C(67) 70 - Europe: Communique of the Ministerial Council of the European Free Trade Association. Note by the Secretary of the Cabinet

71 - The Approach to Europe: Value-Added Tax. Memorandum by the Chancellor of the Exchequer

72 - Europe: Draft Statement in the House of Commons. Note by the Prime Minister

73 - Uprating of Social Security Benefits. Memorandum by the Minister of Social Security

74 - Concessionary Fares. Memorandum by the Minister without Portfolio

75 - The Third London Airport. Memorandum by the President of the Board of Trade and the Minister of Housing and Local Government

76 - Possibility of Constructing a Super Airport at Sheppey to Replace Heathrow and Obviate the Need for Further London Airports. Memorandum by the President of the Board of Trade

77 - Public Purchasing and Industrial Efficiency: Draft White Paper. Note by the Chairman of the Ministerial Committee on Economic Policy

78 - South Arabia. Memorandum by the Secretary of State for Foreign Affairs

79 - Greece. Memorandum by the Secretary of State for Foreign Affairs

80 - Nationalisation of the Ports. Memorandum by the Minister of Transport
LOCATION OF DECIMAL FACTORY AND NEW ROYAL MINT

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

It is agreed that a temporary factory to produce decimal coinage should be sited in a development area and that the Mint itself should subsequently move to the same location. The decimal factory will provide 500 jobs (450 to be recruited locally) and the permanent Mint some 1,300 jobs of which over one-fifth would be recruited locally. A decision on the site is now necessary and the choice has been narrowed down to Llantrisant in Wales, Cumbernauld in Scotland and Washington in the Northern development area.

2. The Ministerial Committee on Environmental Planning have considered the annexed report from the Official Committee on Dispersal. The Official Committee agreed that there is a good case for any of the three locations on employment grounds. The Scottish Office, the Welsh Office and the Ministry of Housing supported Cumbernauld, Llantrisant and Washington respectively. The other Departments were divided between two views:

(a) that, as considerations of dispersal policy do not point decisively to any one of the three sites, the choice should be left to the management of the Mint whose preference is for Llantrisant;

(b) that an assessment of the various factors involved indicates a slight preference for Washington.

3. In the Ministerial Committee, while there was considerable support for Washington, it was agreed on balance that the choice should fall on Llantrisant. The Committee were mainly influenced by the following considerations:

(a) The case on employment grounds is very strong. Llantrisant is within easy commuting distance of the Rhondda Valley which, with male unemployment over 10 per cent and pit closures due in the next three years affecting 16 per cent of the male population, presents one of the most intractable unemployment problems in the country.
This in itself, however, would not be decisive in view of the serious unemployment problems in the other two areas. In these circumstances, the deciding factor should be the views of the Mint management. These derive from the attitude of the Mint employees. The staff associations prefer Llantrisant; the unions representing manual workers are unwilling to state a preference but have expressed particular opposition to Cumbernauld. The Mint management consider that resistance to dispersal on the part of their employees could jeopardise the entire decimalisation project, or at least risk injury to the Mint's export trade worth £7 million a year. They consider that the choice of Llantrisant would minimise these risks.

4. My colleagues should be aware of two other major dispersal projects which are relevant, though they affect office staff and are not predominantly industrial as is the Mint. It was recently decided that the Ministry of Transport vehicle and driver licensing and test booking centre (2,500 jobs, mainly for women) should be established at Swansea. A decision will be needed shortly on dispersal of Ministry of Defence supply and production staffs (2,500 jobs) and there are arguments pointing to South Wales as the best location. The Ministerial Committee felt that, if the Mint goes to Llantrisant, we should need to consider carefully whether the Ministry of Defence staffs could be located in Scotland. I have however since been informed that for operational reasons this is unlikely to be practicable.

5. The Secretary of State for Scotland was unable to accept the majority view. He contends that the Mint should go to Cumbernauld on the following main grounds:

(a) The Cumbernauld area stands in most need of the additional employment. It has suffered a high rate of unemployment for the last twenty years, future prospects are poor because of the expected rundown in shipbuilding, steel and mining, and the situation would be even worse were it not for an unacceptably high rate of emigration.

(b) The choice of site should not be determined by the preference of the present Mint employees, who in any case have not had a proper opportunity to assess the amenities of Cumbernauld.

(c) It would be quite indefensible to allocate three major dispersal projects to Wales, which, since 1963, has already had as many Government jobs allocated as Scotland, with a much smaller working population.

6. I invite the Cabinet to resolve this issue.

M. S.

Department of Economic Affairs, S.W.1.

13th April, 1967
A DECIMAL FACTORY AND A NEW ROYAL MINT

Report by the Chairman of the Official Committee on Dispersal

The Royal Mint is to erect a temporary factory to make decimal coinage ready for the changeover in February, 1971. This factory needs ideally to be ready to produce coins by mid-1968 but there is a latitude of a few months on this target date. Later, the permanent Mint will be rebuilt in a Development Area, and it would be sensible to choose a location for the temporary factory which would meet the requirements of long-term use for the rebuilt Mint. The decimal factory will employ about 500 people and the permanent Mint some 1,300 people.

2. The Mint have carried out a survey of a number of sites and have arranged visits by representatives of the Staff Associations and Trade Unions to a number of possible locations. Four places in Development Areas are feasible locations, but the choice lies in effect between three of these, namely Washington in the North-East, Cumbernauld in Scotland and Llantrisant in South Wales. The fourth possible location, Runcorn, has a certain advantage of easy site development, but this aspect of the problem is not regarded as weighing heavily in the overall assessment, and Departments are agreed that, of the possible English locations, Washington has the greatest claim to be considered, particularly on the basis of employment needs.

3. As between Washington, Cumbernauld and Llantrisant, the following are some of the main considerations:

(i) Cumbernauld has factories already at tender stage, with site development complete with the Corporation could rent to the Mint for decimal coinage production. This would help meet the production timetable. However the Mint's civil engineering consultants, Sir Alexander Gibb and Partners, regard these factories as unsatisfactory in that they are too small to permit the economic deployment of the labour force. They add that the timetable can be met in any of the three areas.

(ii) The costs of site development at Cumbernauld and Llantrisant will probably be somewhat higher than costs for Washington, Cumbernauld being probably the most expensive. However, in relation to the total cost of the building and the manufacture and distribution of the decimal coinage, differences of the order thought likely here are not very significant.
The Scottish Office contend that the region round Cumbernauld is the one most in need of the additional employment which will be brought not only by the Mint but by the consequent industrial developments which are likely to follow its establishment in any area. They also emphasise that there is a high proportion of skilled employment in the engineering and metal manufacturing trades available in the region round Cumbernauld. The Welsh Office argue that South Wales (particularly the Rhondda Valley which is within a few miles of the Llantrisant site and where the male unemployment rate is now over 10 per cent) has the priority claim on employment grounds. Similar considerations arise in the North East where a rundown is expected in coal, steel, marine engineering and probably shipbuilding. The Committee are agreed that a good case on the ground of employment needs can be made for all three locations.

The representatives of the non-industrial Staff Associations have expressed opposition to all four places on the ground that amenities such as education and housing are inadequate. However they say that without prejudice to that view their preference is in the order Llantrisant, Runcorn, Washington, Cumbernauld. The industrial Unions have not provided an order of preference and may remain unwilling to do so. They have however expressed a particular opposition to Cumbernauld.

The Mint management emphasise the importance of minimising the risk to coin production. They point out that the Mint industrial workers are not recruited on the basis of the expectation of a move and that resistance among these workers could jeopardise the entire decimalisation project, or at least risk injury to an export trade of £7 million a year which once lost could not easily be regained.

There are administrative advantages (particularly in relation to the provision of housing) in dealing with a New Town Corporation on this project, which, as far as it goes, counts against Llantrisant. The Welsh Office however say that they are in a position to ensure speedy and co-ordinated action by local authorities and others concerned on all matters related to the move and that there would be no difficulty in providing adequate housing.
4. The Official Committee have inevitably found this a difficult problem to consider for the following reasons:­

(a) The information provided indicates no decisive advantage for any one of these sites.

(b) The views of the Staff and Trade Union Sides have been mainly expressed in the form of a strong opposition to dispersal anywhere and in a particular objection to Scotland; but the non industrial Associations, whilst affirming opposition to any move, have now expressed a preference for Llantrisant.

(c) The consultants do not appear to have reached a firm view in favour of a particular site, or of any particular balance of advantage.

5. Clearly any one of these three sites would meet the criteria laid down, and a decision to choose any one of them would accord with the Government's general policy on dispersal. The Scottish and Welsh Office representatives on the Committee have understandably emphasised their preference for Cumbernauld and Llantrisant respectively. Similarly, the Ministry of Housing and Local Government, which has in this context a responsibility for watching the interests of English development areas, would support the claims of Washington. The other members of the Committee are divided between the following two opinions:

(i) That, provided that a Department has taken into account all the relevant considerations and that its eventual choice is in accordance with the requirements of development policy, it should, since any attendant risk of failure must remain the responsibility of the Department and its Minister, be left to take its own decisions. On this basis, the choice would fall on Llantrisant, which is the avowed preference of the management and, if there has to be dispersal, the Departmental Staff Side, though not of the Trade Union who will express no view.

(ii) That an assessment of the various factors involved leads to a slight preference for Washington. Its disadvantages are in staff preferences and its distance from London, which will increase the cost of distribution of the decimal coins. It has a good overall score on building costs and the supply of labour including skilled labour and as against Llantrisant offers the advantages that may flow from the existence for a New Town Corporation.

(S. P. Osmond)
31st March, 1967
At their Meeting on Thursday, 3rd November, 1966 (CC(66) 54th Conclusions), the Cabinet instructed that studies should be prepared of the implications for the United Kingdom's economic position and prospects of two policies which would need to be considered as alternatives to membership of the European Economic Community (EEC), i.e., membership of an Atlantic Free Trade Area (AFTA), and abstention from any new association with a wider grouping of countries (Abstention). These studies have now been completed by an interdepartmental committee, the report of which is attached.

2. In accordance with its terms of reference, the Committee did not take account of the wider political considerations essential to a balanced assessment of either alternative. The purpose of this note, which has been prepared in discussion with a Group of Permanent Secretaries, is to draw attention to the more important of these considerations and to comment on certain major issues in the Report. Some of these considerations would apply to either alternative but, in conformity with the Committee's report, the two alternatives are so far as possible treated separately.

3. As is made clear in its Report (which is summarised in respect of abstention in paragraphs 46-48 and in respect of AFTA in paragraphs 64, (shorter-term effects), 73-74 (longer-term) and 78 (implications for economic and financial management) there were divergent views in the Committee; these particularly concerned the merits of an AFTA, where the Committee recognised that the uncertainties were so great that no single confident judgment was possible. Within this general framework the range of views about the likely outcome of an AFTA was wide.

4. This note, like the Committee's Report, does not seek to make any systematic comparison between AFTA and Abstention, or between either of them and membership of the EEC. It would be difficult to attempt any quantitative assessment of the economic implications of any of these three courses and such an attempt must, in proportion as it looks ahead for more than a year or two, become increasingly precarious and speculative. The scope and scale of the factors which have to be assessed is such, and their uncertainty so great, that over the periods on which such long-term alternatives must be judged, the order of magnitude of the errors involved in any quantitative assessment is so great as to make it dangerous to rely on such estimates.
Basic factors

5. The Committee's Report notes that in addition to the pursuit of sound domestic policies which, in any situation, is of overriding importance, a basic factor in determining the future prosperity of the United Kingdom is the climate of world trade; and that this climate will in turn be much affected by, and in some circumstances depend on, the general international climate and the extent to which relatively stable economic and political conditions prevail.

6. The pattern of development in recent years of the economies of the main industrial countries and of the trade between them has been such that the future prospects of all of them depend largely on their Governments pursuing reasonably liberal trade policies and ensuring that the mechanism for international payments does not inhibit economic growth and the expansion of trade essential to it. The United Kingdom, because of its heavy dependence on trade and its long-established outward-looking stance, particularly needs the continuance of an expansionist climate of world trade and payments.

Atlantic Free Trade Area

7. As is made clear in paragraphs 20-22 of the Committee's Report, there is no possibility of an AFTA coming into being with the world economic order as it is now. This means that an AFTA is not negotiable in present circumstances. Decisions about future economic strategy for the United Kingdom must be taken in the context of what is possible now: and at present AFTA is not an "option" open to the United Kingdom.

8. It is conceivable that an AFTA might become a possibility in the event of a breakdown in economic relations between the United States and the EEC. This might, for example, take the form of a total failure of the Kennedy Round as a result of the Community's policies and attitudes, and of continuing lack of progress in current discussions on international liquidity as a result of the behaviour of the European creditor countries. In such circumstances the United States might be driven to adopt new policies in the international economic and monetary fields, if necessary in direct opposition to the interests and policies of continental Europe. Such a situation would inevitably involve a parallel change in United States defence policy, and would be extremely dangerous to this country in every respect. We should find ourselves existing in the circumstances of a deep cleavage between our present major allies, and we could not expect membership of an AFTA, in which we should be very much a junior partner to the United States, to compensate for the risks to our interests and perhaps to our security, which in an increasingly unstable world we should find it difficult to counteract.

Abstention

9. The Committee's Report concentrates on an examination of Abstention in the long term. There is, of course, a great difference both in economic and political terms between deciding as a matter of long-term strategy not to seek membership of the EEC and a short-term decision not to seek membership within the next few years.
10. The Report makes clear that the United Kingdom could continue to earn a reasonably good living if we continued in the present situation, though it also makes clear that such a situation cannot be regarded as a "soft option" in economic terms. We should have to be ready to accept the social disruptions inherent in the radical reorganisation of our pattern of production necessary to enable us to prosper. It would not be easier to do this on our own than it would be inside an enlarged EEC; in form we might be more free, but it would be a freedom to submit to disagreeable necessities.

11. We feel that the Committee's Report does not assign sufficient importance to the risks and difficulties for the United Kingdom in the long run arising from the formation and consolidation of other trading blocs. This trend is already seen in the EEC, the Latin American and Australian/New Zealand free trade areas, the Eastern bloc economic system, and perhaps in the movement towards free trade in limited sectors between the United States and Canada (of which motorcars are the only example hitherto). Even if tariff levels on average are reduced, the consolidation of other trading blocs entails the creation of a measure of discrimination against United Kingdom products. Moreover, such trends in the development of world trade and industry will intensify the pressure on the United Kingdom to specialize in an increasing degree in a more limited range of industrial products, and to do this without the benefit of a large assured domestic market comparable in size with those of our major competitors. We should not be able to compete effectively unless we were willing to adjust our economy rapidly, and the pressure on us to do so would increase. These pressures would have consequences - social, industrial and political - which need no emphasis. There is no reason to assume that the pressures on us to change, and the social disadvantages of such pressures, would be any greater if we were outside the EEC than if we were inside it, but it would certainly be more difficult for us to react purposively to them if we were on our own than in the more dynamic economic conditions which we would expect if we were within the EEC.

12. A conscious and definite long-term policy not to seek accession to the EEC could have significant political overtones. Inevitably it would adversely affect our political relations with the six countries of the EEC. It is probable that over the years such influence as we now have with the United States would diminish. Our ability to prevent unfavourable political developments (especially a split between Western Europe and North America), and our ability to promote desirable developments (such as improved relations between the Soviet Union and the Western world) would be further reduced. We should be better able to influence these developments in the interests of our own security if we were partners of a larger grouping than if we were alone.
13. A conscious and long-term policy of Abstention is, however, an unlikely development (though it is possible that the members of the EEC might interpret a short-term decision not immediately to seek membership as indicating such a long-term policy). For ourselves, it seems more probable that if we were again rebuffed by the EEC or if we decided not to apply to join, we should continue to pursue our present trading policies, including the retention - as far as possible in the face of their steady erosion - of the privileges which we enjoy in Commonwealth markets; in short that we should not make any overt and declared change of policy but should continue much as we are in the hope (in which we should be encouraged by the United States) that at a later stage a more favourable opportunity might occur.

(Signed) BURKE TREND

Cabinet Office, S, W. 1.

14th April, 1967
POSSIBLE INTERNATIONAL ECONOMIC ARRANGEMENTS

Report by Officials
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Paragraphs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTRODUCTION</strong></td>
<td>1-4</td>
</tr>
<tr>
<td><strong>SECTION A: ECONOMIC BACKGROUND</strong></td>
<td>5-22</td>
</tr>
<tr>
<td>Determinants of British Economic Prosperity</td>
<td>5-9</td>
</tr>
<tr>
<td>External Environment</td>
<td>10-16</td>
</tr>
<tr>
<td>Context of “Abstention” and AFTA</td>
<td>17-22</td>
</tr>
<tr>
<td><strong>SECTION B: ABSTENTION FROM ACCESSION TO ANY NEW REGIONAL ECONOMIC GROUPING</strong></td>
<td>23-48</td>
</tr>
<tr>
<td>Summary on “Abstention”</td>
<td>46-48</td>
</tr>
<tr>
<td><strong>SECTION C: ATLANTIC FREE TRADE AREA</strong></td>
<td>49-78</td>
</tr>
<tr>
<td>Short-term effects on the balance of payments</td>
<td>54-64</td>
</tr>
<tr>
<td>Longer-term effects</td>
<td>65-74</td>
</tr>
<tr>
<td>Implications for Economic and Financial Management</td>
<td>75-78</td>
</tr>
<tr>
<td><strong>SECTION D: CONCLUDING REMARKS</strong></td>
<td>79-89</td>
</tr>
<tr>
<td>“Abstention”</td>
<td>81-84</td>
</tr>
<tr>
<td>Atlantic Free Trade Area</td>
<td>85-89</td>
</tr>
</tbody>
</table>

**ANNEX I: SHORT-TERM IMPLICATIONS OF AN AFTA FOR UK TRADE WITH OTHER MEMBER COUNTRIES**

**ANNEX II: ATTITUDES TOWARDS AN AFTA OF THE US, CANADA, AUSTRALIA, NEW ZEALAND AND THE IRISH REPUBLIC (Note by the Foreign Office and the Commonwealth Office)**

**Note:**

A summary of the discussion of “Abstention” is to be found in paragraphs 46-48; summaries of the discussions of the shorter-term effects of an AFTA, of its longer-term effects, and of its implications for economic and financial management are in paragraphs 64, 73-74 and 78 respectively.
POSSIBLE INTERNATIONAL ECONOMIC ARRANGEMENTS

REPORT BY OFFICIALS

1. We were constituted on 18th November, 1966, with the following terms of reference:

   "To study the implications for the economic policies and prospects of the United Kingdom (UK) of:
   (i) UK membership of a North Atlantic Free Trade Area;
   (ii) abstention from accession to any new international trade or economic grouping."

We met under the chairmanship of the Department of Economic Affairs. Representatives of the Treasury, the Foreign and Commonwealth Offices, the Board of Trade, the Ministries of Agriculture and Technology and the Bank of England, and also the Economic Adviser, Cabinet Office, took part in the work.

2. Our report consists of the following sections:
   A. Economic background. In this we consider briefly the general determinants of British prosperity whichever course the UK were to follow; and the environment from which this country could set out on either of the courses we were asked to study.
   B. Implications of "Abstention".
   C. Implications of an AFTA.
   D. Concluding remarks. Here we touch on some general considerations which would be relevant to any assessment of UK prospects in the event of "Abstention" or an AFTA (including the feasibility of negotiating an AFTA) and outline our conclusions.

3. We had in mind in our study the primary importance of understanding the long-term effects of each set of policies, though we also recognised that there would be complex problems arising out of a period of transition if the UK entered a new grouping. Either way the question naturally arises of how the position of the UK would compare with the prospect revealed by the normal economic forecasts.

4. A study is in progress as part of the general medium-term planning exercise on the UK's economic prospects up to 1972; it will be available towards the end of May and some aspects of it before that date. That study is intended to provide a framework within which various alternative policies can be examined. The basic framework will be drawn up in the first instance on the assumption that there is no major change in the economic associations of the UK, but even if it were available now its time-scale would not be long enough to throw much light on the relative advantages of the effects of specific proposals in the international field over an extended period. In many cases moreover the effect of the proposals which we are now considering is bound to be so much a matter of judgment that statistical projections would be of little help.

A. ECONOMIC BACKGROUND

Determinants of British economic prosperity

5. The future prosperity of the UK will be determined basically by two factors: the nature and effectiveness of our domestic policies and the climate of world trade. This climate will in turn be much affected by, and in some circumstances be dependent on, the general international climate and the extent to which relatively stable conditions prevail. Unless these factors are favourable...
the Government will fail in their objective of combining full employment and economic growth at home with a satisfactory balance of payments with overseas countries. The UK finds difficulty, as do other countries, in pursuing these objectives simultaneously, and the key to success in present circumstances is to secure increased economic and industrial efficiency (along with an effective prices and incomes policy) which would make possible a faster growth of productivity together with an improvement in the UK's international competitive position.

6. The UK must devise and operate effective domestic economic policies, and be prepared to bring about substantial changes in the structure of industry and in the allocation of resources. In the longer run it is reasonable to assume that UK growth prospects will depend to a major extent on the growth of productive potential. This will be determined by the growth of the labour force (which is currently expected to show no increase up to 1975 and to grow very slowly thereafter), and by the rate of increase in its productivity. The latter will depend largely on success in increasing the UK's economic efficiency through internal measures.

7. There are, however, two qualifications. First, the constraint on growth that may be associated with action to deal with the UK balance of payments cannot be ignored. In so far as balance of payments difficulties lead to repeated checks on the expansion of demand there will be an adverse effect on confidence, investment, productivity and unit costs of output. So the measures put into operation, or the mechanisms adopted, to adjust the balance of payments, should as far as possible avoid restrictions on production. It is also true that the UK will be better able to avoid balance of payments difficulties if the world as a whole provides a steadily expanding market for UK exports.

8. Secondly, provided UK industry is competitive in international markets, the growth of UK efficiency will be greater in a world in which there are opportunities for increasing international specialisation and economies of scale; and in which there is the challenge of foreign competition. UK policies must therefore be directed towards the maintenance of harmonious relations with other major trading nations based upon continued liberal commercial régimes. The UK should avoid action which would provoke or encourage others to be less liberal.

9. In broad outline, we conclude that the growth and prosperity of the UK will depend on:
   (i) the effectiveness of the Government's policies, external and internal;
   (ii) expanding markets for UK exports;
   (iii) low barriers against UK exports;
   (iv) low barriers against imports into the UK;
   (v) a smoothly working international monetary system.

