise nuisance Sheppey and Silverstone are relatively better than Stansted, but Stansted is very much better than Heathrow.

16. In paragraph 23(2)(c) the Inspector expresses the opinion that at Stansted "restrictions would have to be imposed which would materially restrict capacity operation" (it seems from paragraph 48(5) that the principal restriction he has in mind is one on night flying). However, he recognises in paragraph 29 that "severe nuisance from noise is unavoidable at any location which could be considered a London airport", and the same potential restriction therefore attends sites other than Stansted; but at this point in time it is difficult to quantify the relative incidence of any such restriction at the various sites.

17. On the second point mentioned in paragraph 12 above - the interpretation of the detailed evidence given by the Ministry of Aviation on the aircraft noise problem - the following paragraphs offer comment on points made by the Inspector.

**Criterion for measuring noise nuisance - Paragraph 13**

18. The Inspector said that he found it difficult to relate the Noise and Number Index figures to human reactions to noise (Appendix 2 para. 79); and in paragraph 13 he prefers to give "some indication of the nuisance to which houses, shops and other buildings will be subject" by quoting from the evidence of the expert witness on noise for the then Ministry of Aviation on the probable situation in nearby schools and hospitals as they are at present constructed. However, the evidence of witnesses for two of the main objectors (Professor Richards and Mr. Fleming), as well as the evidence of the Ministry witness, was that the position in schools, and to a lesser extent in hospitals, was rather special in that it depended on the degree of interference with speech rather than on more generalised feelings of annoyance. It is therefore not possible to relate the effect of a major airport on schools and hospitals in the vicinity to its effect on houses, shops and other buildings.

19. It is noteworthy that, as the Inspector records in Appendix 2 to the report (paragraph 78), all four expert witnesses on noise adopted the Noise and Number Index technique of the Wilson Committee. The Inspector also makes incidental use himself of a criterion of 45 NNI in that the 7,000 houses given in paragraph 13 of the main report as being "subject to grave nuisance by noise" at Stansted are the number within the 45 NNI contour.

**Noise disturbance to homes around Stansted - Paragraph 13**

20. The statement just mentioned about the number of houses that would be "subject to grave nuisance by noise" at Stansted results in fact from a misinterpretation of the Ministry of Aviation's evidence. In Appendix 2, paragraph 85, the Inspector quotes the Ministry of Aviation witness as saying that 45 NNI should be the "datum" in both rural and urban areas. This is correct to the extent that the witness suggested that an area bounded by a line one mile outside the 45 NNI contour was one where the extent of interference with speech could be profitably examined. But the Inspector is incorrect if he is attributing to the witness any statement that NNI's greater than 45 represent an exposure to noise that is intolerable from the point of view of the annoyance caused; at no time did the witness depart from the Wilson Committee's criterion of 50-60 NNI for this.
Noise disturbance to schools around Stansted - Paragraph 13

21. The Inspector gives some prominence to the number of schools that would be affected by noise in paragraph 13. There was however, at the Inquiry a conflict of evidence on the levels of noise that would cause trouble in schools - a conflict which the Inspector himself recognised (see paragraph 85-86 of Appendix 2). Furthermore, in paragraph 13 of his report the Inspector quotes the Ministry of Aviation witness as saying that, of the schools within the area of the 45 NNI contour and up to a mile beyond, one half would have to be closed on noise grounds and others "would have to be examined individually to see if remedial measures were possible". The Ministry of Aviation's submission was in fact, that the majority of schools under consideration would have to close unless they were adequately soundproofed, but that the remainder would have to be examined individually to see if remedial measures were necessary.

Noise disturbance to Herts. and Essex Hospital at Bishop's Stortford - Paragraph 13

22. In the same paragraph the Inspector records the view of the Ministry of Aviation witness that the Herts. and Essex Hospital at Bishop's Stortford would have to close down if a third London airport were built at Stansted. On the other hand there is the evidence of the Senior Consultant Pathologist at the hospital, that there were long-term plans for rebuilding the entire Hospital (which at the moment consists largely of temporary buildings).