Paragraphs 10-16 set out our view of how far these factors can be expected to be favourable over the next decade; they are also relevant to the specific discussions of the “Abstention” and AFTA situations in later sections of this report. Paragraphs 17-22 define more closely the situations in which the UK would be likely to “Abstain” and to become a member of an AFTA.

External environment

(i) Production and trade

10. During the past 10 years the real gross national product in Organisation for Economic Co-operation Development (OECD) countries (including the United States (US), Canada and Japan) has grown at about 4 per cent a year, trade by value at 7 per cent, and investment has reached levels around 20 per cent of the gross national product (GNP). There are many forces at work to make for a continuation of expansion of world trade and production, and generally liberal commercial policies within the advanced industrial countries:

(a) The Governments of most advanced industrial countries accept as objects of policy responsibility for maintaining full employment and economic growth.
A high proportion of total resources devoted to investment, together with the devotion of considerable resources to the application of science and technology, and the organisation of large international industrial complexes, may all be expected to contribute to faster growth.

The main industrial countries now have industrial structures of comparable maturity, and consequently the pressure for increasing protective barriers has diminished.

The prosperity of recent years has come about, in a period of increasingly liberal policies, non-discrimination, and most-favoured-nation (mfn) treatment, and has thus commended such policies.

The main industrial countries are committed to substantial aid programmes to sustain and build up the economies of the less developed countries (ldc's). These programmes, though checked in various ways at the present time, will remain very significant.

Capital flows on private account, though discouraged by disturbed conditions in some ldc's, and checked by government action in the US and UK, can still be expected to contribute to the growth of trade.

The Eastern bloc is gradually becoming more open and providing more opportunities for trade, although for many years to come it is likely to play a relatively small part in world trade.

We cannot entirely ignore the possibility that the US and the European Economic Community (EEC) will become more protectionist and that the tendency of the Communist States towards more multilateral trading will be reversed. It is possible that the EEC will strengthen and extend its preferential trading arrangements in Africa, and the US negotiate similar arrangements in Latin America. If tariffs are further reduced non-tariff barriers may be devised to reintroduce protection. Divergencies in wage rates, if not otherwise corrected, may result in balance of payments difficulties that will justify the use of import restrictions. These and other adverse developments are all possible but in our view unlikely on a significant scale within the next 10 years unless there is a major recession in the main industrial countries simultaneously.

Much responsibility will rest with the US authorities both for fostering their own growth and for maintaining a climate for liberal progress; but the EEC's attitude will be hardly less important to the UK. UK trade will still be big enough to afford appreciable bargaining power, but this country will be less able than in the past to move others far in a positive direction. Nevertheless the choice of the wrong policies by the UK could still influence the policy of others in directions which would diminish the opportunities for international trade.

We think it reasonable to expect that a single world monetary system based on the International Monetary Fund (IMF) and on the gold exchange standard will continue and that means will be found to provide sufficient growth in world reserves to avoid any break-down in world trade. This implies some change in the existing system, and this may come about through the establishment of a new form of international asset on the lines now being discussed. Alternatively it could come through some development of the existing IMF system, or through some accommodation between Europe and the US under which the former would not object seriously to the continuation of US deficits on a small scale, and therefore to some continuing growth of dollar reserves. This expectation may be a little optimistic but it is by no means unrealistic; there are powerful forces which are likely to prevent the world moving towards any serious disruption of the present system. It may also be expected that the price of gold will remain as at present and that there will be no substantial alteration of exchange rates as between North America and Europe. The precise means by which a relatively stable situation might be preserved is of secondary importance and it would not be profitable in this report to discuss the various possibilities in detail.

In such a relatively stable world it must be assumed that sterling would continue to function as a major international trading currency. The UK may well be successful in securing an arrangement which would afford at least some safeguard against fluctuations in the balances, both official and private. But subject to this, the assumption is that it would not be possible, even if it were desirable.
to relieve sterling altogether of its role as a reserve currency. In these circumstances the degree of strain which the international role of sterling, as distinct from the UK's balance of payments problem, imposed upon the UK would not be greatly different from that experienced in recent years. The surest method of dealing with the problems of sterling, and thus relieving whatever constraints they may impose, would be a substantial and long-term improvement in the UK balance of payments.

15. An alternative possibility would be that continuation of US deficits and of an outflow of gold from the US could within a period of years bring the US authorities to a point where they felt compelled either to raise the price of gold or to sever the link with gold altogether. Such a drastic move is only likely to be brought about by severe pressure on the US gold stock. It might be more palatable to US public opinion at a time of disillusionment with continental European policy towards the entry of the UK into the EEC, the Kennedy Round, and the creation of international liquidity. And although such disillusionment might also provide the conditions in which the US authorities might become interested in trading arrangements of the AFTA type, it does not necessarily follow that they would see advantage in simultaneously making a monetary break and in setting up an AFTA.

16. Thus it is possible that, whether inside an AFTA or abstaining from any new grouping, the UK might find itself in a world in which one set of major industrial countries based their currencies on gold while another set, including the UK, pegged on the dollar. In these circumstances the UK might find that its competitive position, along with that of the US, was improved vis-a-vis the gold bloc although trade generally would be bound to suffer from a split in the world's monetary system. Moreover the gold in UK reserves would then be of relatively limited usefulness. But since a new international monetary situation of this kind could only be brought about by a virtually unilateral decision by the US we have not examined its implications in any detail. However, we think it likely that, because of the damage that would be caused by a split between the dollar-sterling bloc on the one hand and a European gold bloc on the other, the Six and the US would quickly be led to seek means of managing the relations between the two blocs in a reasonably stable manner.

Context of Abstention and AFTA

17. It is essential to envisage the setting in which the Government might be called upon to evolve an alternative to UK membership of the EEC.

18. This contingency could arise as a result of the UK's failure to enter the Community either because the British Government decided that the price would be too high or as a result of attempts by existing members of the Community to raise the price of UK entry-during the negotiations. Such circumstances would be the occasion of regret in international economic relations, but not necessarily of recrimination. Given that the UK's failure to enter the Community led to no sharp deterioration in the international economic climate, and that the Community avoided a direct confrontation with the US by permitting some progress in the Kennedy Round and not obstructing completely any progress in discussions on international liquidity, there would be no reason to expect that the US would undertake a radical reappraisal of their relations with Europe.

19. In such a situation the UK would be outside the EEC and would probably have no opportunity of joining an AFTA, since the US would not have altered their existing stance. Section B of our report assesses the outlook for the UK economy in this event.

20. Alternatively UK failure to enter the Community might be a result of a positive veto by General de Gaulle. Such a veto could well be combined with the effective prevention of any results from the Kennedy Round; and might be followed over a period by obstruction of any progress on international liquidity. These developments would undoubtedly cause tensions within the Community but, on the basis of past experience, would be unlikely to lead to its collapse. The US Government would then certainly make a review of their European policies. They would no doubt reflect that in the first place progress with the political and economic integration of Western Europe as a whole would have come to a halt with
UK exclusion from the EEC. In the second place the failure of the Kennedy Round would have meant the failure of the US attempt to minimise the importance of the Community by general tariff reductions. And in the third place forces making for the reduction of US influence in IMF and for the continued weakening of the dollar as a reserve currency would have been strengthened.

21. In those circumstances US disillusionment might be very great. The US Government might well take the view that the price in terms of limitations of their freedom in foreign and defence policies of maintaining the single world monetary system was no longer worth paying. If they took this decision the probable outcome would be the division of the world into two monetary blocs, one in which the sterling area would be included based on the dollar, the other an EEC bloc maintaining a link with gold. The US Government, if this were to happen, might also decide to try to strengthen US economic and trading links with those countries which had supported their policies and whose monetary systems were now linked with that of the US, i.e., the UK, certain old Commonwealth countries and the Scandinavian members of the European Free Trade Association (EFTA).

22. In short, it seems to us that the possibility of an AFTA being opened to the UK and other countries depends on the breakdown of US policies in the European and world trade fields and probably also on the division of the world into two monetary blocs. But in any case, we consider that an AFTA, with which Section C of our report is concerned, could only come into being as a result of major changes in US policy, and perhaps only following US initiatives.

B. ABSTENTION FROM ACCESSION TO ANY NEW REGIONAL ECONOMIC GROUPING

23. Our terms of reference speak of "abstention from accession to any new international trade or economic grouping". We have taken this expression to mean a situation in which (a) the UK is not a member of the EEC nor of any other regional group such as an AFTA; and (b) the prospects of the UK becoming a member of any such group are remote enough not to affect the Government's freedom to choose the policies to be pursued. Whether or not a decision to keep open the option of joining either the EEC or an AFTA at a later stage would act as a constraint on the policies which the UK might pursue is a question which we have not examined in detail, but there is a presumption that it would impose some limitations on what the UK might do in both the external and domestic fields.

24. In this section we consider first of all what would be the general external economic environment in which the UK would have to operate and, secondly, what sort of policies the Government might pursue in order to make the most of our position.

25. For the reasons given earlier we think it likely that world economic conditions will develop in future as favourably as in the recent past. It would be consistent with this view to envisage that UK external relationships will remain broadly unchanged, i.e., that the UK will be able to maintain free trade with at least the more important EFTA countries, that preferential arrangements with the Commonwealth will remain but will continue to be eroded, and also that the framework of international economic and political institutions—the General Agreement on Tariffs and Trade (GATT), the IMF, OECD and the United Nations—will remain broadly unchanged.

26. Given the general external economic background, it is clear that the main remaining factor affecting the UK's economic performance and prospects will be the Government's economic policies. In the following paragraphs we consider:

(i) some aspects of domestic policies;
(ii) some general questions of external economic policy;
(iii) a number of directions in which commercial policies might be pursued;
(iv) some aspects of agricultural policy.
(i) Domestic policies

27. It is not possible to discuss here in detail what UK domestic policies might be in particular situations which might develop in the longer term. For the next few years the UK's main concern will be to achieve faster and steadier growth and with a healthier balance of payments than in the past, when the average growth rate has been less than 3 per cent per annum and the UK has suffered recurrent balance of payments crises. To the extent that the Government's policies are successful "Abstention" will present the UK with no new problems. Moreover the Government have already embarked on long-term policies designed to increase UK economic and industrial efficiency, and these may be assumed to continue. Whether the UK is part of a regional grouping or not, the Government will need to encourage considerable structural changes in our economy, and the freer the pattern of world trade that develops, the more responsive our policies will have to be. To secure the most favourable prospects for growth, it will be necessary to ensure that the UK is competitive in the production of those goods for which overseas demand is growing quickly, and that too much manpower and investment is not committed to the declining sectors. Positive action may also be required in order to ensure that UK firms are big enough to compete successfully. Experience to date suggests that economies of scale—in the widest sense—are already an important factor in the performance of several capital or technologically intensive industries, such as computers, motor cars and petrochemicals. It may be that in so far as membership of a new trade grouping would have provided a helpful stimulus to the restructuring of industry this would have to be replaced by internal policies. These might be primarily aimed at raising the efficiency of management and investment, but could also extend to decisions as to the pattern of industrial specialisation that should be encouraged, for this would then be more within our control.

28. Since the main expanding markets for manufactures are likely to be provided by other developed countries, UK trading success will largely depend on performance in their markets; if the UK does badly there it will not be possible to achieve a satisfactory total trade by exports elsewhere. Since the UK will not enjoy the stimulus which might arise from membership of a new trade grouping, it may be necessary to pursue still more vigorous policies at home and abroad to promote competitiveness in all overseas markets.

29. One consideration in the case of "Abstention" is that, as compared with membership of any new grouping such as the EEC or AFTA, the UK would not be acquiring any new institutional constraints which might prevent the adoption of particular policies for dealing, for example, with balance of payments problems. The UK would be as free as it is now. That freedom is, of course, far from absolute; it is always tempered by the consciousness that, firstly, the Government must so far as possible avoid restrictive action since it is in this country's interest that others should pursue liberal policies, and that secondly, UK policy, as is that of other countries, is subject to international surveillance, the extent of which is generally more likely to grow than to diminish (and which is always bound to press harder on a debtor than on a creditor).

(ii) External economic policies

30. It was stated in Section A that UK growth and prosperity depended among other things on there being steadily expanding markets for UK exports. There seems a good chance that this condition will be fulfilled and that the UK will continue to have access on reasonable terms to the large and growing markets of the industrial countries. So far as the EEC and the US are concerned tariff barriers are not high; indeed they are historically low, and they may be significantly reduced if the Kennedy Round is successful. It would continue to be a major objective of UK policy to maintain harmonious relations with these countries which provide markets for almost a third of UK exports and to work for the reduction of barriers to trade with them.

31. We expect that free trade will be maintained with at least the more important EFTA countries, and we assume that the UK will want to keep EFTA as a central element in its external economic policies. To achieve this the UK may well have to agree to give greater content to the Stockholm Convention; the
disadvantages resulting from the additional obligations which other EFTA countries might seek to introduce would have to be weighed against the value to this country of preserving EFTA.

(iii) Commercial policy

32. It follows from the argument in Section A (that UK growth depends on low barriers against both UK exports and UK imports) that the Government should continue to pursue policies directed towards reducing tariff and non-tariff barriers on the widest possible basis. To move in the direction of autarky would mean that the UK would deny itself the benefits of international specialisation and economies of scale which are becoming increasingly important in international economic relations. Autarky would also create dangers for this country in that other countries and groups might be encouraged to do likewise and that the extent to which it would insulate the UK against developments in the rest of the world is very limited. Nevertheless, the rejection of autarky does not necessarily rule out the selective pursuit of some degree of industrial protection or import substitution. The UK, however, have to guard against prejudicing broader economic objectives, and we conclude that having regard to this country's longer-term interests it would not pay to depart significantly from the general principles of non-discrimination and the pursuit of lower barriers to trade within an agreed system of international rules and obligations.

33. This does not mean, however, that the means of pursuing UK commercial objectives would necessarily be the same as they have been up to now, and any way the existing internationally accepted rules and obligations which now govern international trade may change, at least in detail. For example, a multilateral trade and tariff negotiation on the scale of the Kennedy Round is unlikely to be repeated at least for a considerable time to come and it may well be that future negotiations will return to the narrower and more selective form of earlier GATT negotiations or that new methods and techniques will be devised.

34. There are a variety of ways in which the UK might seek to improve its position within the general framework described above.

35. The UK is already establishing close commercial and technological links with EEC countries in the field of aircraft production, because this is an industry in which economies of scale in production and marketing are clearly of immense importance and also because it is an industry in which Governments are closely involved. There are other industries in the same category (computers and nuclear energy, for example) in which similar arrangements might be made. In many important industrial fields enterprises have more and more to plan on the basis of world-wide operations, and in these areas great international corporations, such as Shell, Unilever and Imperial Chemical Industries (ICI), assume an increasingly dominant role. The Government could therefore adopt a positive policy of promoting the development of such enterprises and of encouraging them to centre their operations in Britain. On a more modest scale companies could develop technical and marketing co-operation arrangements with foreign companies, and in some areas it might be possible to organise joint research and production arrangements. This is particularly the case with firms in EEC countries but there are already strong technological links with US firms, notably through licensing arrangements, as in computers and electronic control systems. Where an industry is heavily dependent on the Government for research financing and as a purchaser, the Government can, as in the defence field and aircraft, play a positive role in bringing about joint research, development and marketing arrangements with one or more overseas partners. This not only shares the R and D costs and the risks involved, but widens the market possibilities and, in particular, may give the UK firms access to the European or the US market, notably in the public sector, on terms more favourable than would otherwise be possible. As part of this general policy of strengthening the technological base of the UK economy, the Government might also adopt a more positive policy of attracting overseas enterprises to this country.

36. There is the possibility that in the future the reduction of trade barriers might be more manageably negotiated through sectoral arrangements covering particular sectors of trade or products rather than by across-the-board reductions; for example, in motor cars or other manufactured goods where a very large market was considered essential for the development of modern productive techniques.
However, the scope for deals of this kind is likely to be limited, not least because of balance of interests which both sides would regard as fair would be difficult to achieve. Even if, say, the Europeans were prepared to contemplate such arrangements, they might wish them to be on a preferential basis; this would be strongly opposed by other countries, particularly the US, as being a significant breach of non-discriminatory rules. Thus the UK would have to consider carefully whether the direct advantages gained from such arrangements might be outweighed by the effect they might have on relations with other customers of importance and also by the possibility that they might encourage the development elsewhere of preferential arrangements which would operate to the disadvantage of this country.

37. The less developed countries now take one quarter of UK exports, divided almost equally between Commonwealth and foreign countries. As a group they are likely to continue expanding relatively slowly and to restrict imports to what they regard as essentials. Their capacity to import is largely determined by the level and stability of the prices of primary products, the expansion of their exports of manufactured goods, and by the aid they receive. It is Government policy to provide development aid, and to encourage other countries to do so, and this is regarded as being in the UK's long-term economic interests, because of the expansion of international trade to which it may lead. The amount of aid the ldc's receive and the conditions attached to it are bound to influence their commercial policies significantly. In general, however, the UK could expect no substantial improvement in its export prospects from anything it could reasonably offer them. This country would stand to lose from any movement by the US or the EEC (or possibly even the Eastern bloc) to use their superior economic strength and the aid they could give to obtain preferred positions in the markets of the developing countries. Rather than seek a preferred position in these markets in competition with the large units with more attractive markets than that of the UK it might be more in this country's interest to accept some erosion of its existing preferences, if this were necessary to ensure competition on equal terms with the US and the EEC in the developing countries as a whole. In any case some further erosion of the UK's large share of the import markets in Commonwealth ldc's is only to be expected.

38. The Commonwealth ldc's already enjoy free access to the UK market for virtually all the products in which they are interested, with the exception of some textiles (including jute goods). But there is some scope for the UK to encourage them to produce more low-cost manufactures for its market, thus helping to release resources for more technologically advanced activities. It would thus help to increase UK production of new products and would increase the purchasing power of the developing countries. This country could hope for some balance of payments advantages on both counts. There would be domestic difficulties, arising out of any significant rise in low-cost imports, which would be different in kind from, though not necessarily any greater than, those that would accompany structural change consequent on joining a larger grouping such as an AFTA or the EEC.

39. Trade with all Commonwealth countries (including the less developed) accounted in 1965 for some 30 per cent of our exports and it is clearly in the UK's interests to maintain a favourable position in these markets for as long as possible. Nevertheless, the UK position has been steadily eroded and this process is likely to continue. From time to time consideration has been given to seeking ways in which intra-Commonwealth trade might be expanded to the advantage of the UK, but on the whole the results have not been promising.

40. Should the UK not enter any large economic grouping the Government should aim to maintain as much as possible of the Commonwealth preference system for as long as possible and to exploit as far as possible this country's position as a major market for Commonwealth countries' exports. The UK's hand would be strengthened in this if the Government were prepared to make fundamental changes in their Commonwealth policy and to put tariffs on selected imports from some or all Commonwealth countries. It might be possible then to negotiate fresh benefits for some UK exports in some Commonwealth markets. On recent experience, however, there is no reason to expect that most other Commonwealth countries would be willing to increase preferences or enter into closer trading arrangements with the UK; Canada and Australia, who are the most important UK markets in the Commonwealth, have been seeking markets
elsewhere and bargaining away the preferences which they give to this country, since they appear to regard the potentialities of expanding markets elsewhere as more important to them than maintaining a preferential position in the UK.

41. UK trade with Eastern bloc countries has been expanding in recent years, but in total these markets are still relatively unimportant, taking only about 3 per cent of UK total exports. Nevertheless, because of their large populations and the present low level of their trade with non-Communist countries, they might eventually offer very large potential markets. Although changes are taking place in their systems of economic management which may in the long run lead to substantial changes in the pattern of their foreign trade, it is still too early to predict either the effect or the time scale of these developments. Moreover, limits are set to the prospects of their increasing their UK earnings because the UK cannot increase its imports of those products which they might wish to send here in greater quantities (e.g., oil and foodstuffs) without detriment to other UK objectives. Their main export requirements in UK markets would be for primary products, including such basic commodities as bacon and pigmeat, dairy products and beef, for which this country cannot offer greatly increased opportunities without frustrating the Government's efforts to expand production and save imports, or damaging UK trading relationships with other major suppliers of those commodities, or both. To a lesser extent they have an interest in increasing their exports of a selective range of processed foodstuffs, but the opportunities for expansion in that field are limited and could not be expected substantially to increase their earnings in the UK. In any event they already pre-empt a substantial proportion of these earnings for purchase of raw materials from the outer Sterling area. These considerations suggest that in the short term the Eastern bloc countries are not likely to become major markets for UK exporters although they possess growth prospects in the very long term.

42. It is possible that unilateral tariff cuts by the UK could encourage specialisation and increase the stimulus to industry of foreign competition, although it would, of course, be giving this country only part of the gains from freer trade (there would be no increase in the size of its markets) and could in the short run be damaging to the balance of trade. While there might be some scope for this kind of action in a few sectors which would be to the advantage of the UK it is clear that it would normally be in its interest to secure the maximum possible reciprocity for such reductions.

(iv) Agriculture

43. The general principles set out in paragraph 9 apply to trade in agricultural as in industrial products. Nevertheless there is no doubt that the UK possesses a substantial technical capability to increase home agricultural output and among the policies which the Government may seek to pursue is that of import substitution in agriculture. Even assuming the present balance and structure of the industry (and including the attainment of the present selective expansion programme) it would be physically possible to secure in time a substantial import saving. The cost of doing so, in terms of resources, would probably not be prohibitive. But the net benefit to the balance of payments would be very much smaller than the gross import saving.

44. A deliberate decision to seek the maximum programme of import saving for agriculture would mean that the UK would have to go back in some measure at least on existing obligations and commitments to other countries, especially the Commonwealth, the Irish Republic and EFTA. It would also be necessary to depart significantly from the general principles to which the UK has subscribed in the GATT and to be ready to contemplate a series of restrictions on imports whilst deliberately encouraging the expansion of home production.

45. At the same time, however, the UK could expect strong pressures from Denmark and from the Irish Republic, if they too were unable to enter the EEC, to improve their position as agricultural exporters to the UK market by providing them with what they would regard as more nearly equal terms of competition with British farmers. Given that neither country had much to hope for in EEC markets their efforts would be intensified to strengthen the agricultural content of EFTA and of the Irish Free Trade Area Agreement. As regards Commonwealth
agricultural exporters, it is to be expected that they would continue where possible to diversify their market outlets so as to strengthen their own economies. But they would continue also to look to the UK food market; this applies particularly to New Zealand and the Caribbean countries in view of their heavy dependence on the UK market for their exports of foodstuffs.

46. The general situation, therefore, is that although the UK would in any foreseeable circumstances be likely to continue as a substantial net importer of food and feeding stuffs it would remain under great pressure to restrain domestic production well below the maximum technically feasible. And for the reasons given above the UK could not hope to secure anything like the maximum import saving possible without wrecking most if not all of its existing trade agreements with the Commonwealth, the Irish Republic and EFTA. However, given technical capabilities the UK would be able, over a period, to produce a higher proportion of its food at home at an acceptable cost in resources and without serious effects on relations with supplying countries.

Summary on “Abstention”

47. If this country were to abstain from membership of a new regional economic grouping in the kind of situation discussed in paragraphs 18 and 19 it would not mean that there would be no need for change in the structure of the economy. Certain external stimuli to industrial change which might otherwise have existed would not be present, but this would only mean that where possible the UK would have to do more itself in domestic and external policies. Industrial processes are becoming more complex and many of the major growth industries require large and growing markets in order to reap the advantages of technological progress and increasing economies of scale. The other major industrial powers—the US, the EEC and the Soviet Union—may well become increasingly formidable competitors. Great changes will be necessary in the UK’s industrial structure, and the UK may need to pursue with more vigour the policies already adopted in order to bring them about. It will not be possible for the UK to avoid the need for these changes by changes in commercial policy nor, in the view of the Committee, is there any alternative commercial policy which would do more to help the UK to pay its way and to improve its standard of living.

48. If the world develops in a liberal way, however, there is no reason to believe that the UK economy could not grow at a satisfactory rate with external stability; the extent of that growth would depend primarily on the Government’s policies. There remains the risk that the world will develop in an illiberal way and that the UK’s relative economic position as a highly diversified world trading economy may deteriorate in relation to the larger economic blocs. The Government will therefore need to do what is possible to prevent this from happening and to diminish any tendency for the UK to become isolated. In the longer term it should be possible to develop markets in the developing countries and in Eastern Europe, while the UK’s remaining preferential links with the Commonwealth, UK membership of EFTA, functional arrangements with the EEC, harmonious relations with the US, and continued membership and active support for international economic institutions are all valuable safeguards which the UK should aim to preserve and, if possible, to strengthen.

C. ATLANTIC FREE TRADE AREA

49. As stated in paragraph 1 of this report, the Committee was asked “to study the implications for the economic policies and prospects of the United Kingdom of membership of a North Atlantic Free Trade Area” (the Javits Plan). Our main study has therefore been confined strictly to economic matters. We have not attempted to answer the key question whether it would be in the UK’s political interest to join an AFTA. We have, however, included as Annex II a note by the Foreign Office and the Commonwealth Office on the present attitude of the United States and Commonwealth countries concerned towards a proposition of this kind.

50. In the speech which Senator Javits made to the United States Senate in August 1965, he recommended that “the United States should offer to enter
into a free trade area initially with Britain, then with Canada and, on a reciprocal basis, with the other EFTA nations . . . with the members of the EEC, either individually or as a unit, and with the other industrialised countries of the OECD."

For the purpose of our study, however, it has been necessary to define the boundaries more precisely and to take greater account of political realities including the Commonwealth connection. As a working hypothesis we have assumed that membership of the AFTA would consist of the US, the UK, Canada, Denmark, Norway and Sweden, Australia, New Zealand and the Republic of Ireland.

51. Our other working assumptions are as follows:

(a) All the members would join at the outset which we have taken as 1970.
(b) The subsequent transitional period for the reduction of tariffs would last until about 1975.
(c) All tariffs would be removed from trade in industrial goods between members of the AFTA (subject to major exceptions for developing industries in Australia and New Zealand); the treatment of non-tariff barriers would, however, be a matter for negotiation.
(d) Members would remain free, as at present, to pursue their own tariff policies vis-à-vis non-members (as in EFTA).
(e) There would be some agricultural content to the AFTA, i.e., a considerable extension of trading opportunities in agricultural products.
(f) The UK would be able to retain the present control over portfolio investment (the question whether the UK would be able to retain the present control over outward direct investment in member countries is considered in paragraph 75).
(g) International monetary arrangements would provide for a reasonably stable relationship between the pound and the dollar and each country would have confidence in the other's currency.

52. We have approached our task from two different angles. First, a theoretical analysis was undertaken on a macro-economic basis; this was concerned with the effect of an AFTA on the aggregate items in the UK's balance of trade and capital movements in the short run and on the growth of output and productivity in the longer run. Secondly, an empirical study was made by production departments of the implications of an AFTA for individual manufacturing industries, for coal and oil, and for a range of agricultural products. We have tried to synthesize the results of both studies though without coming to a cut-and-dried conclusion. This inconclusiveness seems to us inevitable. No AFTA exists at present and none has been officially proposed. All free trade areas are what they are negotiated to be. In an AFTA much would depend on the bargain that was struck on agriculture, on the treatment of non-tariff barriers and on capital movements. The UK would have the advantage of being in at the beginning instead of being faced, as in the EEC, with a ready-made structure. But it would have the disadvantage of negotiating with one partner who was very much larger and stronger than the rest.

53. This section of the report is divided into three parts. The first considers the effects of membership on the balance of payments in the short term, defined as being the end of the transitional period. The second part considers the implications of membership for the growth of productivity and real income in the longer term. That is the central issue. (It is implicit in the analysis that the UK is able to maintain a sound balance of payments position in the longer term.) The third part considers the implications for the economic and financial management of the UK.

Short-term effects on the balance of payments

54. In order to assess the effects of an AFTA on the balance of payments on current account, we considered in some detail what would happen to the UK's bilateral trade with the US and also examined possible consequences to its trade with other member countries, to particular industries, to coal and oil and to agriculture. An outline of this study is set out in Annex I and the results are summarised in paragraphs 55-58 below. In paragraphs 59-63 we turn to the implications of an AFTA for direct investment by the US in the UK and by the UK in the US. We then try, in paragraph 64, to sum up the total effect on the UK balance of payments as a whole.
(i) Visible trade with AFTA countries

55. Trade in manufactured goods between the UK and the US is at present roughly in balance. The removal of tariffs on these goods would lead both to an increase in UK exports to the US and to an increase in US exports to the UK. Whose exports would rise the most? The answer would be determined mainly by the following factors:

(a) Level of existing tariff barriers between the two countries: the UK and the US both impose a wide range of tariffs on imports of manufactured goods; at present US tariffs probably have a more restrictive effect on the bilateral trade than UK tariffs so that the UK’s exports might rise more than its imports if tariffs were removed.

(b) Treatment of non-tariff barriers: both countries also have other practices (e.g., direct restrictions on trade in coal and oil, discrimination in the placing of public contracts, etc.) which act as barriers to trade; these barriers are much more extensive in the US than in the UK. This country would therefore stand to gain if they were all removed but would be at a continuing disadvantage if, as seems probable, most of them were retained.

(c) Elasticity of demand, i.e., the responsiveness of demand in each country to a change in the price of manufactured goods: the elasticity of US demand for UK exports is probably greater than that of UK demand for US exports but opinions vary as to the degree of difference.

(d) Elasticity of supply, i.e., the relative ease or difficulty which each country has in increasing the output of manufactured goods: in the short-term, the ability of US producers to increase output (in response to an increase in demand) is probably greater than that of UK producers.

Most of the Committee think that the chances are that in bilateral trade in manufactures UK exports would gain more than US exports; some think that this net gain might be quite substantial; others would not rule out the possibility of a net loss.

56. The UK would probably achieve a net increase in exports in the general field of higher quality consumer goods where the balance of trade is already favourable and the UK has a cost advantage. In the capital goods field there would be gains to each side but the net movement would probably be in favour of the US because of their advantages in technology and scale of production. The US would probably gain on balance in chemicals because in major sectors they have lower raw material costs, a larger scale of production and higher research expenditure. On the other hand the UK would probably gain on trade in iron and steel products. On coal and oil, taken together, an AFTA would probably make little practical difference to the UK trade balance: this country would lose by removing its present embargo on imports of US coal but gain if the US removed their restrictions on imports of crude oil and products.

57. In all the other countries which (it is assumed) would join an AFTA—Norway, Sweden and Denmark, the Irish Republic, Canada, Australia, New Zealand—the UK at present enjoys a tariff preference on manufactured goods as compared with the US. The UK would lose its preferred position in these countries vis-à-vis the US. There are several important fields (e.g., some chemical and engineering products) in which competition on equal terms might lead to a loss of trade from UK to US exporters. Thus an AFTA could be expected to have an adverse effect on the UK’s overall balance of trade with members other than the US.

58. Apart from this country, nearly all the assumed members of AFTA would be large net exporters of agricultural products. There would therefore be strong pressure for the AFTA to have an “agricultural content.” The UK would probably have to modify the agricultural support system so as to admit larger imports of meat, dairy products, fish and fruit. In addition, if the Kennedy Round had not produced an agreement on cereals—or if it had produced a compromise which the exporters regarded as unsatisfactory—the US, Canada and Australia would demand further concessions from the UK, on prices and access as a condition of entry to an AFTA. That could be an expensive addition to the UK’s import bill.
(ii) Capital movements between the UK and US

59. There are no formal restrictions by the US on direct investment in the UK though such investment may be marginally affected for the time being by the President's Voluntary Restraint Programme. US direct investment in this country is already running at about £120 million a year out of about £160 million for direct inward investment from all sources. There are some reasons for expecting that US direct investment here would increase in the event of the UK joining an AFTA and some reasons for supposing that it would fall.

60. Reasons for expecting an increase: US subsidiaries in the UK are profitable. They are able to operate with lower unit costs than within the US mainly because wage levels are lower here than there, whereas US managerial know-how and production techniques are in advance of those in this country. At present most US subsidiaries in this country can only sell to the US over a tariff barrier (though there are some cases where the US tariff is small or non-existent on the products of US subsidiaries in the UK). If this barrier were removed, some—perhaps many—US firms would find it more profitable to supply the US market from the UK instead of from the US itself. This could lead to a substantial increase in US direct investment in this country, particularly if there were political encouragement from the US, arising from the circumstances in which an AFTA was brought into being.

61. Reasons for expecting a fall: The production and sale of goods by their subsidiaries in this country gives US firms access beneath the tariff barrier to the UK market. If the tariff were removed, some US firms might switch to supplying the UK market direct from their home base. The same would apply to production which they now carry out in the UK for sales in the Commonwealth (duty free or at a preferential rate) and in the rest of EFTA (duty free). Similarly, at present some US capital may be attracted here because the UK is seen as a prospective member of the EEC so that a US subsidiary in this country could hope to duck beneath the EEC's common external tariff. If this prospect disappeared, US firms might tend to invest direct in EEC countries instead.

62. The Committee have been unable to reach agreement on which of the two sets of factors (in paragraphs 60 and 61) would be dominant. Some members think that the added incentive for US firms to produce in the UK for the US market would far outweigh other factors, and lead to a substantial increase in the inflow of US capital. Others think that it would be less important than the factors reducing the need for US firms to produce in the UK and that US direct investment in the UK would therefore tend to fall off. It needs to be remembered that, the larger the inflow of capital, the larger the annual payment that would have to be made across the exchanges in the form of interest, profits and dividends. This sum might be a relatively small proportion of the capital inflow at the end of the transitional period but it would continue and accumulate over the years.

63. The total effect of an AFTA on the movement of long-term capital would also depend on whether the UK removed its present exchange control restrictions on direct investment in the US and Canada and on whether the "voluntary programme" to curb investment in the old Commonwealth was brought to an end. We refer in paragraph 75 to the question whether the UK would have to remove these restrictions, if this had not already been done. Their removal would lead to some increase in outward direct investment since some UK firms would set up subsidiaries in the US and Canada in order to get nearer to their supplies of raw materials and to build up a better sales organisation for their exports. On the other hand it would be cheaper for some British firms to supply the US market from the UK instead of from existing UK subsidiaries in the US and this would be a factor in the other direction. So would any fall in direct investment in Canada, Australia or New Zealand.

(iii) Balance of payments as a whole

64. Uncertainty about the implications of an AFTA for the UK visible trade and capital account prevents us from reaching an agreed conclusion about the effect on the balance of payments as a whole. (The result might also be affected by political decisions, e.g., on defence, which would change the pattern of the UK's
overseas expenditure.) Some members of the Committee would expect a gain, and possibly quite a substantial gain to the balance of payments. They consider that this would occur from

(a) a larger increase in UK exports of industrial goods to the US than in US exports to the UK;
(b) a net increase in the inflow of US capital to the UK;
and that these benefits would probably outweigh the losses to be expected in
(c) UK exports of industrial goods to other countries in the AFTA;
(d) increased imports of agricultural products by the UK;
(e) increased “invisible” payments by the UK on account of interest and dividends;
(f) a larger net outflow of capital from the UK to the US (if restrictions on direct investment were removed).

Most members of the Committee dissent from that view. Some would go so far as to expect a loss to the UK in its trade with the US and on capital account, in addition to the unfavourable factors listed at (c) to (f) above. Other members take the view that the range of possibilities on each item is so wide that it is impossible to say whether there would be a significant improvement or a significant worsening in the balance of payments as a whole; they consider that both extremes seem equally likely and so does any point between them.

Longer term effects

65. The discussion in the first part of this Section was on the basis of an analysis of short-term changes in trade and capital flows resulting from the creation of an AFTA. The changes in the economic structure implied in this analysis are significant but they are small in relation to the changes which would take place over a longer period as a result of a closer economic relationship between the UK and the US to which the free trade area would be bound in time to give rise. It would make increasingly less sense for the UK to operate an “all-purpose” economy. Instead it would be necessary for the UK to direct a greater proportion of its resources into industries which could sell a large part of their output in the US, and to replace former domestic production with imports from the US.

66. In looking to a period perhaps 15 or 20 years after the formation of an AFTA, any judgment about the structural effects on the economy is necessarily very uncertain and subjective. The Committee was unable to reach agreement on whether on balance they would be beneficial to the UK. It was agreed, however, that the main considerations would be the effects on the UK industrial structure of the pattern of specialisation, the opportunities for reaping economies of scale, and the size and direction of the capital flows, which would result from the formation of the free trade area.

67. One view was that there would be a large increase in the real income of the UK. This would come about in three ways. First the UK would tend to specialise in those industries in which it had a comparative advantage over the US, and could divert resources away from industries where it was relatively less efficient than the US. The redeploymen of resources into the more efficient industries and the replacement of less efficient production by cheaper imports would lead to a genuine gain in real incomes. Secondly, the association with the US would provide free access to a very much larger market for UK industry, and (together with specialisation) would enable this country to reap economies of scale, and the size and direction of the capital flows, which would result from the formation of the free trade area.

SECRET
68. Other members of the Committee felt that in the longer term the advantages to this country were considerably less certain in the light of the relative strengths and structures of the UK and US economies. The pattern of specialisation towards which the UK economy would move, might be disadvantageous in terms of future growth. The industries in which the UK would appear to have advantages over industries in the US are to a considerable extent those in the field of high quality consumer goods and other relatively labour intensive products where in recent years both home and export demand have been growing more slowly than the average for manufacturing industry as a whole. Moreover, they are mainly industries where productivity is lower than average and where the returns to scale and opportunities for technological economies are more limited.

69. There is also a great deal of uncertainty about the extent to which in the longer run the UK would be the recipient of a continued inflow of US capital and what its effects would be. Some of the factors which have encouraged such investment in the past (see paragraph 61 above) would no longer be operating. There is also some evidence that the profitability of US investment in the UK, although still appreciably higher than that of UK firms generally, has been tending to decline. This relative profitability may have been exaggerated in the past since the costs of US subsidiaries often exclude a charge for research and development and other overhead costs which are borne by the parent company in the US. Nothing is known about the comparative profitability of new manufacturing capacity in the same industries in the US and the UK with overhead costs (such as research and development expenses) continuing to be borne where they were previously.

70. A large increase in US investment in UK industry would also be bound to raise difficult questions of policy towards foreign firms in the UK. The recent report to Ministers of an ad hoc Group on Inward Investment (EN (67) 21) proposed that where an inward investment might lead to an important sector of British industry coming under foreign control, might damage the development of British technology, or might frustrate an officially sponsored scheme for reorganising an important sector of British industry, the Government should be prepared to take action to prevent the investment if the balance of advantage were judged adverse. (These recommendations were, subject to certain qualifications, approved by Ministers.) An increase in US investment in the UK sufficient to change the character of the UK economy could not avoid raising these questions in acute form. On the other hand the report pointed out that in general inward investment was beneficial to the UK economy and that it would be important to avoid doing anything to inhibit the general run of it.

71. Changes in the structure of the UK economy and in the degree and direction of US penetration of British industry would also be reflected in the structure of UK trade, not only with the US but also, with third countries inside and outside the free trade area to whom at present the UK sends 90 per cent of its exports. Some UK industries, which had benefited from specialisation, or an infusion of US capital and enterprise, would become more competitive and their exports would increase. Other industries would be likely to shrink and become less competitive so that their exports would fall. Closer association with the US would lead the UK to specialise in those industries, which, when tariffs are removed, can compete most successfully with US manufactures; but the products concerned will not always be those in which the UK can compete most successfully with outside suppliers in third markets. It is not possible to say where the final balance of advantage and disadvantage would rest. Clearly, changes in the long-term pattern of world demand for particular types of product would be of great importance, but the same uncertainties as surround the possible effects on our industrial structure would apply.

72. The impact of increased payments of interest, profits and dividends, in respect of increased US investment, would also have to be taken into account in the longer term. (Whether the US would be willing to allow a large increase in the capital outflow to the UK—currently running at about £120 million a year—is, of course, another question: but to the extent that the UK was prepared to hold dollars rather than change them into gold the problem for the US would be eased.) If the current inflow of US capital were to be doubled (i.e., if there were an improvement in the capital account of £100-150 million a year), the additional
debit at the end of 10 years would be of the order of £50-100 million a year (and the proportion of UK manufacturing industry under US control would be increased from about 7 per cent to substantially over 10 per cent); this figure is not large in relation to total trade, but it would represent an additional and continuing constraint on the economy.

**Balance of advantages**

73. The changes which would take place over time in the structure of the UK economy as a result of the creation of an AFTA would undoubtedly be profound; but it is much more difficult to predict with any confidence how far they would be beneficial and how far detrimental. Some members of the Committee believed that there were good grounds for expecting that the opportunities for specialisation and the economies of scale resulting from greatly enlarged markets would produce a big increase in real income; and that lower UK wage costs might well attract US capital and so make possible some further acceleration in the growth of UK productivity. On the other hand others felt that in view of the very different economic structures of the two countries there were reasons to doubt this optimistic expectation; they recognised that even within industries which would, on the whole, suffer, there are some firms which would be efficient enough to benefit from the new opportunities, and that some of the more labour-intensive industries, in which the UK could be expected to specialise, are fast-growing ones; but even so, in their view, it seemed likely that unfavourable movements in the pattern of industrial specialisation in the UK would on balance result in a loss.

74. The advantages and disadvantages of UK membership of an AFTA might be in balance, with the rate of growth of real income virtually unchanged; but the range of possibilities is wide. At best the UK would become much richer; but changes in the structure of the UK economy could well be the source of difficulties, and by linking its economy more closely to that of the US, the UK would be likely to suffer more seriously from any recessions in the US than would otherwise have been the case.

**Implications for economic and financial management**

75. The formation of an AFTA would not involve many of the limitations on member Governments' freedom of action in the field of economic policy that are inherent in customs unions and closer forms of economic union. For example, in contrast to what might be expected if the UK joined the EEC, it would be possible for the UK Government to decide the structure and balance of UK taxation, and there should be no difficulty about paying investment grants, including the regional supplements, and levying the selective employment tax. The "agricultural content" of an AFTA would, however, almost certainly be an important constraint in the longer run on the expansion of UK agricultural production. Moreover other instruments of policy which have a direct external impact would be called into question in the negotiations for establishing an AFTA. It seems certain that export rebates would be disallowed at least in respect of trade within the area, and the selective employment premium might also become vulnerable. Most members of the Committee agreed that outward direct investment would have to be liberalised, since the US would hardly be able to accept a position where there was a significant increase in the capital flow to the UK (which would be very important if the UK were to benefit, on balance, from an AFTA) while UK restrictions effectively prevented any movement in the opposite direction unless financed by portfolio disinvestment.

76. The creation of an AFTA would in practice be likely to entail severe restraints on the management of the UK balance of payments. The terms of the Association could be expected to provide for temporary quantitative restrictions on imports to meet serious balance of payments difficulties, but there would obviously be great pressure on all members to avoid using them. Too ready recourse by any member country would call in question the value to other members of that country's membership. At the same time, it would be very much in the interest of the UK to avoid provisions which would allow member countries to impose quantitative restrictions for other than balance of payments reasons; otherwise the US Administration, in particular, would be unlikely to resist internal pressure for the use of such provisions to protect particular interests.
77. As was made clear in an earlier section of this paper, the Committee took the view that an AFTA would only be likely to come into being following the breakdown of the present unified world monetary system (resulting from the breaking of the link between the dollar and gold). This was not to say, however, that a breakdown in the present unified world monetary system would necessarily lead, or even be likely to lead, to the formation of an AFTA. The world monetary arrangements in the event of a breakdown would be likely to entail the linking of sterling to the dollar, and in due course the assimilation of the sterling system into that of the dollar. Even if, contrary to the expectation of the Committee, an AFTA did come into being without any sharp change in the world monetary system, it seems likely that there would be pressures in the same direction, though the process of the assimilation of the sterling system into that of the dollar would probably take longer. Either way there would need to be the closest co-operation between the US and the UK in the field of monetary policy and interest rates. Such close co-operation has in fact been the rule in the recent past as a result of the vulnerable position of both reserve currencies, so that the additional de facto limitation on the UK Government's freedom to formulate its own policies would not be significant.