(e) Loss of agricultural land

23. Since no large-scale residential and industrial development is at present planned in the vicinity of Stansted, it must be accepted that there will be a considerable loss of agricultural land if the airport and its associated development are situated at Stansted, where the land is of good quality. However, there will be some loss of land wherever the development takes place, and the question is therefore whether any reasonable alternative site is available which would minimise the loss of agricultural acreage for ancillary development or permit the airport and essential associated developments to be located on land of lower agricultural quality. In fact, the Government has examined all the alternative sites in some detail, and it is evident that each of them suffers from defects such as to outweigh whatever purely agricultural advantages it may possess over Stansted.

(f) House Values

24. The Inspector accepted the evidence that the value of "houses near an airport, in the lower price brackets, in short supply", was at least as high as in a quiet country area (paragraph 19). He goes on to say, in paragraph 20, that people wishing to sell houses near Stansted Airport are experiencing hardship because of uncertainty about the future development of the airport, and adds that a speedy decision is important to such people. The Government has taken note of this point and has conducted its review of the problem as quickly as was consistent with thoroughness.

(g) Regional planning and local amenity

25. The Inspector's conclusions on regional planning are dealt with in paragraphs 67-69 of this White Paper.

(h) National Planning

26. The Inspector's suggestion that a new London airport might be unnecessary and undesirable in its effect on national planning has been discussed in detail in Section II of the body of the White Paper.
Air traffic control factors affecting the siting of a third London airport

1. The third London airport should be located in relation to the other London airports and other major civil airports, so that they can all operate to their designed capacity and a viable pattern of air routes can be created. At the same time, the third London airport must be located so that the demand it makes for additional controlled airspace causes the minimum conflict with the operational requirements of the military and other users of uncontrolled airspace.

2. In order that take-offs and landings at the new airport can be made independently of take-offs and landings at other major airports, the new airport must be separated from these by some 30 to 40 miles, depending on their relative positions.

3. The airspace around the airport must be fully controlled, so that other traffic does not interfere with the free flow of aircraft taking off and landing.

4. Outside this immediate airspace, areas have to be provided in which aircraft can be "held" - that is, can fly around in a race-track pattern whenever airport congestion causes landing delays. These areas have to be clear of all routes and are some 20 miles across. For a major airport several holding areas have to be provided.

5. Extending from the vicinity of the airport, routes have to be provided joining the runways to the main air routes. These link routes must be one-way, because separate routes are required for arriving and departing aircraft; they have to be provided for both directions of use of a runway; and have to be planned so that changes in direction can readily be made. A sufficient number of routes has to be provided to accommodate the planned flow, with a lateral separation between any two routes of some seven miles.

6. The inbound and outbound routes from a number of airports to the many destinations they serve must inevitably cross; and the crossing must, so far as is possible, be engineered so that aircraft will naturally be at different heights. Where this is not possible, crossings must be so located that control can effectively be exercised.

7. The need to provide routes for through traffic and for traffic for the less important airports which are situated close to the main airports also complicates the problem.

8. The amount of controlled airspace devoted to any single airport has to be limited in view of the needs of other users, including military aircraft. The military ATC requirement varies considerably according to the type of aircraft and their operational role. Common to all Operational Commands is the need to be able to move many aircraft in a very short time and at short notice. Training aircraft present additional problems since once away from airfields they are not in general susceptible to close control.

9. In common with civil airfields, all important military airfields require airspace in which approaches and departures can be made without conflict from traffic using other airfields or following air routes. The precise areas required vary with the role. Transport aircraft requirements are similar to those of airline aircraft; while fighters, with their very high rates of climb, require freedom of movement to much greater heights close to airfields.
10. There are, in fact, about one hundred active military airfields in the United Kingdom. On any given weekday the ratio of military aircraft to civil aircraft airborne over the United Kingdom is about 2:1. Thus, whatever the site chosen for the new airport outside the south-east corner of England (where military activity has been gradually moved out as a result of the growth of civil air traffic) there is almost bound to be some impact on the pattern of military flying and the deployment of squadrons. The further north and west of London is the site chosen, the greater the degree of interference with military flying.
Mentioned by the Inspector and Issued in the White Paper