78. The creation of an AFTA would, then, leave the UK Government with a fair degree of apparent freedom on “internal” economic policies. The effectiveness of these policies would, however, be diminished in the new situation. The pattern of specialisation and the increasing reliance on a large market where economic conditions were only marginally affected by UK policies would leave the UK economy much more open to changes in economic circumstances elsewhere. An enforced adjustment to a lower level of activity in the US would be difficult for the UK since import restrictions could not readily be used to offset the deterioration in exports. Furthermore, in so far as the creation of an AFTA was accompanied by an increase in US penetration of important sectors of the UK economy, an increasing volume of decisions of great importance to the development of the UK economy would be taken on the basis of an assessment of the interests of international corporations rather than of UK interests. Thus the level of activity in the UK would be substantially more dependent on the level of activity in the US than it already is. There is no reason to expect that the US economy would be run at a low level of activity; but the decision on this would be entirely in US hands. These factors would result in the UK having significantly less control over the development of its own economy than it had in the past.

D. CONCLUDING REMARKS

79. In this report we have tried to assess the economic implications for the UK both of abstention from any new economic grouping and of membership of a possible AFTA. We have not made any systematic comparison between these two courses, or between either of them and membership of EEC. Any such comparison could only be in qualitative terms and would, at best, be highly speculative.

80. In this concluding section of our report we review briefly the main issues which have arisen in considering “Abstention” and AFTA. We recognise that a balanced assessment of each course is not possible without consideration of the relevant political factors (which would have consequences in the economic as well as in the political and defence fields). However, the Committee felt that its terms of reference did not permit discussion of these factors, and so we do not attempt in this report to take any account of them.

“Abstention”

81. Our assessment of probable future trends suggests that there is a fair prospect that world trading and monetary conditions will remain liberal and that the continuing growth of demand in other countries will lead to expanding markets for UK exports, though the outcome of the Kennedy Round and of the discussions on liquidity may affect this assessment. Whatever the external trading conditions, this country will need to pursue internal policies which will make industry more efficient and more competitive in international markets. Subject to these two
conditions, the UK should be able to prosper and enjoy a satisfactory rate of economic growth without joining any wider economic grouping.

82. This does not mean that there would be no need for change in the structure of the UK economy. Because of technological advance and the growing complexity of industrial processes, a country increasingly requires a large market in order to benefit from economies of scale and of specialisation. The UK would have to take action to rationalise its industrial structure and to increase the degree of industrial specialisation. And it would have to do so without the stimulus of free access to a market much larger than that offered by the surviving members of EFTA and the Irish Republic. This market would however be augmented by such preferential arrangements as could be maintained or negotiated in the Commonwealth and by the general assurance of a reasonable level of tariffs provided by the GATT bindings which already exist and which would result from a successful Kennedy Round. Although some action in the field of commercial policy might be possible to accelerate changes in the industrial structure, there is no commercial policy which would compensate for failure to ensure that industry was efficient and competitive.

83. A central question would be whether the prospect of UK membership of the EEC should be put aside. In this study we have discussed possible courses of action which the UK might pursue on the assumption that membership of the EEC would not be available in the foreseeable future. It would have to be recognised that if Ministers wished to keep open the possibility of eventual membership this might involve a price in the form of limitations on the country's freedom of action. These would apply to overseas expenditure and to commercial and domestic policy.

84. Non-participation in a wider economic grouping would limit the interdependence of the UK economy and those of other potential partners. But it would not enforce and need not lead to economic isolation: the UK would still be important as a trading partner to the US and the EEC, and there is no reason to expect that new barriers would be erected against its trade with either of them. Such a situation would deny the UK the new stimulus to economic co-operation with other countries, both at Government level and between individual firms, which some see as a prime economic advantage of membership of the EEC. However, the existing international machinery for economic co-operation—and particularly that in OECD, GATT, IMF and EFTA—would remain and it would be in the interests of both the UK and other countries that it should continue to function effectively.

Atlantic Free Trade Area

85. It seems to us that an AFTA would only come into being in circumstances in which there was little prospect of the economic integration of Western Europe through UK membership of the EEC, little progress in the reduction of tariffs on a GATT basis and (probably) in which the world was divided into two monetary blocs. Even then, neither the EEC nor the US would benefit from ignoring the trading opportunities provided by the other, but their trading relations with each other and with the rest of the world would tend to be less liberal than at present. If, however, the UK joined an AFTA—which would, by definition, be a large trading bloc—its prosperity would be less dependent on the pursuit of liberal policies by the rest of the world than in the "Abstention" situation.

86. We have tried to make a judgment about the probable effect of an AFTA on the UK balance of payments in the short term but we are unable to reach an agreed conclusion. Some members of the Committee would expect a distinct improvement in the trade balance with the US and a net increase in the inflow of US capital which together would be sufficient to outweigh the loss of exports to third markets and the inevitable cost to the UK of giving an AFTA an "agricultural content". Other views were that the total effect on the balance of payments might be adverse or that the result could not be predicted.

87. Uncertainty about the effect of an AFTA on the net inflow of US capital has increased the difficulty of forecasting what might happen in the longer term to the rate of growth of productivity and output in the UK. And it is of course the longer term that matters most. Some of us believe that the longer-term effects of an AFTA would be to make the UK a richer but less economically independent country; others attach more weight to the evidence about the probable trend in
the pattern of UK specialisation, and doubt whether the effects of an AFTA would be beneficial over a long period of time. But none of us can be sure because such long-term forecasting is extremely uncertain.

88. Membership of an AFTA would involve a fundamental change in the UK’s economic relationships with the rest of the world. The UK would cease to be the dominant partner in important trading and monetary groupings—EFTA, the Commonwealth and the sterling area. Instead the UK would be a relatively small partner in a grouping in which the principal member, the US, had a GNP which was eight times its own. The closer ties with the US might provide some opportunity to influence the course of their economic policy more directly but it is inconceivable that where economic interests were seriously in conflict the US could be deflected from their chosen path. No doubt there would be some increase in UK influence on US economic policy but, of more importance, the development of the UK economy would be determined to a greater degree by forces outside the control of the UK Government.

89. While we did not feel able to consider the acceptability of an AFTA to public opinion in the UK, it seemed unhelpful not to examine what is known about the attitude of the Government of the US and of some of the other principal countries involved in the idea of an AFTA. This is done in Annex II. Briefly, there is little prospect in the foreseeable future of securing the support of other Governments, especially that of the US, for the creation of such a free trade area. However, if the US and the UK were to decide to press ahead with such a scheme, a number of countries, while remaining unenthusiastic, would find it difficult to hold themselves aloof. The factors which would militate now against the negotiability of an AFTA are very powerful. Among the most important are the view of the US Administration that an AFTA is not “realistic” at the present juncture and the effect of this on the other Governments concerned; the US concern at the dangers of international political and defence realignment that might follow an AFTA; the US view that UK membership of the EEC would afford advantages to the US which could not be secured by any alternative arrangement for the UK; the traditional unwillingness of the US to enter into trading arrangements involving discrimination against some of their major trading partners; the uncertainty whether the Scandinavian countries would be able to contemplate membership of a trading group which would set them apart from their very important EEC trading partners; the political difficulty of omitting Japan from an AFTA and the economic problems which would be involved in her inclusion; the implications for US relations with Latin America of opening US markets to other advanced countries; the unwillingness of the Canadian Government to contemplate arrangements which would still further erode her economic independence; and the reluctance of the Australian and New Zealand Governments to jeopardise their countries’ future prospects of industrial growth. This picture could alter if there were radical changes in world economic organisation; but we cannot at present foresee any such changes.
ANNEX I

SHORT-TERM IMPLICATIONS OF AN AFTA FOR UK TRADE WITH OTHER MEMBER COUNTRIES

This Annex gives an outline of our study of the short-term implications of an AFTA for the UK's bilateral trade with the US and for trade with other member countries. It also summarises the assessments made by production departments of the implications for the UK's trade in particular industrial goods, in coal and oil and in agriculture. The results of this work are summarised in paragraphs 54–58 of our main report.

UK trade with the US

2. In 1965 the UK's total exports to the US were £500 million (fob) against imports of £672 million (cif). Apart from insurance and freight, the difference was largely concentrated on trade in food and raw materials. In manufactured goods alone, after allowing for insurance and freight, the trade was roughly in balance: UK exports to the US were £400 million (fob) against imports of £434 million (cif). The removal of tariffs on industrial goods would lead both to an increase in UK exports to the US and to an increase in US exports to this country. Whose exports would rise the most? The result would be determined mainly by four factors:

(a) the level of existing tariffs between the two countries,
(b) the treatment of non-tariff barriers,
(c) the responsiveness of demand in each country to a change in the price of manufactured goods (the elasticity of demand),
(d) the relative ease or difficulty which each has in increasing the supply of those goods (the elasticity of supply).

We consider each of these factors in turn.

3. (a) Tariffs. Both the UK and the US impose a wide range of tariffs on imports of manufactured goods. In 1965 the average rate (weighted by the level of imports of each item) on UK imports from the US was about 12-14 per cent. It seems likely that the average rate on US imports of manufactures from the UK in 1965 was somewhat higher than 12-14 per cent. What is likely to matter in the context of AFTA, however, is not the average level but the effect of individual tariffs on trade in products of current or prospective importance. On a broad range of industrial machinery the tariffs of both countries are broadly similar and in the range of 10-20 per cent. These goods account for a considerable proportion of existing trade; the demand for them is relatively unresponsive to price changes (or price-inelastic) and removal of the tariffs, considered alone, might not have a great effect on the balance of trade. On the other hand, the US tariff on a broad range of consumer goods, for which demand should be relatively responsive to price changes (or price-elastic) tends to be high both absolutely and relatively to the UK tariff. (A major exception to this is motor cars where the UK tariff is 25 per cent and the US is 6 per cent.) The UK has a deficit with the US on trade in capital goods but a surplus on trade in consumer goods and so might expect its exports to rise more than its imports as a result of the removal of tariffs.

4. (b) Non-tariff barriers. Tariffs are by no means the only—or in some areas the most important—barriers to trade. There are direct restrictions on trade in coal and oil (considered in paragraphs 14–15). In addition both countries restrict imports of various agricultural products by quotas. By means of subsidy arrangements and the reservation of coastal trade to ships built in the US, that country makes it virtually impossible for UK ship-builders to supply ships. The UK limits the freedom of UK nationalised airlines to buy US aircraft. The US discriminates, by a system of wine gallon assessment for excise duties, against UK bottled whisky, and administers anti-dumping duties in a manner which at
times inhibits imports. (These practices may, however, be changed as part of the Kennedy Round.) In the UK, in practice, Government and public authority contracts are traditionally open to competition from foreign traders only to a limited extent. In the US this protection is formalised and carried much further by the “Buy American” legislation on Federal contracts. Moreover the States discriminate in favour of US products under their own laws (which are not subject to the consent of the Federal Government). In principle all these barriers should go in a free trade area; in practice it is likely that many of them would remain. Since these barriers are much more extensive on the US side than on that of the UK, this country would stand to gain more than the US if they were removed but would be at a continuing disadvantage if they were retained.

5. (c) Elasticity of demand. Since trade in manufactured goods between the US and the UK is roughly in balance (see paragraph 2), and since the average level of tariffs is not very different, the elasticity of demand would be the main factor determining the rise in exports resulting from the abolition of tariffs. Some of the committee believe that the US elasticity of demand for UK exports would prove significantly greater than the UK elasticity of demand for US exports. The reason lies in their belief that there is a tendency for the elasticity of demand for a supplier’s product to be inversely related to his share of the market, and in the fact that UK exports to the US account for only about two-thirds of 1 per cent of US consumption of manufactured goods, while US exports to the UK account for about 4 per cent of UK consumption of manufactured goods. It is not argued that because the market shares are in the ratio of 3:4 or 1:6, therefore the elasticities would be in the ratio 6:1, but it is thought that they might be in the ratio 3:1. This theory leads to the conclusion that UK exports to the US would rise significantly more than US exports to the UK, with a consequent improvement in the UK trade balance. An alternative theory is that a relevant factor would not be the relative proportions of the other country’s market already satisfied, but the relative proportions not satisfied by the other country (i.e., the relationship would be 99:96 rather than 3:4). If this alternative theory were valid, there would be no reason to expect any significant difference between the two elasticities. The view of many members of the Committee is, however, that both theories about the elasticity of demand depend on models which do not correspond with the real world. They consider that the US demand for UK goods may be somewhat more elastic than the UK demand for US goods but that the difference is unlikely to bear any relation to the general share which each has in the other’s market and it will vary greatly from one product to another.

6. (d) Elasticity of supply. The actual increase in trade would depend not only on the change in demand but also on the amounts which could in practice be supplied. There is typically somewhat more spare capacity in industry in the US than in the UK and in any case the total size of US industrial production is about five times as large as the total size of UK industrial production. In the early years of an AFTA therefore US manufacturers would probably be in a better position to meet the increase in demand likely in the UK than UK producers would be to meet the increase in demand likely in the US. The different supply positions might also lead to differences in the pricing policy adopted by UK and US producers if tariffs were removed. The US producer, with more spare capacity, could be expected to pass on more of the tariff reduction to his customers, i.e., to reduce his price more in the UK than the UK producer would in the US. But although this factor would moderate the rise in the volume of US exports more than the rise in volume of US exports, there would be a corresponding rise in the value of exports, since money previously collected by the US Customs would now be coming across the exchanges into the pockets of UK producers. Moreover the greater profitability of exports from the UK to the US that would be represented by a policy of not reducing market prices by the full amount of the tariff might be expected to lessen any supply constraints holding back the exports. Differences in the extent to which US and UK producers reduce their market prices in response to tariff abolition would therefore have less effect on changes in the value of trade than on changes in its volume.

7. Thus the answer to our question in paragraph 2—whose exports would rise the most?—must take account of the following factors. First, at present US tariffs probably have a more restrictive effect on the bilateral trade than UK
tariffs. Secondly, the US imposes more restrictive non-tariff barriers than the UK but it is doubtful whether they would be removed. Thirdly, the elasticity of US demand for UK goods is probably greater than that of UK demand for US goods but opinions vary as to the degree of difference. Fourthly, the short-term ability of US producers to increase output is probably greater than that of UK producers. Most of the Committee think the chances are that in bilateral trade in manufacturers UK exports would gain more than US exports; some think that this net gain might be quite substantial; others would not rule out the possibility of a net loss.

UK trade with other members of AFTA
8. In 1965, one-tenth of UK exports went to the US but one-quarter (£1,213 million) went to other countries which, we have assumed, would be members of the AFTA. In all these countries the UK now enjoys a tariff preference on manufactured goods as compared with the US. In Norway, Sweden and Denmark UK exports enter free of duty as a result of EFTA; with the Irish Republic the UK has begun to move from a preferential position towards complete free trade; and in Canada, Australia and New Zealand, where UK exports amounted to £507 million in 1965, about four-fifths still enjoy preferences (nearly two-fifths have a preference of more than 10 per cent). If all these countries were to join an AFTA, the UK would lose its present preferential position over the US and would in consequence lose some trade to US exporters, particularly in the three Commonwealth countries. There might also be a switch in the source of UK imports of manufactured goods to the US from Canada and the EFTA countries. On the other hand the UK would probably be obliged to increase imports of agricultural produce, particularly lamb, pigmeat and fruit and possibly cereals, as a result of concessions on access for agricultural products which would be demanded by the old Commonwealth and Denmark (see paragraphs 16 and 17). Thus the formation of an AFTA could be expected to have an adverse effect on the UK’s overall balance of trade with members other than the US.

Trade in industrial goods
9. Production Departments were asked to examine, industry by industry, the possible results of free trade with the US in the light of existing tariff rates and their knowledge of other factors, such as the cost of transport, the problems of marketing across the width of the Atlantic, differences of standards, taste and costs of production. The effect of the various factors influencing individual trades could thus be assessed to see if they threw further light on the basic issue. In most cases Production Departments did not feel able to quantify their conclusions, although they were generally able to indicate the direction and nature of changes to be expected.

10. The assessments suggested that there would be a movement in the UK’s favour in the general field of consumer goods, where the present balance of trade is already favourable (broadly in 1965 UK imports £75 million cif, UK exports £200 million fob, with whisky and motor cars by far the most important single items, each accounting for over £50 million). Items where the UK might expect a net gain include whisky, confectionery, pottery, woollen textiles, motor cycles, bicycles and motor cars. For many of these products the UK has a cost advantage because they are labour intensive but in the short run, at least, it might prove impossible to achieve major increases in exports: at present the UK tends to supply the higher qualities of most of these goods, where relatively small changes in retail prices do not have much effect on sales, and it might in some cases prove difficult to increase supply to the US because of lack of productive capacity. No large increase would be expected in sales of medium and lower quality goods, for which the price elasticity is greater, because of the relative efficiency of US firms, high cost of transport, differences of consumer taste, etc. Here again, in the short run, there would be shortage of capacity if a really big area of demand were tapped.

11. In the capital goods field, a net movement in favour of the US would be expected. The present balance of trade in mechanical and electrical
engineering is heavily in favour of the US (UK imports £176 million cif, UK exports £73 million fob in 1965) as it is also in the smaller fields of electronic and scientific instruments. Existing tariff rates are not markedly disparate and are mostly moderate, and demand is relatively price-inelastic for many of the products concerned, but US industry has a marked advantage in technology and scale of production which would be more likely to be brought to bear on the UK market when manufacturers foresaw long-term free entry here. The US might gain substantially in electrical engineering, in electronic equipment, including computers, where US industry gets major side-benefits from defence research work, and in many major mechanical engineering products. The UK might secure a net advantage in some important mechanical engineering products but this would offset only part of the general loss.

12. The balance of trade in chemicals is also heavily in favour of the US (UK imports £71 million cif, UK exports £18 million fob in 1965) and was assessed to move more in their favour. The US industry has a basic advantage in lower raw material costs in major sectors, particularly in the organic field, and benefits from large-scale production and high research expenditures. While the UK would gain in sales of a number of products which are at present affected by high US tariffs and the American Selling Price method of valuation for duty, this would be more than offset by increased sales here of large volume chemicals in the absence of some low protective duty. In the metals field the UK would gain in iron and steel products where the US industry has a somewhat higher cost structure but no great change is expected in non-ferrous metal products where much of the existing trade is already free of tariffs.

13. It is difficult to judge whether the net gains in trade which could be expected in the case of many consumer goods, some capital goods and certain other products would be greater or smaller than the losses in other sectors. The various assessments suggested, however, that there would be a comparatively small change in the balance of trade with the US in the short term, and that possibly to the UK’s disadvantage. Whether there would be a gain or loss would depend much more on the relative rates of growth of the two economies than on the change in tariffs. More clearly the study indicated that there were several important fields (e.g., some chemical and engineering products) in which competition on equal terms with the US in other countries in the AFTA might operate substantially to the UK’s disadvantage.

Coal and oil

14. Although there are no significant tariffs on coal and oil between the US and the UK, this country imposes an embargo on all imports of US coal and the US imposes a strict limit on imports of crude oil and products (with the exception of fuel oil). It is impossible to forecast how much US coal would be imported if the present embargo were removed. It might be much or little (depending partly on whether the UK fuel oil tax, which protects UK coal, were lifted), and might vary from year to year. Under present policies (which are under review) large imports of coal would probably do serious harm to our coal industry, and have serious implications for the distribution of industry and for regional policies.

15. On the other hand, the UK would benefit if the US ceased to discriminate for defence reasons in their oil import policy. There would, in theory, be the possibility of products refined in the UK from the cheaper Eastern Hemisphere crude oils being exported to the US with direct benefit to the UK balance of payments. If in fact the US market were opened in this way, the US would probably then elect to take more Eastern Hemisphere crude oil direct, but the UK would still benefit, although to a lesser extent, from the profits on sales by UK companies of crude oil from their large reserves in third countries. In practice it is unlikely that any US Government would allow American self-sufficiency in energy resources to be eroded further by Eastern Hemisphere oil. In these circumstances, if it seemed likely that a relaxation would result in large imports of US coal and possible serious damage to the UK coal industry, the UK would no doubt maintain its own embargo on US coal. The best judgment therefore is probably that, taking coal and oil together, an AFTA would make little practical difference to the UK trade balance.
Agriculture

16. As nearly all the other members would be large net exporters of agricultural products, we have assumed that there would have to be some "agricultural content" in an AFTA. There would be strong pressure in that direction from the agricultural lobby in the US. Australia and New Zealand would probably not be willing to dismantle their tariffs on imports of industrial goods unless they were guaranteed greater opportunities to sell their exports of dairy products, meat and fruit on the UK and US markets. Canada would also be concerned to increase her food exports, particularly cereals, to the UK. Denmark could be expected to seek greater opportunities in both markets for her agricultural exports. The UK would therefore come under pressure to increase its food imports, which are at present restrained by the agricultural support system rather than by tariffs (except as regards horticulture and fish). The US might possibly be persuaded to open its markets to a greater extent for dairy produce and beef, but the UK would be likely to find itself with less freedom to expand or even maintain its home food production under its present system of support.

17. The UK could therefore expect some loss to the balance of payments on account of meat, dairy products and fish. But whether the impact of the "agricultural content" of an AFTA was large or small would depend much more on cereals. If the outcome of the Kennedy Round were an international agreement which gave the major cereals exporters substantially what they wanted, the US, Canada and Australia might not seek further concessions as the price of entry to the AFTA. If, however, the Kennedy Round did not produce any cereals agreement, or there were a compromise agreement less satisfactory to the exporters, it is very probable that the US, Canada and Australia would demand both firmer guarantees of access and possibly higher price arrangements with the UK. This could be an expensive addition to the UK's import bill.
ANNEX II

ATTITUDES TOWARDS AN AFTA OF THE UNITED STATES, CANADA, AUSTRALIA, NEW ZEALAND AND THE IRISH REPUBLIC

NOTE BY THE FOREIGN OFFICE AND THE COMMONWEALTH OFFICE

A. United States

Private US attitudes

At present, enthusiasm for AFTA is confined to non-official organisations or individuals in the US. In August 1965 Senator Javits introduced into the US Senate proposals for a free trade association of Atlantic nations. Speaking in London in November of that year, he restated his proposal “for a treaty of free trade and economic co-operation with the United Kingdom, other EEC and EFTA nations, Canada, New Zealand and Australia and other industrialised countries of the OECD which agree to adhere to the new rules of trade of the free trade area”. Senator Javits’ proposals have not emerged from the Senate Finance Committee to which they were referred. He himself has not actively pursued his ideas. Nevertheless, they are said to have attracted interest in certain academic circles in the US, specifically from Professor Galbraith at Harvard and Professors Gardner and Kennan at Columbia University.

2. The Canadian-American Committee, an association of leading industrialists, bankers and trade unionists in the US and Canada recommended in May 1966 that their Governments should initiate discussions with the UK and EFTA Governments of “a broad free trade association of developed nations”. In the opinion of the Committee’s Director of Research, Mr. Sperry Lea, the Committee’s proposals are unlikely to be carried further until there is some positive expression of UK interest: but more recently a Committee has been formed of private individuals in the US (including Professor Franck, Senator Javits and Professor Galbraith) the UK (including Sir Roy Harrod and Mr. Maxwell Stamp) and Canada to draft “a white paper, analysing various aspects of a proposed free trade area of Britain, Canada and the US, as well as several other nations”. It apparently intends to complete and probably publish this study in May or June.

3. In a letter to The Times on 21 February a number of US State Governors, members of Congress and heads of universities proposed that the US and UK Governments “should now begin to consider contingent means, including mutually beneficial trade and fiscal reforms, for saving and strengthening the historic relationship between our nations, whatever the outcome of the EEC negotiations”. This proposal is not for the circumstances assumed in this paper: it did not suggest any institutional arrangements and is apparently intended to be fully compatible with UK membership of the EEC. Moreover, HM Embassy in Washington advise that the importance of the letter to The Times, which was very much a result of a personal initiative by Professor Franck, should not be overrated. They have been told that even Senator Javits was in some doubt as to whether he ought to sign and, while the letter contained several distinguished signatures, there were just as many equally distinguished names of people closely interested in European affairs and sympathetic to Britain which were missing.

4. Her Majesty’s Ambassador in Washington reports that the general public in the US is, broadly speaking, uninformed and/or disinterested in a concept such as AFTA. On the other hand there are elements, especially in areas or strata which are traditionally Anglophile and pro-Anglo-Saxon, who instinctively feel that UK entry into Europe would be a disadvantage to the US without knowing precisely why. This is particularly true among the banking and financial community who set considerable store by close co-operation between the pound sterling and the US dollar and would be perturbed if London were to become influenced by current French thinking about gold, etc. There are signs that this latest feeling is becoming a little more articulate and this movement may well continue, especially if intransigence by the US in the Kennedy Round gives the US cause for complaint.
Views of the US Administration

5. There is evidently no great enthusiasm for an AFTA within the US Administration. US policy towards Europe was set out by President Johnson on 7th October, 1966:

"We look forward to the expansion and the further strengthening of the European Community. Of course, we realise that the obstacles are great. But perseverance has already reaped larger rewards than many of us dared hope for only a few years ago. The outlines of a new Europe are clearly discernible. It is a stronger, it is an increasingly united but open Europe—with Great Britain a part of it—and with close ties to America."

6. Evidence of views within the Administration reinforces the President's support for perseverance. Both the US Embassy in London and the State Department have recently emphasised in confidential discussions the firmness of the Administration's refusal to contemplate a transatlantic arrangement between the UK, the US and Canada. They have said that the US saw no alternative policy for the UK in the foreseeable future which would be even remotely as favourable to US interests as the policy of the UK playing a full and responsible role in developing a more stable and cohesive Europe, that could join the US in meeting world responsibilities. A member of the White House staff warned the Minister of State for Foreign Affairs in January against attaching undue weight to what some people in the US might have said about US support for possible alternatives to UK membership of the EEC, e.g., an AFTA. He said that, at the centre, the view was still that it was overwhelmingly in the interests of the US that the UK should join the Community; any alternative tie-up between the US and the UK would not make sense in terms of US political or economic interests and could only be disruptive and a nuisance in terms of domestic affairs. In his view, this would apply, not only in the short term, but also in respect of long-term interests over the next few decades.

7. In general Her Majesty's Ambassador at Washington has reported that, with the possible exception of Mr. Fowler and some of his colleagues in the US Treasury, the Administration is quite unwilling at present to be deflected from the view that if the UK is not successful in joining the EEC now, the rebuff should not be accepted as final and the option should be kept open until the time comes for renewing the UK application.

8. The State Department have also given us their confidential assessment of further possible US reactions to the publication of the AFTA study described in paragraph 2 above. They think that the study could attract quite a lot of attention in the US. Among non-officials it would be likely to interest some of the "elder statesmen" among the Atlanticists, e.g., Mr. Randolph Burgess and Mr. Ted Achilles and possibly such people as Mr. Connor, the former Secretary of Commerce. Within the Administration, the Secretary of the Treasury, Mr. Fowler, is known to be personally well disposed. In Congress, there is likely to be a small but active group of sympathisers, including the vocal Congressmen Reuss and Ottinger. The former is known as a vigorous opponent of current French policy in relation to gold. The latter, a New York Democrat, and a junior member of the House, spoke up strongly in favour of a possible AFTA at the recent Ditchley meeting.

9. In fact, the State Department foresee the possibility of a definite Congressional lobby emerging to some extent under the stimulus of the wave of anti-Gaulist sentiment. The State Department still think however that there will be more smoke than fire since in their judgment only a small minority of the proponents of an AFTA in Congress really understand what is involved. When it came to the point, their enthusiasm would subside in face of the political difficulties. Among these would be the traditional unwillingness of the US to enter into trading arrangements involving discrimination against some of their major trading partners; the political difficulty of omitting Japan from an AFTA and the economic problems which would be involved in her inclusion; the implications for US relations with Latin America of opening the US market to other advanced countries; and the dangerous implications of the international political and defence realignments that would follow the creation of an AFTA.
B. Commonwealth countries

Canada

10. In 1957, following a speech by Mr. Diefenbaker, then Prime Minister, stating that his objective was to divert 15 per cent of Canadian purchases from the US to the UK, the UK Government proposed the creation of a free trade area between the UK and Canada. This proposal was not pursued by the Canadian Government, who were clearly embarrassed by it.

11. There has recently been some public discussion of an AFTA in Canada. In October 1966 the Convention of the governing Liberal Party adopted a resolution to the effect that Canada should institute negotiations leading to the formation of a North American and Caribbean Free Trade Area. No mention was made of countries outside the Western Hemisphere. Support for this resolution came largely from British Columbia and the Prairie Provinces where the resource-based industries (e.g., pulp, paper and aluminum), in which Canada has a comparative advantage, are mainly situated. Delegates from Ontario and Quebec, where there are also secondary manufacturing industries, were notably less enthusiastic.

12. The Canadian Government are genuinely attached to the multilateral approach to trade questions. Canadian Ministers have given little encouragement to the idea of Canadian participation in a regional trading group. In a speech on 30 October, 1966, the Canadian Prime Minister said:

"Canada could not seriously contemplate a free trade union with the United States and the Caribbean countries unless the Canadian economy were strong enough and Canadian ownership and control of all our sources of prosperity complete enough to ensure that we would not lose our political independence."

13. The Canadian-United States Automotive Agreement, concluded in 1965, provided for shared production of automobiles and parts between the two countries. This has been described as "free trade" although it falls short of that. There have been suggestions in Canada that similar arrangements should be made for other products.

14. Canada has for decades had a yearly trade deficit with the US which has been covered in part by a trade surplus with the UK and, for the rest, by US capital investment which has resulted in the domination of Canadian manufacturing industry by the US. The Canadian dilemma is to increase exports to the US while resisting the further penetration of Canadian industry by US interests. In an AFTA Canadian resource-based industries, which are highly efficient, would benefit from the dismantling of US tariffs; the secondary industries mainly situated in Eastern Canada would probably suffer from the full force of US competition, and from the removal of incentives to US industry to establish production in Canada.

15. An AFTA would enable Canada to retain preferences in the UK against exports from non-AFTA countries, but they would have to be shared with the US.

16. Through membership of NATO, Canada has close defence relations with both the US and the UK, who are also her main trading partners. An AFTA would therefore be a logical development of Canada's existing international ties.

17. On the other hand, the greater integration of the Canadian and US economies and the possible increase in US control of Canadian industry would raise difficult political problems. There would also be opposition from Quebec, where the French-speaking Canadians would fear closer association with the US and the Anglophone world.

18. While the Canadians might take the view that the economic and political disadvantages of membership of an AFTA outweighed the advantages, it would be difficult for them not to join in the last resort since the other assumed member countries take two-thirds of Canada's exports. They might be more attracted to the idea if it were presented as a stepping stone to wider multilateral arrangements.

Australia and New Zealand

19. There is no marked public interest in Australia and New Zealand in membership of an economic grouping wider than the limited free trade area between the two countries which came into being at the beginning of 1966. While
US trading and investment links with these countries are growing steadily, they have not reached the point at which US economic domination is an active political issue.

20. The attitude of Australia and New Zealand towards membership of an AFTA would depend on the terms which they were offered. Both countries (but New Zealand particularly) rely on temperate agricultural products for the bulk of their export earnings. (The other prospective members of an AFTA take 40 per cent of Australia’s exports and 70 per cent of New Zealand’s.) At the same time, they are seeking to diversify their economies by setting up and developing manufacturing industries behind a high protective tariff in Australia and import quotas in New Zealand. They would therefore be interested in an AFTA only if other members were prepared to offer better opportunities for Australian and New Zealand agricultural exports in terms of price and/or access in return for some reduction in Australian and New Zealand tariffs. But it is unlikely that they would be prepared to forgo their protectionist policies completely.

21. Australia would be concerned about her loss of preference in the UK market for processed foodstuffs in which her principal competitor is the US.

22. Provided, however, that the economic cost were not too high, the natural inclination of Australia and New Zealand would be to join a group which included both the US and the UK. This would be consistent with existing trading patterns and would correspond with political realities—membership of ANZUS (which reflects Australian and New Zealand dependence on the US in defence matters) and their position, with Canada, as “old” Commonwealth countries and part of the English-speaking world. Provided that protectionist policies could be retained, both countries would probably want Japan to be a member because of their rapidly developing trade relations with her and the current trend of their foreign policies to concentrate on the Pacific and South-East Asian areas.

Irish Republic

23. The economy of the Irish Republic is so heavily dependent on agricultural exports to the UK that, if the UK joined an AFTA and it had an agricultural content, the Republic would have little choice but to follow. There seems no reason why this should be politically difficult for the Republic.

Foreign Office, S.W.1,
Commonwealth Office, S.W.1,
14th April 1967

CABINET

THE KENNEDY ROUND

Note by the President of the Board of Trade

I think that the Cabinet will be interested to see the attached Situation Report on the negotiations which Sir Richard Powell has made to me.

D.F.T.J.

Board of Trade, S.W.1.

14th April 1967
As I shall be returning to Geneva next Tuesday for what I hope will be the final phase of the Kennedy Round negotiations, it may be helpful to you and your colleagues if I make a short report on the state of play as I see it.

General

The British Government is committed to securing a successful result from the Kennedy Round and has taken the view that such a result would be beneficial whether or not we were to join the Common Market. Our whole negotiating position has been based upon this and the EEC have hitherto been negotiating with us in this spirit; only once, in connection with steel, has there been any suggestion that we ought to make a concession, not because it was justified as a bargain, but because it would please the community. I hope that we can continue to keep these two matters from becoming entangled.

Though it has been agreed that the substantive negotiations should finish at the end of April, progress has been very slow, largely because the Community have been reluctant to move. The French have hinted to us that they think that they will get the best deal for themselves by hanging back until the last moment. My own guess is that we shall reach a conclusion by about 7th May and that the last week will be the most critical.

Positive Offers

We have converted our original offer, which was on the industrial side a very short list of exceptions from a linear cut and on the agricultural side a specific list of offers, into a consolidated "positive" offer list setting out in detail the specific tariff reductions that we are offering. We have adjusted our original proposals to take account of what we regard as inadequate offers from the United States and the Community. Positive offers will probably be tabled in the course of next week; we shall then no doubt be accused of excessive parsimony and have some strenuous bilateral negotiations from which our final offer will emerge. We shall continue, in accordance with our instructions, to do our best to secure a fair balance without putting ourselves in the position of being accused with any show of reason of wrecking the Round.

Sector Problems

A. Chemicals: Here the argument is not about what the total solution shall be, but about the stages by which it shall be achieved. The Americans cannot abolish the American Selling Price formula without getting Congress to legislate. The Community want to hold the whole solution back until this legislation has been passed, while the Americans wish for some partial application before they legislate. We have proposed, by way of compromise, a form of instalment plan, but have so far got no thanks (at least from the Community) for our pains. The Community intend to stand on their refusal to consider a partial application; but I may reasonably say that in the end some face saving arrangements will be devised.
B. Steel: Here we are regarded as the villains. We have refused to offer any reduction in our tariff, since the Community's offer simply restores their tariffs to the 1957 level for which we paid them in our bilateral agreement with the coal and steel Community. The Community are seeking harmonisation of the steel tariffs of the industrial countries and pressing us to move without being willing to improve their own offer to us. Unless this obstacle can be overcome there is a risk that the whole steel sector will be left out of the Kennedy Round, and that the effects of this might spread into the engineering sector. We may, therefore, need authority at a later stage to offer some token move without reciprocity.

C. Vehicles: The Community offer excludes heavy commercial vehicles, while we have offered a 50 per cent reduction for the whole of the sector. The British industry has been pressing us to withdraw our whole offer if the Community refuse to include heavy vehicles, but have now modified this position to the extent that they are prepared to acquiesce in a reciprocal reduction of the tariff on cars and light commercial vehicles only if the Government deems this necessary to secure a settlement.

It is in this sector that there is the greatest risk of the Community and ourselves giving an unrequited benefit to the Americans and the Japanese should we eventually join the Community; but despite this it seems desirable to secure a tariff reduction which will substantially reduce the barriers against the entry of our cars and light commercial vehicles to the Community. We shall seek specific instructions on this point when the issue is clearer.

D. Textiles: We have made no offers at all on cotton textiles though the others have, and our reasons are well understood. We shall have to withdraw our offer on wool textiles, as the United States will almost certainly be unable to make any worthwhile offer to us. The Community and the United States will probably reduce their offers on man-made fibres, but our tariffs are exceptionally high and we propose to maintain our offer, as it will be a useful element in the general industrial bargain and we can well afford to make a reduction.

Cereals

Discussions have been extremely slow, chiefly because of the inability of the exporters to arrive at any common decision. They have now made proposals which are unacceptable to the importers. They have proposed a minimum price of £1.35, whereas the maximum figure for which we have authority is £1.70. The Community seem prepared to settle for a price between £1.72 and £1.74, but the Japanese are even more anxious than we are for the lowest possible price and a reasonably satisfactory solution should be possible. On access, the Community, and particularly the French, are anxious to secure the highest possible ratio and, on present instructions will not go below 90 per cent. We have not yet moved from our original position of a 75 per cent ratio, and should be able to settle somewhere between that figure and the minimum.
of 70 per cent for which we have authority. On food aid we have offered to consider the inclusion of a modest element of aid in an otherwise satisfactory package. The Community have so far not committed themselves, even in principle, and I was slightly surprised to see in a recent telegram Brussels (No. 69 of 12th April) that Monsieur ley ha told the Ministerial Council that the British approach to food aid was not as generous as had been hoped. It is at any rate more generous than the Community's.

There is a dispute between the Community and the Americans on whether coarse grain prices should or should not be covered by the agreement. The Americans have refused even to consider this, while the Community say that it is essential. We can afford to look on, if coarse grain prices are not included we can deal with our own problems through bilateral agreement with our main suppliers.

There is still a good deal of difficult negotiation to be done before the outlines of a settlement emerge, but I should be surprised if the whole operation broke down through inability to reach a cereals agreement.

Tropical Products

We have prepared an offer designed to appear of maximum help to the less developed countries as a whole, while doing the minimum harm to Commonwealth countries who have preferences in our market. Predictably, the Commonwealth countries are pressing us to withdraw from our offer all items of interest to them and if we did what they asked we should be left with something extremely meagre. There is likely to be a clash of priorities here between our wish to help the L.DCs. as a whole and the maintenance of Commonwealth preferences in our market. A separate paper is being put to Ministers on this issue.

The Developed Commonwealth

Australia has made offers to America and Japan which involve the reduction or elimination of about three-quarters of our trade preferences in Australia. In some cases Australia has proposed to raise the tariff against us, which we would regard as contrary both to the GATT and to the Trade Agreement. Canada has made similar, though not quite so brutal, offers to the United States and Japan. Both countries are out to make the best possible bargain for themselves and are quite prepared to sell our preferences for any concessions by third countries which bring them benefit. We propose to take a similarly hard headed and realistic approach in our own offers to third countries which affect our preferences in our market for the developed Commonwealth.

Non-Tariff Barriers

Our troubles here are with the Americans. In common with the Community and the Swiss, we are pressing them to eliminate American Selling Price. We are also pressing them to change the wine gallon assessment, which damages our exports of bottled whisky, and have offered to remove Commonwealth preference on unmanufactured tobacco. The Americans
have asked us to remove the ban on imports of coal and to increase the quota of American television material used by the British networks. We cannot move on coal, and the decision on television material rests with the broadcasting authorities who have for sound reasons refused to offer any concession. The only possibility we have in this sector is of some minor move on restrictions on imports of citrus products from the dollar area. We are satisfied that such a move would cause no economic disadvantage to the West Indies, but their views are based on emotion rather than reason. A separate submission is being made on this point. I hope that Ministers will agree that we can make some small offer in this field; otherwise we have virtually no non-tariff barrier currency.

Future prospects

The next immediate phase is likely to be one of much sharper confrontation between the Community and the United States with Great Britain more on the sidelines; they are the principal parties concerned, and their essential conflicts of interests have not yet come into the open, since both have so far been handling the business with kid gloves. This cannot continue much longer and we shall soon see the blood flow.

Despite the problems still to be resolved I think that the negotiations will come to a conclusion early in May and that this conclusion will generally be regarded as fulfilling the original objectives of the Kennedy Round. The reductions in tariffs will certainly, if the negotiations are eventually successful, be the largest ever made in any such enterprise.

At the moment the British team seems to be equally unpopular with all the other principal negotiating countries. I regard this as evidence that we are pursuing a sufficiently firm line and holding a reasonable balance between all the conflicting interests. We shall continue to do our best to obtain a satisfactory conclusion to the Round as a whole and a tolerable bargain for the United Kingdom.

Apart from tropical products and citrus, we need no new instructions for the present, but as the pace hots up we shall no doubt have to seek them on the most important issues as a matter of great urgency. On matters of lesser importance we shall use our discretion to make the best settlement we can.

R. R. POWELL
14th April, 1967
CABINET

EUROPE: CONSULTATION WITH THE EUROPEAN FREE TRADE ASSOCIATION, THE COMMONWEALTH AND THE IRISH REPUBLIC

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate for consideration by the Cabinet, at their meeting on TUESDAY, 18th APRIL, 1967, the attached memorandum by officials on consultation with the European Free Trade Association, the Commonwealth and the Irish Republic.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

17th April, 1967
Consulation with EFTA and the Commonwealth and the Irish Republic

Report by the Chairman of the Official Committee on Europe

At their meeting on 13th April the Cabinet agreed that the Prime Minister should "arrange for the Cabinet to consider at an early date a memorandum on consultation with the Commonwealth and EFTA" (CC(67) 20th Conclusions, Item 2). This memorandum sets out the results of consideration by officials of alternative methods of consultation, and of the timing of such consultation in the context in which it needs to be considered, i.e. the timetable for further consideration by the Cabinet of the approach to Europe (CC(67) 20th Conclusions, Item 2).

2. We undertook a commitment to EFTA at the meeting in December 1966 of EFTA Heads of Government, and confirmed this commitment at the recent Ministerial Council of EFTA at Stockholm, to consult our EFTA partners before reaching a firm decision on the further development of our relations with the EEC. As regards the Commonwealth, we are committed by the Prime Minister's statement on 10th November 1966 to consult with governments throughout.

EFTA

3. For good reasons, namely to carry our EFTA partners with us and to prevent them losing confidence in our intentions, we were obliged to confirm our commitment. This commitment is expressed in the Communiqué issued after the Stockholm meeting, which said -

"In the proposal of the United Kingdom delegation, which was welcomed by the other delegations, Ministers decided to discuss the position again after the United Kingdom Government had been able to review their own discussions in the Six capitals and before any final conclusions were drawn from them."

4. There are three possible ways of consulting EFTA.

5. First, a meeting at which we could indicate to EFTA colleagues what line we expected to take, but which was held before the Cabinet had taken a decision, is clearly ruled out. Anything said at such a meeting would be bound to leak; and in any case no such indication can be given before the decision has in fact been taken by the Cabinet.

6. Second, a meeting at which EFTA would be consulted on a purely hypothetical basis, and at which EFTA Governments were asked to react to the various possible courses before us. Thereafter, when the Cabinet had taken its decision, in the light inter alia of EFTA views, EFTA Governments would be informed of it at the last possible moment before it was announced.
7. The disadvantages of the second course are that EFTA would find it most unsatisfactory and would complain that we had merely done again what they disliked at the Lisbon meeting: i.e. giving them no hint of our intentions shortly before announcing a major decision. A further difficulty to which a number of Departments attach major importance is that if such a meeting were held (and if it were held at all it ought to be held soon) the news of it being summoned would be taken (however unjustifiably) as implying that a decision to apply for membership of the Community was imminent: and that this would be seized on by the French or the Community as an excuse to reconsider or withdraw offers already made in the Kennedy Round.

8. A third possibility of dealing with the problem might be as follows. We should approach EFTA Governments fairly soon (shortly after the middle of April) through the diplomatic channel and speak to them in the following sense. We recognise the obligation we entered into at Stockholm to hold a further Ministerial meeting with them before we come to any final decision. But any conceivable way of meeting this obligation has grave disadvantages for all of us. It is in fact impossible, for practical and Parliamentary reasons, for us to consult with EFTA Governments when we know what our decision is likely to be, but before we have actually taken it, and on the basis of indicating to them what the decision is likely to be. Leakages would be certain and would be generally embarrassing.

9. Alternatively, we could consult EFTA Governments at a meeting held in the fairly near future on a purely hypothetical basis before we have taken or even really approached a decision. The EFTA Governments would, we feel, find this unsatisfactory. It would really be no more than what we did at Stockholm in March. If all EFTA Governments, however, urge us to meet our undertaking by holding a conference for consultation on a hypothetical basis, we shall endeavour to do so in the near future. However, we consider that a more practical and realistic method of proceeding, both for us and our EFTA partners, would be for the main process of
consultation to be carried out, in the first instance, through bilateral contracts through the diplomatic channel, and possibly at a later stage in one or more meetings of the regular EFTA Council. We would hope that such Council meetings, if held, would attract no special attention and avoid any complications in the Kennedy Round. If EFTA Governments react positively to this first approach, we would intend to initiate bilateral consultation with them immediately, on a hypothetical basis; and this process of bilateral consultation would be followed up by consultation in the regular EFTA Council in Geneva. On this basis, there would in fact be no Ministerial meeting of the EFTA Council until we had taken our decision, though we would be better able to take into account all EFTA views as we moved towards our decision. We would then hope, if our decision were to apply for membership of the Community, that there could be a Ministerial meeting of the EFTA Council to consider the situation and consult together soon after the Government's decision had been taken.

10. We recommend that we should adopt the third course (paragraph 8), and that we should do all we can to secure the agreement of our EFTA colleagues; but that, if this course is unacceptable to them we fall back on the second course (paragraph 5). There is just sufficient time for us to follow the third course, and if it fails, to fall back on the second provided that we make a start immediately on the procedure outlined in paragraph 8 for EFTA, (and take corresponding action with the Commonwealth as set out in the following paragraphs).

The Commonwealth

11. Commonwealth interests lie more in the terms that we shall seek than in the question whether or not we apply. We are committed to a continuing process of consultation. There is accordingly no need to assemble representatives of all Commonwealth Governments at the same time, either before or after our decision is taken or announced.

12. Canadian Ministers will be in London on 19th-20th April for the Anglo-Canadian Ministerial Committee. The Deputy Prime Minister of Australia will be in London on 21st April, and we have suggested that the Deputy Prime Minister of New Zealand should come to London on 25th April, during the course of their visits to Geneva in connection with the Kennedy Round negotiations. Consultations with each can be held then, and followed up later at Ministerial or official level, as preferred.
With other Commonwealth Governments consultation could be initiated by telegram at the same time as with EFTA. The telegram might say that:

(a) The study which the British Government were making of the results of the exploratory discussions in EEC capitals was well advanced;

(b) no decision had yet been taken but that the issue would have to be brought to a head very soon;

(c) in reaching a decision, the British Government wanted to take fully into account any general considerations which Commonwealth Governments wished to put forward at this stage on the hypothesis that Britain was considering applying to enter the Community subject to safeguards for essential Commonwealth interests;

(d) the British Government wished to allow adequate time for full consultation with Commonwealth Governments; and, if the decision was in favour of applying to enter the Community there would be an opportunity for thorough consultations with Commonwealth Governments on all points of concern to them during the coming months.

Irish Republic

13. When the Taoiseach and the Prime Minister met on 19th December, they arranged to have a further meeting after the Government have considered the results of the exploratory talks. If possible such a meeting, for which Mr. Lynch would no doubt be willing to come to London, if necessary, should be held before the Cabinet reach a decision, and about the same time as the Prime Minister is seeing the Australian and New Zealand Ministers.

Cabinet Office, S.W.1.
17th April 1967
EUROPE: A POSSIBLE WHITE PAPER

By direction of the Prime Minister I circulate for consideration by the Cabinet, at their meeting on TUESDAY, 18th APRIL, 1967 the attached memorandum by officials on a possible White Paper.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.
17th April, 1967
This memorandum sets out for consideration by the Cabinet the results of an examination by officials of the possible timing and content of a White Paper or Papers on the Approach to Europe in the light of the oral Answer on this subject given by the Prime Minister on 13th April (Hansard Volume 744, No. 178, Columns 1368-1371).

2. The gist of the Prime Minister's Answer (Column 1369, lines 14-29) is as follows:

"The most convenient thing at this stage would be if the statement made by my right hon. Friend to a private meeting were now made available in full to all hon. Members, and more generally, and when the series of meetings end and I make a statement, my speech on that occasion should also be made available. The right hon. Gentleman can then be assured - which was his concern - that nothing was said at the private meeting which was not made available to all hon. Members and to the public. I will consider, immediately after that, the question whether a fuller White Paper is necessary."

The terms of this statement would cover the issue of one or more White Papers or similar documents.

3. As regards timing, this matter needs to be considered in the context of the Cabinet's programme for further consideration of the Approach to Europe (CC(67) 20th Conclusions, Item 2). On the basis there set out, namely that the aim should be for the Cabinet to reach a decision, and for a Parliamentary Debate on it to be held before the Recess, starting on 12th May, the timetable would need to be approximately as follows.

3a. The Prime Minister's speech to the Parliamentary Labour Party, which would form part of the White Paper or similar document envisaged by the Prime Minister's Answer, is due to be made on 25th April. If the remainder of the material for that document, including or comprising (see below) the Foreign Secretary's speech to the Parliamentary Labour Party on 6th April had already been printed by 25th April, the completed document, including both these speeches and any other material (see below) could we think be issued by say the end of that week, i.e. 28th April.
4. This would be, on the Cabinet's present programme, about a week or ten days before their final decision, which officials assume would be the minimum interval which would be acceptable. Allowing, on the best estimate we can secure (which is being checked), some eight or nine days for the consideration and printing of the whole of the necessary material, issue of the completed document containing both the Prime Minister's and the Foreign Secretary's speeches, and possibly other material by 28th April would involve sending all the material other than the Prime Minister's speech for printing by about Wednesday, 19th or Thursday, 20th April. Any material additional to the two speeches would, therefore, have to be prepared and cleared for printing very quickly.

5. If alternatively the speech by the Foreign Secretary were issued earlier, that would involve two "Papers", and would underline the question considered below whether additional material should be included in one or other of these papers, and so complicate the problem of timing. In the context of the Prime Minister's Answer referred to above and of previous statements on this subject, the additional material would consist of non-confidential information gathered during the course of the recent discussions with Heads of Governments of the countries of the European Economic Community (EEC).

6. There is here something of a dilemma in that on the one hand the issue of a document consisting of the two speeches to the Parliamentary Labour Party might be open to criticism as failing to provide sufficient information in regard to the recent European discussions or indeed, insufficient coverage of the very wide scope of the subject of the implications of the entry of the United Kingdom into the EEC; whereas on the other hand a wider coverage would, in proportion as the scope of the document was widened, create difficulties both of timing and of substance, in view of the variety of opinions held on this question.

7. Nevertheless from preliminary consideration officials have given to this problem, it seems likely that an objective summary of the non-confidential information gathered during the recent European visits could be made available and cleared, if special priority were given to this, in time to meet the timetable in paragraph 3 above. Since the question of British entry into the EEC and its political, economic, and social implications has been widely and publicly discussed ever since, and indeed even before the foundation of the EEC in March 1957, it would reasonably be argued that the issue of a document or documents containing the speeches of the Prime Minister and Foreign Secretary to the Parliamentary Labour Party together with an objective summary of the non-confidential information gathered during their European tour could be justified as providing adequate information for purposes of Parliamentary and public discussion.
8. There has been and still is a demand from a number of quarters, other than HM Opposition, for such material, most notably from the First Secretary of State's Consultative Committee for Industry and from the Trades Union Congress. A White Paper or similar document on the lines suggested above would be of some assistance to the First Secretary of State in relation to his Industrial Consultative Committee on Europe, which will have to meet on or around 1st May, i.e. after the Prime Minister's speech to the Parliamentary Labour Party and before the final decision by the Cabinet. It would not give them as much information as they have been led to expect, but would provide some basis for more detailed discussion of the issues involved in the approach to Europe.

9. If such a document were issued by say 28th April it would materially simplify the problem whether there should be a further and fuller White Paper, the possibility of which is covered by the Prime Minister's Answer quoted in the second paragraph of this memorandum. Such a further document could hardly be issued between 28th April and a decision by the Cabinet together with a Parliamentary Debate on it before the start of the Recess on 12th May, unless it were simply a White Paper containing the Government's Statement to Parliament on their decision and the reasons which underlay it. This would in any event be a likely procedure; and if such a White Paper were followed, as it could be, by the publication by the Central Office of Information of a 48-page booklet now in draft, setting out the main facts about the nature of the EEC and its policies, together with a similar statement of the corresponding facts about the United Kingdom (e.g. descriptions of the agricultural policies of the EEC and the United Kingdom), Ministers might feel that, against the background of almost a decade of public discussion of the EEC and the implications of British membership of it, sufficient material for purposes of public information had been provided.

10. Ministers are accordingly invited to decide -

(a) whether the Foreign Secretary's speech to the Parliamentary Labour Party on 6th April should be issued in advance of or at the same time as the Prime Minister's forthcoming speech to that body on 25th April, or should be issued separately as soon as possible;

(b) whether the two speeches should be supplemented by a summary of the non-confidential information gathered during the recent European tour, and whether the resulting document should be issued as a White Paper or in some other form;
whether in the light of the decisions on (a) and (b) above there should be a further White Paper containing the statement the Government would make to Parliament about their decision on the approach to Europe; and whether this should be followed by the publication of the COI booklet now in draft describing the institutions and policies of the EEC, together with a description of corresponding United Kingdom arrangements and policies.

11. The Cabinet's present timetable for consideration of the Approach to Europe, with relevant dates, is attached for information.

(Signed) W.A. NIELD

Cabinet Office, S.W.1.

17th April 1967
EUROPE: THE PRESENT TIMETABLE

17th - 20th April
20th April (Thursday) Cabinet
27th April (Thursday) Cabinet
4th May (Thursday) Cabinet
7th May (Monday)

12th - 29th May
(14th May, Whit Sunday)
19th - 26th May (Friday - Friday)
27th - 28th May (Saturday - Sunday)
29th May (Whitsun Bank Holiday)

29th May - 2nd June (Monday - Friday)
3rd - 4th June (Saturday - Sunday)

Foreign Secretary in Washington for SEATO
Consideration of the Approach to Europe for a decision in time for a Debate before the Recess
Reputed likely date for conclusion of Kennedy Round
Parliamentary Recess
Foreign Secretary in Moscow
Prime Minister in Canada
EUROPE: IMPLICATIONS OF ENTRY FOR UNITED KINGDOM PLANNING POLICIES

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate for consideration by the Cabinet on THURSDAY, 20th APRIL, 1967 the attached memorandum which has been prepared by the Official Committee on Environmental Planning.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

18th April, 1967
At their meeting on 6th April the Cabinet agreed that an inter-departmental study should be made by officials of the effect of entry into the EEC on United Kingdom planning policies taking account of the influence which would, in any event, be exerted by the opening of the Channel Tunnel on industrial development in the South East of England.

2. While entry into the Community might have long-term effects which could affect planning policies (for example, as a result of changing trends in tourism, or movements on retirement) it is clear that the most important influence would be the effect on our regional economic planning policies which are aimed at ensuring a proper balance between the various regions and in particular at reducing the disparity between the development areas and the rest of the country. The Official Committee has, therefore, concentrated its attention on this aspect of the problem. Paragraphs 15 to 17 below, however, refer to some other important related aspects.

3. It is assumed in this paper that Ministers are satisfied, as a result of the enquiries made in Europe, that our existing development area policies are compatible with membership of the EEC. The support given by EEC countries to their less prosperous areas is largely in the form of various measures of financial assistance: negative controls over the location of industry are much more limited in their extent than in the United Kingdom. So far the measures of financial assistance do not appear to have been on the same scale as ours. The effectiveness of EEC programmes of support for less prosperous areas may well develop, and there is some evidence of a current move in this direction: but we have assumed that the programmes of the EEC countries are never likely to become substantially more attractive to industry, in total effect, than our own policies. In the longer term, in this field as in others, there will no doubt be pressure for the harmonisation of national policies.

4. A major element in our regional policies is the encouragement of industry to set up in the development areas and a corresponding pressure to discourage industrial development in the Midlands and the South East by the refusal of industrial development certificates (i.d.cs.). Before considering what effects there might be on this system it is necessary to make a judgment on the general effects of membership on internal direct investment of United Kingdom firms and on outward and inward investment, since the volume of new industrial development in the United Kingdom largely determines the supply of mobile industry. For this purpose we have assumed that Ministers will not decide to open negotiations unless they are satisfied.
that we are fully competitive with European industry, that membership would be to our general economic advantage and would thus lead to increased industrial investment by United Kingdom firms in the United Kingdom. This accords with the conclusions of the CBI Europe Survey; 36 per cent of their sample enquiry expected British membership would lead to more home capital investment by their firms, 55 per cent considered their investment would be the same and only 2 per cent considered it would drop.

Location of Industry
5. It has been argued that the position of the United Kingdom on the edge of Europe will lead to the movement of industry towards the economic centre of Europe - both out of Britain towards the Continent and within Britain towards the South East. Studies of industrial location, including those of recent industrial development in the Common Market, demonstrate that growth tends to concentrate mainly in those areas where it has already occurred, through the attractive power of higher relative rates of growth of output and productivity, and higher relative levels of income and larger markets, as against the disincentive of relatively higher wage levels. The location of major growth industries (chemicals and synthetic fibres, electronics and electrical equipment, office machinery, motor vehicles and consumer durables) favours the further development of the most successful areas, against those dependent on declining industries (coal, steel, shipbuilding, cotton textiles etc). In the United Kingdom these tendencies towards further concentration of growth in the South East and Midlands have been largely held in check by our present regional policies. Within a wider European Community, in the long term, the same tendencies and the strength of the instruments of regional policy available to Member States, will continue to be of the first importance in the pattern of industrial location. However, in the medium-term (perhaps the next 10-15 years) transport factors are likely to be particularly important in the determination of industrial location. Eventually, the widespread use of containers in trade with Europe and the opening of the Channel Tunnel will eliminate much of the extra costs and delays of transport across the Channel; but until the necessary improvements in transport are made, there is a risk that inferior transport will act like a tariff, and encourage British firms to locate on the Continent and EEC firms to locate within Britain. Because the EEC offers a contiguous land market of some 350 million consumers against Great Britain's 53 million, it seems likely that more United Kingdom firms will launch 'pilot' plants in the Six than vice versa. For some of the United Kingdom's largest firms the incentive will be particularly strong; but the behaviour of other United Kingdom firms is less certain. There could be a pronounced 'follow my-leader' effect, but equally they could decide to wait to learn from the experience of the larger firms. So, although on balance it seems likely that in this introductory period British moves to the Continent will outweigh Continental moves to Britain, the relative magnitudes are hard to predict and will in part depend on the success we may have in raising our own rate of growth to levels comparable with those in the EEC.
6. Total capital expenditure in United Kingdom manufacturing industry alone was some £1,600 million in 1966 and over £2,600 million in total in that year if distributive and service industries are included. Of this perhaps some £160 million represented investment by overseas companies. The dominating element of investment by United Kingdom firms illustrates that it is on the growth of this element that we are primarily dependent to produce projects which can contribute to the Government's location and planning policy. Foreign investment in the United Kingdom, while valuable in this connection, can hardly be expected to provide more than a proportionately modest contribution.

7. As regards the inflow of direct capital investment into the United Kingdom, North American investment averaged £130 million in recent years. United States firms in deciding their investment policies in Europe will have regard to the total situation in each country including the funds they have available for investment there, opportunities for raising capital locally, any inducements being offered, the supply and quality of the labour, and accessibility of markets. They will also be influenced by language considerations and their views on political stability. They will choose whatever location is likely to provide the best base for expanding the market for their products and to maximise their profits. In view of the overall level of inducements offered by the United Kingdom, particularly in the development areas, and our relatively favourable showing in respect of many of the other factors mentioned above, the United Kingdom would be likely to continue to be attractive, especially to North American firms, as against other members of the EEC. It is thought that additional American investment might eventually build up to as much as £50–70 million a year. But for the first five years after entry it may be more prudent to reckon on an additional inflow of £40–50 million a year, mostly from the United States, but including £10 million inflow from the Six. Some of this investment will represent the expansion of existing firms so that not all of it is new investment which might be "steered" to development areas.

8. Direct investment by United Kingdom firms in the EEC (excluding oil) has been around £35 million in recent years. Assuming that on membership our present controls on direct investment into the EEC would have to be removed (with or without a transition period) it is estimated that there would be additional investment by United Kingdom firms in the EEC of perhaps £45–50 million a year— not all this figure, however, represents investment which would otherwise have taken place in the United Kingdom. The calculation takes account of the fact that Corporation
Tax will increasingly bias United Kingdom firms towards investment at home rather than overseas, and that if the United Kingdom is in the EEC there would be no reason for United Kingdom firms to invest there in order to overcome the tariff barrier. (The figures in this and the preceding paragraph are taken from the brief on capital movements prepared for the recent visits by the Prime Minister and Foreign Secretary to EEC Heads of Governments.)

9. Taking account of the expected increase in investment by United Kingdom firms in the United Kingdom and the balance of outward and inward flows considered in paragraphs 7 and 8 above the Committee concludes that on balance there is more likely to be an increase of capital investment by industry in the United Kingdom than the reverse, if the United Kingdom joins the EEC.

10. As regards the distribution of industry within the United Kingdom the most important questions are:

(a) whether entry into the Community would make United Kingdom firms less willing to establish new factories in the development areas;

(b) whether it would become more difficult to persuade foreign firms to establish new factories in the development areas rather than in the Midlands and the South East.

(c) whether such growth of employment as is not dependent upon the issue of I.D.C.s. will tend to be faster in the South East and the Midlands because of EEC membership.

11. If there is greater total investment in the United Kingdom and if some of this consists of more foreign investment, the opportunities for steering new investment to the Development Areas will be increased. It must be accepted that some firms would put up a greater resistance to attempts by the Board of Trade to steer them to Development Areas if they were free to build new factories on the Continent. But the number of firms who were refused an I.D.C. in the South East or the Midlands and who would, in practice, decide to develop on the Continent rather than elsewhere in the United Kingdom is not likely to be large. The general run of firms depend on a United Kingdom base for their activities and these firms are not likely to move to Europe with the problems of language, management, etc. The financial advantages of establishing a new factory in the Development Areas (particularly if it is decided to
proceed with the proposals for a regional employment premium) might well
counterbalance any advantage which the firm would see in establishing
a factory on the Continent. The new towns and the overspill areas
are also existing options for certain firms in the South East and
Midlands wishing to expand and unable to go to Development Areas.
The influence of i.d.c. and other policy varies with the size of firm.
Big firms in deciding their locational policy are less likely to
want to expand in the more congested parts of the South East anyway,
because of labour supply problems. Intermediate sized firms which
want to expand, but which are not big enough to split, tend to want
to stay where they are. If they are in the South East then they
tend to argue that somehow or other they can attract labour. The
aim of these firms is essentially to stay where they are, and in
these circumstances a threat of moving to Europe is rarely likely
to be a plausible counter by a firm when asked to conform to the
Government's location policy. I.d.c. policy is, of course operated
flexibly at present and where special circumstances justify, i.d.c.s.
are given now to permit expansion in the South East and Midlands even
in areas other than the new towns and overspill localities. If a firm
seemed determined to go ahead with a development on the Continent if
an i.d.c. for a development in the South East and Midlands was not
granted, and if it seemed desirable to prevent this, it would be
possible in such exceptional cases to permit a new development in the
South East or the Midlands, but in such cases, it would be hoped that
the development might be used to benefit a new town or overspill area
thus achieving a second aim of the Government's location of industry
policy. While recognising that freedom to move to Europe would
introduce a new option for mobile industry, overall it seems improbable
that this possibility would radically change the balance of industrial
location within the United Kingdom.

12. As regards United States firms, it seems improbable that entry into
the Community would make it more difficult to persuade them to establish
new factories in the Development Areas. It has been the general experience
that United States firms are less resistant to pressure to set up in the
Development Areas, presumably because their connections with industry
in other parts of the United Kingdom are less close. Apart from financial
inducements for location in the Development Areas, which are likely to
be at least as strong as anything available elsewhere on the Continent,
there are other advantages such as the availability of labour which will continue to influence the decisions of managements. European firms setting up in the United Kingdom will be doing so to exploit the United Kingdom market and are, therefore, more likely to want to stay near the main concentration of purchasing power in the South and Midlands. The overspill and new towns in these areas, where in any case there is likely to be a greater demand for industry in the future, could be attractive locations to such firms. Although this will lead to a slightly greater strain on labour resources in these areas it will not seriously affect overall regional policies.

13. The regional implications of the Channel Tunnel are at present under examination by officials. The general view is that the opening of the Tunnel will not, in itself, run counter to the Government's regional policies, or create difficulties in the administration of i.d.c. controls. The possibilities for through movement between Europe and all parts of Great Britain should materially assist manufacturing industry in regions outside the South East, provided that the necessary communications network (both road and rail) is established. The planning of through rail services is only in its initial stages, but British Railways have it in mind to provide liner train services to the Continent from industrial centres in various parts of the country. The advantages of this service from a regional point of view will depend to some extent on the charging policies of British Railways.

14. The considerations in the previous paragraph are also relevant in considering the expansion of industrial employment which occurs outside the scope of the i.d.c. control because it is not associated with new factories or factory extensions above the exemption limit. This has been an important factor in the growth of the South East and the Midlands, and could be more important if entry into Europe conferred competitive advantages on these regions. Although even with improved internal communications firms in these regions will still retain some of their present competitive advantage for sales to the Continent, they will also be more vulnerable to competition from Continental firms in their own home market. So on balance there is no reason to fear that regional policy will be frustrated to any greater degree than now by the growth of that part of industrial employment which is outside the scope of the i.d.c. control.
Other Planning Considerations

15. Our entry into the EEC should lead to a stimulus in British commercial activity and to the transfer of some European commercial offices to the United Kingdom. This would be likely to increase the demand for office space in London and the South East. A proposal by an international firm to establish its European headquarters in London could bring such advantages that it might be accorded special treatment. But this is likely to be the exception. The general transfer of activity is not likely to be unduly significant, and in so far as our entry into Europe leads to an increased demand for office employment in London, there seems no reason to think that it would place undue strain on the existing control. As part of the policy of limiting the demands for office employment in the South East and London the Government has dispersed a substantial proportion of direct Government employment to other parts of the country. There would be no reason to lessen the vigour with which this policy would be pursued.

16. There will be regional implications for United Kingdom agriculture arising from the differential impact of the common agricultural policy on different classes of producers. This issue has been separately considered in the report submitted to the Cabinet on agriculture and the Common Market and is, therefore, not further discussed here.

17. The estimation of migration is important for physical planning purposes. The increased employment which it is thought should be generated in the United Kingdom as a result of membership of the Common Market might lead to an inward flow of migrants from the continent under the free movement of labour provisions of the Treaty of Rome. The report already submitted to the Cabinet on the implications of entry into Europe for mobility of labour and immigration policy concludes, however, that membership of the Common Market is not likely to lead to any substantial additional influx of labour because the Community itself is short of labour and has to rely on recruitment of large numbers of workers from Spain, Turkey, etc. Nevertheless, the total addition to population in the long term, with its consequential effects on housing demand, might become of some significance.

Conclusion

18. This paper is based on the assumptions (set out in paragraphs 3 and 4 above) that Ministers are satisfied that our regional policies are compatible with membership of the EEC, that on our entry United Kingdom industry would be fully competitive with European industry and that membership would be to our general economic advantage. On these assumptions, and allowing for the influence of a Channel Tunnel, there seems no reason to expect that entry would create serious difficulties in the operation of controls over the distribution of industry or of office development. Indeed, if entry were to result in a substantial addition to net direct investment in the United Kingdom, the effects on planning policies both in the development areas and elsewhere (for example, in the so-called "grey" areas) would be beneficial. No other adverse effects on the operation of our physical planning policies has been identified by the Committee.
CABINET

EUROPE: THE SELECT COMMITTEE ON AGRICULTURE

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate for the information of the Cabinet, as relevant to their discussion on THURSDAY, 20th APRIL, 1967, the attached memoranda prepared by the Ministry of Agriculture for submission to the Select Committee on Agriculture, namely:


Annex B: Possible effects of United Kingdom accession on the financing of the European Economic Community's Common Agricultural Policy.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

19th April, 1967
NOTE FOR MEMBERS OF THE
HOUSE OF COMMONS SELECT COMMITTEE ON AGRICULTURE

Effect of accepting Common Agricultural Policy on volume of
United Kingdom Cereals Production

1. At its meeting on 5th April the Select Committee examined the Ministry of Agriculture, Fisheries and Food witness about the likely effect of accepting the Common Agricultural policy, as it stands, on the volume of United Kingdom cereals production. The witness explained that an assessment had been made and that the increase would be considerable. He pointed out, however, that to make public the details of the estimate could involve disclosing underlying assumptions which could have undesirable repercussions. At the request of the Committee he agreed to consider the submission of a note on an entirely confidential basis for members of the Committee, who had asked for the information.

2. Currently, United Kingdom cereals production amounts in total to some 13.5 million tons and, whether or not this country were to enter the Common Market, is expected to continue to increase for some years to meet increased demand - chiefly for animal feed. In Common Market conditions the increase in prices and in relative profitability of cereals would lead to a very large increase in production. There are, however, certain limiting factors which affect both acreage and yield.

3. Climate, soil and terrain impose physical limitations on the acreage that could be used for cereals. In addition, and despite the much increased relative profitability of cereals production, there would still be some competition for land from other farm products. Beef and sugar beet would also be more profitable than now; and the dairy farmer would under the European Economic Commission's (EEC) present regime have a strong incentive to concentrate on summer production from grass. Moreover, where cereals were grown extensively break crops would be needed to reduce soil exhaustion and disease risks.

4. Average yields over the whole cereals acreage could not be expected to be increased significantly above recent levels, despite continuing technological improvements, if less suitable land were used and continuous cultivation of cereals year after year increased disease risks.

SECRET
5. Taking account of these factors, we have estimated that if the common agricultural policy were applied in the United Kingdom as it stands, and if the Community's prices and price relativities remained unchanged, United Kingdom cereals production could be expected to reach in due course a level of some 20 million tons.

6. It must be emphasised that these figures are necessarily speculative. The increase in the prices and profitability of cereals in Common Market conditions would be far greater than any yet experienced in the United Kingdom. For this reason, supply elasticities, calculated on previous price changes within a relatively narrow range, afford little guide to the effects of changes of this magnitude.
NOTICE FOR MEMBERS OF THE HOUSE OF COMMONS
SELECT COMMITTEE ON AGRICULTURE

Possible effects of United Kingdom accession on financing of the EEC's Common Agricultural Policy

1. At its meeting on 5th April the Select Committee examined the Ministry of Agriculture, Fisheries and Food witness about the assessment of United Kingdom contributions to and receipts from the EEC's Agricultural Guidance and Guarantee Fund, and on the likely financial effects of United Kingdom accession on the cost to the existing members. The discussion was on the hypothetical basis that the common agricultural policy and the system agreed for financing it should apply as they stood.

2. The witness explained that an assessment had been made, taking into account all the relevant factors which he enumerated, but that most if not all of these factors were to varying degrees by their very nature not capable of being precisely quantified. It was abundantly clear, however, on the hypothetical basis propounded that the size of the United Kingdom contribution to the Fund, chiefly due to the hand-over of levy proceeds on imports, would be disproportionate to the receipts the United Kingdom could expect to receive from the Fund and could be expected to reduce greatly the size of the national contributions otherwise likely to be required from the existing members. To publish in detail the break-down of the inevitably speculative nature of the figures or range of figures given for the separate factors, and the underlying assumptions on which they were based, could well be prejudicial to any negotiations. At the request of the Committee he agreed to consider what might be made available to the Committee on those lines on an entirely confidential basis. This note is provided on that basis.

General Assumptions

3. To start any assessment certain basic assumptions are necessary -

(i) Membership of an enlarged Community. The Committee has asked that figures should be given on the basis of a Community consisting only of the Six and the United Kingdom.

(ii) Prices. It is assumed that the general level of existing world and Community prices remains unchanged. As a consequence the estimate takes into account the likely effects of EEC prices on production and consumption in the United Kingdom, which together would affect the volume of imports of leviable commodities and, therefore, the size of the levy hand-over to the Fund.
Levy and tariff arrangements. It is assumed that these would apply unchanged by the Community for individual commodities, which has a bearing on the proportions of our imports likely to come from Community and from third country (leviable) sources respectively.

EEC financial arrangements. It is assumed that these are applied unchanged to the United Kingdom. No attempt is made to give any weight to factors which could be significantly affected by the outcome of any negotiation for United Kingdom accession.

Factors involved in the assessment
4. The two main elements in a calculation are obviously the changed requirement of the Fund to cover United Kingdom accession, and the size of the contribution which the United Kingdom would be making to that Fund.

There are several components to each of these elements, viz -

A. Changed requirement of the Fund

We start with the recent estimates by the Commission of the annual requirements of the Fund at the single market stage for the Six, i.e. £480 million for the Guarantee Section and the limit of £100 million which has been set for the Guidance Section. Thus we have a total working requirement for the present Community of £580 million; but it must be remembered that this itself is a Commission estimate based on more or less speculative predictions of the level of EEC production and of future Community and world prices. United Kingdom accession would alter this requirement in three ways -

(i) the cost of export restitutions and of market intervention (support buying) for United Kingdom produce. In attempting an assessment we have considered the effects of EEC price levels on United Kingdom production and the extent to which intervention might be necessary to sustain internal market prices at the new levels, and to which export subsidies might be payable in respect of United Kingdom exports to third countries. Much the greater part of this cost would be attributable to cereals.

To form a judgment of the sums actually likely to be required involves predicting, however, not only the volume of United Kingdom production and consumption but also production and consumption in the enlarged Community as a whole. This is because both the extent of intervention and the sums actually payable for export subsidies must vary both with the
degree of self-sufficiency in the enlarged Community and (even within the assumed maintenance of the general level of world prices) with the fluctuating prices at which commodities are on offer from third countries at particular times. It follows, therefore, that anything in the nature of precise estimating is impossible; but the result might be an increased Fund requirement of the order of £30 million to £40 million.

(ii) The reduction in the Fund requirement for market support and export subsidies as a result of the United Kingdom market being open to the Six. Exports from the Six to the United Kingdom are bought at world prices and are thus eligible for export subsidy from the Fund. If the United Kingdom were a member not only could the Six expect to sell more here (thus reducing to some extent the need for market intervention) but what they sold in our markets would be at Community prices and would no longer involve an export subsidy cost to the Fund. An assessment of the possible changes in the volume and pattern of EEC exports necessary to arrive at figures for these factors is inevitably the most speculative item in any calculation. It could be of the order of some £40 million to £60 million at least. We should certainly expect it to more than offset the additional requirement arising under (i) above.

(iii) The increased cost of the Guidance Section of the Fund. The present limit of £100 million for the Six for payments for structural improvements would clearly have to be raised upon the enlargement of the Community. The additional amount involved, however, cannot simply be equated with what might be needed for payments to a new market. On the arbitrary basis that it reflected the comparative size of agricultural industries, and taking into account the present limit of £100 million for Six members, the additional amount involved upon United Kingdom accession might be somewhere between £10 million and £15 million.

5. The net effect of all these changes could easily be to leave the total Fund requirement at about much the same level. As against the Commission’s present estimate of £580 million the range of possibilities for the new requirement might be some £560 million to £595 million.

6. It is now necessary to turn to an assessment of the contributions which might be made by the United Kingdom as well as existing members.
E. United Kingdom Contribution to the Fund

Contributions by member States to the Fund fall under two heads: the hand-over of 90 per cent of the proceeds of levies on imports of c.a.p. commodities from non-member countries, and contributions from national Exchequers on a fixed percentage scale.

(i) Hand-over of levy proceeds. To make a financial assessment it is necessary first to try to predict the development of United Kingdom production of the various commodities under the Community's prices and arrangements. Next, we have to predict what the level and pattern of United Kingdom consumption might be at Community prices. From estimates of these two factors, which clearly involve an element of speculation, it is possible to form a judgment of our total import requirement of leviable produce. Then it is necessary to estimate how much of this total import requirement would be likely to be drawn from non-Community sources, and therefore be subject to levies. Finally, we have had to make an estimate of the actual amount of levy likely to be raised on these imports, commodity by commodity, on the assumption that the present general levels of EEC and world prices remained unchanged. Obviously none of these factors can be precisely evaluated and the possible distribution of our future imports between Community and non-Community sources is particularly difficult to forecast in these hypothetical circumstances. The best estimates we can reach, however, indicate a range of possibilities round a mid-point of about £200 million for total levy receipts. Under present Community arrangements, 90 per cent of this sum, i.e. £180 million, would become payable to the Fund.

(ii) Fixed percentage contribution. Under present arrangements the Six make contributions to the balance of the Fund's requirements according to the following fixed percentage scale -

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>32.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>31.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>20.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>8.1%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.2%</td>
</tr>
</tbody>
</table>
It is impossible, by definition, for any of the existing members of the Six to know in advance what these percentages may represent in terms of actual cost to them in any one year, because this depends on how much of the total expenditure is covered by the proceeds available from levies. For this reason, and with the further complication that the percentage scale for the United Kingdom would obviously be a matter for actual negotiation, any quantification of this item can only be on a purely arbitrary basis. For example, if we took for illustrative purposes roughly the same percentage as France and Germany, relative to the other members, then in a Community of Seven, as distinct from Six, it would work out on the total scale at 24 per cent.

It has been estimated by the Commission that levy receipts from the six countries in the present Community may amount to some £210 million at the single market stage. Discontinuance of levies on imports from the United Kingdom into the Six could reduce this by about £10 million, leaving a total levy income of about £200 million from the Six. Adding to this our estimate of the United Kingdom's levy hand-over (£180 million) would give a total levy income for a Community of Seven, of some £380 million against a total Fund requirement of our estimate of something between £560 million and £595 million. This would leave a balance of £180 million to £215 million to be met from fixed percentage contributions. On the hypothesis of a fixed percentage of 24 per cent for the United Kingdom the cost would be in the range of some £45 million to £50 million.

7. On these assumptions the total contribution from the United Kingdom, covering levy hand-over and fixed percentage share, would amount to about £225 million to £230 million.

Net financial effects for the United Kingdom
8. Against a total payment into the Fund of between £225 million to £230 million, we could – on the basis of all the foregoing estimates – expect to receive –

(i) some £30 million to £40 million out of the Guarantee Section (for market intervention and export restitutions);
(ii) some assistance from the Guidance Section of the Fund for structural improvements. On the assumption that our receipts were equivalent to the whole of the increase assumed for Guidance Section in the enlarged Community, this would amount to between £10 million and £15 million.

9. Total receipts from the Fund would, on this basis, amount to some £40 million to £55 million to set against some £225 million to £230 million, leaving a net deficit of the order of £175 million to £185 million. In addition to the reservations expressed throughout this paper about the imponderability of many of the relevant factors in the calculations, and the impossibility of precise estimating for others, two further points should be noted. First, the calculation, as requested, ignores the possibility of other countries joining the EEC; and, secondly, it deals only with the net cost to the United Kingdom of contributions to the Fund not with the total balance of payments effect of accepting the CAP.

10. It is clear, however, that even allowing for a very wide margin of error possible in any assessment of this kind, the extension to the United Kingdom of the Community’s financial arrangements as they stand would substantially reduce the financial liabilities of the existing members and involve the United Kingdom in a disproportionate share of the cost of sustaining the common agricultural policy.
EUROPE: FURTHER IMPLICATIONS FOR MOBILITY OF LABOUR AND IMMIGRATION POLICY

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate for consideration by the Cabinet at their meeting on THURSDAY, 27th APRIL, 1967, the attached report by officials which supplements C(67) 48 on implications of entry into Europe for mobility of labour and immigration policy.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

24th April, 1967
Supplementary report by Officials

The Cabinet when considering the report by officials on the implications for mobility of labour and immigration policy of United Kingdom entry into Europe (C(67) 48) directed that officials should prepare a further report on -

A. the experience of mobility of labour under the provisions of the Treaty of Rome of a member of the EEC where conditions were broadly comparable with those in the United Kingdom;

B. the machinery for control of immigration and movement which would be required in the United Kingdom;

C. the extent (if any) to which the United Kingdom would have the right to deport EEC nationals;

D. the possibility that the EEC would accord unrestricted freedom of movement within the Community to EEC nationals;

E. the implications for the right of entry into other member countries of the EEC of United Kingdom citizens of Commonwealth origin, including those now resident in other countries of the Commonwealth.

The following report deals in turn with these five aspects.

A. THE EXPERIENCE OF A EUROPEAN COUNTRY UNDER THE PROVISIONS OF THE TREATY OF ROME COVERING FREE MOVEMENT OF LABOUR - BELGIUM

Reasons for selecting Belgium

2. We were asked to report on the experience of mobility of labour under the provisions of the Treaty of Rome of a member of EEC where conditions were broadly comparable with those in the United Kingdom. Of the Six, Italy is a country with a manpower surplus which seeks to export labour and would clearly not be appropriate. Germany is at the opposite extreme with a manpower shortage which has made it necessary to bring in very large numbers of foreign workers. The majority have come from countries outside the EEC under bilateral arrangements. Our information is that Italian workers in Germany have also generally been recruited through similar arrangements made before the EEC was founded. The requirements of the Treaty of Rome do not, therefore, seem to have had very much influence on the movement of labour into Germany up to the present.
3. At first sight, France would seem to be a suitable country to select but the picture is complicated by the presence of large numbers of Algerian workers (550,000 at the beginning of this year) who can enter France under a quota system established by the Evian Agreement. Furthermore, we do not have detailed and up-to-date information about the operation of EEC rules on free movement of labour in France and we have felt it unwise to ask the French authorities for this at the present time. This leaves the Benelux countries who have formed a small common labour market of their own since 1957. Of these, we have selected Belgium both because detailed information about that country is readily to hand and because its policy towards the entry of foreign workers for some years has been liberal and in advance of the requirements of EEC Regulations. The experience of Belgium is, therefore, more likely to provide a key to what may happen in the future under Community rules which seem likely to provide for freer movement. What follows is largely based on a discussion which our Labour Attache in Brussels recently had with officials of the Belgian Ministry of Employment and Labour.

The employment situation in Belgium

4. The total working population of Belgium is approximately 3½ million. The number of wholly unemployed fell in recent years from an average of 132,000 for 1959 to 50,000 in 1964. In the summer of 1966 there were 55,000 wholly unemployed and the figure rose to 75,000 at the end of the year. In March 1967 it was 80,000. At the end of 1966 there were reported to be approximately 200,000 foreign workers in Belgium of whom 12,000 were wholly unemployed. Foreign workers accounted for 2 in 3 of all coal-face workers and 1 in 5 of all engineering workers.

The issues of labour permits in Belgium for EEC citizens

5. Citizens of the other Benelux countries (i.e. the Netherlands and Luxembourg) are entirely free to enter the country and take work. They do not need a labour permit and the authorities do not know how many are working in Belgium. Other EEC citizens require a work permit but receive one automatically on request. They do not have to be recruited through official channels or have a specific job to go to. On arrival in the country they can obtain a special EEC permit card on producing evidence of nationality and residence in Belgium. The EEC card is made out in four languages. It is valid for all jobs and is of unlimited duration.

The issue of labour permits for non-EEC citizens

6. The Belgian Ministry of Labour consults with the employers and trade unions once a year on the general rules for the issue of permits. No attempt is made to lay down rules or quotas for particular industrial sectors and the unions are not consulted on individual cases. Permits are issued on the
basis of the circumstances in each case and are for one year only. Formerly, they could be issued to persons who had arrived in the country as tourists and wished to take work. In view of the recent rise in unemployment this practice has ceased and the Belgian authorities now require non-EEC citizens to find a job and obtain a permit before they arrive in the country.

**Priority in placing EEC citizens**

7. In accordance with Treaty obligations EEC citizens receive priority over workers from other countries. In practice, technicians, managers, bilingual secretaries etc. from non-EEC countries who are clearly needed by firms in Belgium and cannot be replaced by Belgians, receive permits without difficulty. Unskilled manual and office workers, however, from non-EEC countries, must take their place behind EEC citizens. Nevertheless up till 1966 the number of permits granted to non-EEC citizens greatly exceeded the number granted to EEC citizens.

**Use of the safeguard clause in Regulation 38**

8. Belgium used this clause (which permits EEC countries to give priority to their nationals in occupations and regions where there is a considerable surplus of labour) initially for minor clerical occupations, entertainment artists and coal-miners. The authorities have now ceased to use it because they have found that it is not really needed. In the case of clerical workers, Italians, for example, would not normally have the necessary language qualifications to compete with Belgian workers. In the case of French or Luxembourg workers who would have the necessary languages, experience has shown that they are very unlikely to migrate to Belgium for this type of clerical work. In the case of entertainment artists, the Belgian authorities have said that control might be desirable but is very difficult to achieve and for this reason hardly worth pursuing. In coalmining where the intention was to safeguard surface employment for workers already employed underground, the restriction clause was found not to be necessary because employers normally reserved surface jobs for their underground workers of their own accord.

**Problems which might arise in the event of unemployment**

9. The Belgian view is that situations of employment difficulty right themselves. If there are fewer employment opportunities in Belgium at a given moment the Italians will probably decide for themselves not to move to Belgium and if a foreign worker becomes redundant he may decide for
himself to return home: a proportion of foreign workers may be the more anxious to do so because they have left their families at home. If an employer has only one job to offer and there are two applicants - one Belgian and one a foreigner - both of whom must be paid the same wages, he will naturally take the Belgian. The Belgian authorities have pointed out that they can always notify the exporting country (i.e. Italy), through the EEC machinery, that employment prospects are not good and they consider that this warning will be effective because there is always a considerable amount of coming and going of migrants. They have pointed, in addition, to the "grape vine" among Italian workers themselves which, in their experience, is reasonably effective in discouraging new entrants, when job prospects deteriorate. Finally, they point out that Belgium, like the other importing EEC countries, can always reduce immigration from non-EEC sources.

Conclusion - Effect of free movement of labour
10. Belgium has pursued a liberal policy, in advance of the EEC regulations, because it needs labour from abroad. National planning envisages that an increase of 3½ per cent to 4 per cent in production each year will require an inflow in gross figures of some 30,000 foreign workers a year. The Belgian authorities estimate that the effect of their policy in granting free entry and priority to EEC citizens has been to increase the percentage of the latter in the total entry of immigrants from 30 per cent to 50 per cent. They have pointed particularly to the effect of granting a permit to an EEC citizen before he has found a job. This means that the employer has no formalities to bother with. As soon as the man presents himself the employer can make a decision and can take him on at once if he wishes. There is no question of a doubt about the issue of a permit or a delay while the authorities consult or deliberate. The Belgian authorities finally point out that French and German practice up to now has not been as liberal as their own. In those countries the immigrant must have a job to go to before he can be given an EEC permit card.
11. It is not easy to say what effect entry into EEC might have on our system for control of immigration by aliens. There would have to be a system of appeals against decisions to refuse entry or to deport, but any system established for our own purposes in consequence of the report, expected within a few months, of the Committee on Immigration Appeals would almost certainly suffice for EEC purposes. On a purely practical point, there might well be pressure for special treatment for EEC nationals at the ports of entry, and this might conceivably lead to the provision of a fourth channel of control: the channels would then be United Kingdom, Commonwealth, EEC, non-EEC aliens. This would be expensive in staff and additional facilities.

12. More generally, if we were to enter EEC it seems likely that we would come under pressure from our fellow member nations to assimilate our system of immigration to theirs, since their nationals might be expected to complain about our procedure for scrutiny at the ports. And in any event relaxation of admission for EEC workers (even if not subsequently extended to other countries) might make it impracticable for us to carry on without additional internal controls. The EEC system of labour mobility has been built up within a framework of immigration systems which admit workers freely, and which deport them freely if they prove to be undesirable. It is not clear that our methods would prove apt for such a system, but only experience can decide this, one way or another.

13. It is commonly said that we operate an external system, at the ports, and that the EEC countries operate an internal system. This is not really true. All countries operate both an internal and external control, or rather there are the two aspects of each system. If we were to go over to the EEC system, we would still need at the ports, at minimum, a system of keeping out undesirables who were on a Suspect Index; and there is already quite a substantial internal aspect to our control (registration with the police, registration at hotels, job control, need to apply for extension of stay). But it is true that we carry matters further at the ports than the EEC countries, and it is probably because of this that we have to deport fewer people and in consequence are more reluctant to deport - we are not habituated to deportation as a routine remedy for dealing with people whom it would have been better not to admit.
14. If we were to go over to something like the EEC system of immigration control, there would have to be more reporting of movements of aliens within this country. It would probably be unnecessary for us to have a system of national registration for our own people; but hotels, lodging houses and possibly private hosts might well have to record or report movements of aliens to the police, and there would probably have to be a general tightening up of surveillance of aliens by the police. There would not necessarily have to be any extension of formal registration with the police by aliens.

C. POWERS OF DEPORTATION OF EEC NATIONALS AFTER ENTRY INTO EEC

15. At present the Home Secretary has power to deport any alien following conviction of an offence punishable by imprisonment and a recommendation for deportation by the court, or where he considers deportation to be conducive to the public good.

16. Following entry into EEC these powers of deportation would be circumscribed under the EEC rules (quite apart from the institution of an appeal system), as would also be the power to refuse entry to this country. It appears that EEC members can deport or refuse entry only on grounds of public policy, law and order, public safety, and public health. The action taken under these powers, except action taken on grounds of public health, must be based exclusively on the personal behaviour of the individual.

17. It seems doubtful whether these restrictions would amount to much in practice. EEC member countries appear to deport more freely than we do, and we would not expect our practice to be significantly affected.

18. A query has been raised about the power to deport unemployed EEC workers from this country. Under the EEC rules the power to deport must not be invoked to serve economic ends: we take this provision to mean that we could not deport EEC workers who had come here under whatever EEC rules might apply to free movement of labour (i.e. at present the work permit system) but had failed to find employment or had subsequently fallen out of work. We could presumably deport someone who, it subsequently transpired, had come here to live off Social Security benefits.
Supplementary Benefit

19. At present Supplementary Benefit is available as a right to any person who is in Great Britain regardless of nationality or how long he has been here. If it were necessary to guard against a situation in which EEC nationals who were in this country without a job could live on Supplementary Benefit, it would be possible to amend the law so as to incorporate some kind of residence qualification for statutory Supplementary Benefit. Such qualification could not be confined to EEC nationals — since this would incur a charge of discrimination — but would have to apply equally to all — including United Kingdom citizens and Commonwealth immigrants as well as EEC nationals.

20. It would, however, not be possible simply to leave people who were without resources and did not satisfy the residence qualification without any means of support; provision of some kind of financial assistance on a discretionary basis would be needed. With the circumscribed right of deportation of workers who have come to this country under EEC procedure referred to in paragraph 18 above, the limitation of access to Supplementary Benefit by means of a residence qualification would therefore not be very effective in securing the departure of such people once they were here. But it could act as some deterrent to their coming here in the first place.

21. Northern Ireland have a five-year residence qualification in their legislation; it is in general form but is of course designed to prevent citizens of the Irish Republic from moving into Northern Ireland for this purpose.
D. ACHIEVEMENT OF UNRESTRICTED MOVEMENT OF LABOUR WITHIN THE COMMUNITY

22. It is difficult to forecast how fast the Community will move towards completing the freedom of movement of workers in the EEC. The European Commission has recently submitted to the EEC Council a new draft regulation and draft directive. The main proposals made in the Commission's drafts are:

(i) the safeguard clause, which at present permits a member state to re-establish priority for its own nationals in particular regions or occupations, would be abandoned. There would be more extensive exchange of information between the employment services of member states about supply and demand. If, however, a member state experiences or expects serious difficulties in a particular area or occupation, it will be open to that member state to notify the Commission. If the Commission agrees that there is a risk of difficulties, all member states will co-operate to discourage workers from moving to the affected areas or occupations;

(ii) the issue of an EEC "Identity card" (valid for five years, but only for the country in which it is issued) would replace the work permit, but would only be issued on presentation by the applicant of a formal offer of employment or a work permit;

(iii) improved machinery for linking offers and demands would be used to ensure that applications from workers from other member states would be submitted to employers before non-EEC candidates are considered;

(iv) immigrant workers would in future be entitled to equality of treatment with national workers in relation to tax and social insurance matters, housing, and membership of works councils.

23. It should be noted in connexion with (i) above that the Commission's proposal is based on the experience of the Community under the existing regulations. It is not felt that there is any need for legislative provisions in case of difficulties, given the existing general safeguards in the Rome Treaty (Articles 103, 130 and 226).

24. In connexion with the Commission's proposal at (iii) above, it would seem unlikely that priority could in reality be granted to EEC nationals over nationals of third countries who had already been admitted into a member country for work purposes.

25. Member states now have to consider the Commission's proposals in the EEC Council. The Italian Government is seeking their application by 1st July 1968. Given the fact that the measures so far taken to free movement of labour have not caused any disturbances or difficulties to member states, and given the support in the trade unions in the Six for the measure so far
taken, it may be that the Commission's proposals will be broadly accepted by the EEC Council, though some changes will no doubt be made. What these changes will be and how soon the resulting new measures will be introduced cannot at present be foreseen.

E. IMPLICATIONS FOR COMMONWEALTH IMMIGRATION

(a) General

26. In relation to the Commonwealth, the basic dilemma confronting us remains as stated in our earlier report (paragraph 8(v) of the Note by the Chairman of the Official Committee on Approach to Europe attached to C(67) 48). Our Commonwealth policy has been to control immigration from both the Old and the 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 we maintain this policy unchanged we shall be restricting the number of citizens of all Commonwealth countries who can come here for employment while permitting EEC nationals to come here freely for this purpose, with consequential dissatisfaction throughout the Old as well as the New Commonwealth. If alternately we took the opportunity to modify our policy, by removing the present quota restrictions on immigration from the Old Commonwealth while continuing to regulate the inflow of immigrants from the New Commonwealth, we should go some way toward meeting the problem, but at the cost of introducing the principle of differentiation between the Old and the New Commonwealth. We assume that Ministers would take the view that our existing control over New Commonwealth immigration cannot be removed.

(b) Possible Freedom of Movement for United Kingdom Citizens of Commonwealth Origin

27. Attempts by our Delegation in Brussels to elucidate the right to free movement within the Community of persons from the overseas dependencies of Member Countries have demonstrated that the position is in some respects obscure and may eventually need to be determined either by the Commission or by the Court of Justice. Basically the right to free movement within the Community depends on nationality, not residence: but it is not thought (by Commission officials) that the right extends to persons from overseas dependencies unless they have established some individual "geographical attachment" to their metropolitan territory. In any case, the Community has not so far had to contemplate the particular complexities of our nationality and citizenship provisions, and it is likely that if the United Kingdom entered the EEC the application of freedom of movement to persons in the various categories of United Kingdom citizenship (see below) would require detailed consideration and negotiation.
28. Subject to the above caveat, it would be right not to overlook the possible scope for movement from the United Kingdom to EEC countries, with a view to obtaining employment, by persons of Commonwealth origin resident here and possessing United Kingdom citizenship either by birth or by registration under the British Nationality Acts after five years' residence in this country, on the assumption that in some circumstances at least they would enjoy freedom of movement for that purpose. At present the EEC as a whole is short of labour and some countries have recruited large numbers of workers from outside the Community. In Germany at the end of January 1967 there were 171,000 Greek, 141,000 Spanish and 136,000 Turkish immigrant workers. Former citizens of other Commonwealth countries who had become United Kingdom citizens would enjoy priority in the Community labour market over non-EEC nationals. If present trends in the European Labour Market continue and if these United Kingdom citizens were willing to leave their jobs here they might, therefore, find quite substantial opportunities for employment in other Community countries. However, any advantage that might accrue to Commonwealth immigrants in this way - depending, as it would, on the continuation of present trends in the European Labour Market - would be only a slight political compensation for the implied change in our immigration arrangements resulting from the priority which would have to be given to EEC nationals over Commonwealth citizens.

29. The inhabitants of our remaining dependent territories, although possessing citizenship of the United Kingdom and colonies, have no general right of entry into the United Kingdom and would derive no right of entry into EEC countries for employment purposes from United Kingdom accession to the EEC.

30. A particular problem arises in connection with the very substantial number of inhabitants of certain independent Commonwealth countries who are not subject to our Commonwealth immigration control and who possess (because of the terms of local citizenship legislation) citizenship of the United Kingdom, in some cases instead of and in other cases in addition to the local citizenship - in round figures 250,000 persons of Asian origin in East Africa, about 200,000 in Trinidad and something approaching 2 million in Malaysia and Singapore ("The Queen's Chinese"). If these United Kingdom citizens had gained entry to the United Kingdom by the exercise of their rights, they would appear to have the same rights of entry into the Community as United Kingdom residents. The vast majority of them are probably unaware of their right of entry into the United Kingdom and it seems most unlikely that in practice the countries of the EEC (where no similar problem exists) would be willing to accord them freedom of entry.
CABINET

THE VALUE OF THE COMMONWEALTH

Memorandum by the Secretary of State for Commonwealth Affairs

Last September, when we were considering the policy which we should follow on Rhodesia at the Commonwealth Prime Ministers' Meeting, many of us were worried about the problem of whether the value of the Commonwealth association to us might be outweighed by the extent to which it affects adversely our own policies and interests. We are now of course considering the possibility of British membership of the European Economic Community which will have an impact on Commonwealth interests in a number of ways.

2. I accordingly asked my officials to prepare a broad analysis of the value of the Commonwealth, identifying and assessing the various general factors. I think that my colleagues will find it helpful to have this study by way of general background and I attach a copy at Annex.

H.B.

Commonwealth Office, S.W.1.

24th April, 1967
Developments in the Commonwealth in recent years have raised the question whether for Britain disadvantages in the Commonwealth relationship may now outweigh the advantages (paragraph 1).

2. The Commonwealth can no longer be regarded as an association in which Britain could count on getting her own way and where the other Members normally supported Britain. Of the present twenty-six Members all but five fall within the Afro-Asian world. Many seek to exert pressure-group tactics on us inside the Commonwealth association. This has been exacerbated by the fact that the most important issues currently engaging the Commonwealth have racial connotations and arouse strong emotions. (paragraphs 2 - 10).

3. The Commonwealth corresponds with reality in that it is built on historical facts and shared traditions. The extensive and diverse non-governmental links are impressive and important. The Commonwealth is a bridge between races. And it provides opportunities for Britain to influence other Members. (paragraphs 11 - 12).

4. The main present disadvantage to Britain of the Commonwealth today is that it provides a ready-made forum for pressures on Britain, but it is doubtful whether it hampers us, as is sometimes argued, in foreign policy, trade, aid or defence matters (paragraphs 13 - 16).

5. There is a high level of trade between Britain and other Commonwealth countries. Though it is becoming less important and preferences are diminishing, it is still important to us. (paragraphs 17 - 19).

6. If Britain joins the E.E.C. this may well progressively affect our ability to play as large a political role in the Commonwealth as in the past. Economically, the importance of
the Britain-Commonwealth relationship will be much reduced through the disappearance of preferences and reduction of Commonwealth imports into the United Kingdom. (paragraphs 20 - 22).

7. Even if the Commonwealth association as such were to disappear, this would not alter the fact that, as a result of past history we have with individual Commonwealth countries specially complex and extensive interests. (paragraphs 23 - 25).

8. If the Commonwealth were now or in the foreseeable future to break up, the assumption must be that it would not just quietly disintegrate but would break up in hostility towards Britain. We should then be released from the special pressures by our partners as a Member of the Commonwealth. But the disadvantages would be serious. Our prestige throughout the world would take a heavy knock. Our economic interests in those Commonwealth countries hostile to us would suffer. The loss of British influence in Commonwealth Africa would add to instability in that Continent. (paragraphs 26 - 29).

9. Looking to the future, the old historical links are likely gradually to diminish in so far as these derive from the days of British Imperial Rule. But there are other cohesive factors and new ones are developing. The present difficulties should not be permanent. The Commonwealth association provides us, and Canada and Australia, with special opportunities for playing a role in the major issues of rich and poor, coloured and white, which will face the world over the next fifty years. We should not throw this association away. (paragraphs 30 - 34).

10. There are some ways in which we might reduce the existing disadvantages for us. We should make it clear that we are not prepared to sustain the Commonwealth at any price, that the doctrine of "freedom to differ" applies equally to Britain and we should seek to avoid pressure groups building up at Commonwealth meetings. But we should encourage Commonwealth-wide meetings on practical matters of co-operation, particularly
in support of the non-governmental Commonwealth links. The Commonwealth has an important role of value to Britain, to the other Members and to the world. (paragraph 35).
THE VALUE OF THE COMMONWEALTH

Section I - Changes in the Commonwealth.
Section II - The Commonwealth As It Is.
Section III - If the Commonwealth Broke Up.
Section IV - The Commonwealth in the Future.
Section V - Possible Amelioration.
Developments in the Commonwealth in recent years have raised the question whether for Britain disadvantages in the Commonwealth relationship may now outweigh the advantages. A commentator has summarised one point of view as follows:

"It can be argued that, so long as the Commonwealth as a visible organisation was within Britain's control on matters of importance to Britain, it served British interests. Now it has escaped from control, it is an expansive luxury; British policy could be more individual and more aware of direct British interests if the Commonwealth did not have to be appeased."

This paper examines recent changes in the Commonwealth, and considers current advantages and disadvantages, future potential, and the possible amelioration of some of the contemporary difficulties.

1. **Changes in the Commonwealth**

2. On the basis of our experience with the old Commonwealth and with India, Pakistan and Ceylon it was judged to be to our advantage that Commonwealth Membership should be accepted as the right objective for our dependent territories:

   (a) for the purpose of maintaining our influence and interests in those countries;

   (b) in order to retain and strengthen specially friendly relations between Governments and peoples on a broad Commonwealth basis;

   (c) by enhancing our international status;

   (d) because this was a link which the countries themselves wished to retain.

3. There was always a price to pay for this - in the modification of our policies in response to pressure from Commonwealth countries. But the modifications of policy imposed on us had not been more
than marginal until in recent years when the price sought from us has increased in the context of the Rhodesia problem. How far the balance of advantage for Britain has thus in fact been changed is debatable; we have naturally resisted attempts to get us to pay too high a price. But certainly the collective pressures have grown greater.

4. This has arisen from the interplay of
   (a) the changing composition of the Commonwealth; 
   (b) methods of procedure within the Commonwealth; 
   (c) the particular policy issues which arise in the Commonwealth forum.

**Composition of the Commonwealth**

5. The Commonwealth now consists of 26 Members. Of these all but four (Britain, Canada, Australia and New Zealand) would class themselves as "developing countries". Only Britain, Canada, Australia, India and Pakistan have anything but the most narrow international interests and obligations. 11 out of the 26 are African countries who concentrate emotionally and materially on African issues. 18 out of the 26 are emotionally involved in racial issues (India, Ceylon, Malaysia, Jamaica, Trinidad, Guyana and Barbados in addition to the African countries). Only five (Britain, Canada, Australia, New Zealand and Malta) can be regarded as classed with certainty outside the Afro-Asian world in terms of international pressure-group politics.

**Commonwealth Procedures**

6. Mr. Nehru defended India's association with the Commonwealth on the grounds that the Commonwealth did not get in the way of India's complete freedom of action. The classic Commonwealth doctrine emphasised that "freedom to differ" was an essential element of Membership; and there was general agreement to avoid attempts to formulate joint Commonwealth policies, joint attitudes or joint programmes of action (except occasionally in a very generalised way on very broad topics - e.g. disarmament).
7. But in recent years a majority of Members have found themselves sufficiently in agreement on certain major issues to wish to assert their majority positions in order to impose policy decisions on the other Members. This has been only too vividly apparent at Meetings of Prime Ministers over Rhodesia, where African and racial issues combine. But the same tendency is beginning to show elsewhere - e.g. at Finance and Trade meetings where the ganging up of the developing countries in such international organisations as UNCTAD has been repeated in the Commonwealth environment. Inopportune for us, a new emphasis is being placed on the concept of the "consensus" which suits the majority interests. The Commonwealth Secretary-General, with the example of the Security Council no doubt in mind, has given this concept support and publicity. We have, so far, avoided voting procedures in the Commonwealth; but acceptance and development of the consensus thesis could also be disadvantageous.

Policy Issues

8. The impact on British interests of these developments - the new composition of Commonwealth Membership and the use of pressure-group methods - has been exacerbated by the fact that some of the most important issues currently engaging the Commonwealth are Rhodesia, South Africa and development aid. It is precisely on these issues, whatever differences of views and policies may otherwise exist between themselves, that the majority of Commonwealth Governments find themselves in a natural alliance and one that is directed primarily to criticism of and attacks on British policy. Intransigent views on these subjects have an appeal to their home audiences which these Commonwealth Governments cannot resist.

9. We in Britain had for long benefited from the ability largely to stage-manage Commonwealth Meetings ourselves. A considerable limitation on that ability was an inevitable consequence of the growth of the Commonwealth and the changing,
and reduced, status of Britain in the world. Moreover, there are good grounds for arguing that some reduction in the Commonwealth's "Anglo-centricity" would be a healthy thing and make for a more even sharing of responsibilities within the Commonwealth. In practice, however, the changes have taken place in ways and under conditions which have, in the short term at any rate, involved serious disadvantages for Britain.

10. Since, therefore, the Commonwealth at present tends to operate as a special pressure group on Britain over important policy issues of particular significance and delicacy for the British Government, it is tempting to suggest that the removal of this pressure group must be a gain for us. But there are other elements in the balance sheet:

(a) the advantages of there being a Commonwealth in the world of today and for Britain herself;
(b) the disadvantages to Britain of a break-up in the Commonwealth arising from hostility to Britain on the part of the majority of the Members.

II. THE COMMONWEALTH AS IT IS

11. In spite of the obvious difficulties there is general agreement that, on balance, the Commonwealth is "a good thing". This was certainly the underlying assumption in the Cabinet decision of 10 September, when it was agreed that major concessions should if necessary be made at the then forthcoming Prime Ministers' Meeting in order to prevent a break-up of the Commonwealth.

Advantages

12. The main advantages of the Commonwealth are:-

(i) It corresponds with reality. It has a historical justification and the association is firmly based on shared traditions. We speak the same language and understand each other - all the more so because we
have largely common systems in administration, the law, the armed forces, education, British merchanting and banking traditions and interests. Oxbridge, Sandhurst, Shakespeare, the authorised version of the Bible are all genuine links. Even if the Commonwealth were a "farce" it is not "phoney".

(ii) These are affinities not only between Governments but also between peoples. Some of them, for special reasons and in differing degrees, exist with other countries outside the Commonwealth such as Ireland and the United States. But there is no doubt that the existence of the Commonwealth association greatly helps to sustain and facilitate such links. In the new countries the Commonwealth association provides an acceptable multilateral "cover" for links (e.g. between the Armed Forces) which might otherwise be at risk as "imperialist" influences. In this country, and to a lesser but increasing extent among the older Members, it encourages a wide range of beneficial interest and activity in the other countries of the Commonwealth.

(iii) The non-governmental multilateral and bilateral institutions within the Commonwealth are of an impressive extent and diversity. They cover a wide field - educational, medical, cultural, scientific, economic, financial, commercial, legal. These are the links which the Commonwealth Foundation has been set up to encourage.

(iv) The modern Commonwealth was a triumphant technique to cover the process of decolonisation, turning "Empire" into "Commonwealth". This both enabled us to extricate ourselves from colonial responsibilities with honour and psychologically cushioned the shock for the people of Britain in adjusting to a new era (though it may also have encouraged some illusions).
(v) The Commonwealth association helps Britain to exert influence on other Commonwealth Governments. While we are at present concerned about pressures on us by other Commonwealth Governments, we should not under-estimate our own continuing influence on them, and the opportunities for us to exercise it which the Commonwealth association provides. The Commonwealth association also brings into play the moderating influences of the old Commonwealth and the less extreme Afro-Asians.

(vi) The Commonwealth association gives to each of its Members a greater status internationally than it would enjoy if the Commonwealth did not exist (part of the respect paid to British views in Washington is due to their appreciation of Britain's Commonwealth role and the opportunities it provides for British influence, particularly in Africa and Asia).

(vii) The multi-racial nature of the Commonwealth and the way in which it acts as a bridge between white, black, brown and yellow is not merely a well-worn truism. It is no less a valid and important truth; and regarded as such by Commonwealth Members as a whole. Moreover, it is a factor of special, and perhaps critical, significance in relation to what may well be the most explosive problem in the world over the next half century.

Disadvantages

13. As indicated in Section I, the main disadvantage to Britain of the Commonwealth as it is today is that it provides a ready-made forum for pressures to be brought to bear on the British Government to make concessions. These are frequently contrary to British interests and sought by a process of blackmail in the interests of preserving a semblance of Commonwealth concord.
concord. How far the removal of this forum would significantly reduce the pressures on Britain is debatable. We should still be exposed to pressures in the United Nations and, however unsatisfactory our recent experiences have been in Commonwealth Conferences, it is fair to say that in general Commonwealth representatives have behaved more responsibly and have been more responsive to British arguments and influence within the Commonwealth environment than in the United Nations. It can be argued that the existence of the Commonwealth enabled Britain to buy time over Rhodesia and that, in the absence of a Commonwealth forum, we should have had more difficulty in deferring damaging intervention by the United Nations. Nevertheless, in a special sense, Commonwealth Prime Ministers' Meetings in recent years have contained examples of Britain clutching vipers to her bosom - and paying for it.

14. There is a substantial volume of opinion which, whatever the realities, believes that the Commonwealth association imposes disabilities on Britain; that these could be removed if it disappeared; and that we are paying unreasonably for the maintenance of an association with a number of countries who seem never to give us support and always to oppose and criticise us in public and in offensive terms.

15. There are criticisms that the Commonwealth hampers our foreign policy, involves us in defence commitments and is expensive in terms of aid. The case is debatable. Such concessions as we make to Commonwealth interests in conducting our foreign policy are compensated for by the international standing we derive from the existence of the Commonwealth. Nor do our Commonwealth commitments seriously hamper our trade negotiations and - though the interests of certain Commonwealth countries are a major factor - it is not the Commonwealth association that has so far prevented our entry into Europe. Our Defence Review policies and deployment have not had to be adjusted.
adjusted to meet requirements arising from Commonwealth Membership as such. Admittedly the lion's share of our aid goes to other Commonwealth countries, but this has been inevitable for historical reasons. In any case a large part of our aid is in British interests and it is arguable that, even without the Commonwealth, we should still find it expedient to continue to do as much in those countries which are now in the Commonwealth.

16. The presence of coloured immigrants in Britain is the cause of much complaint, particularly in the areas most affected, and is undoubtedly a contributory cause in public opinion for the unpopularity of the new Commonwealth. But the entry of immigrants is our own responsibility and is now under strict control.

Economic Relations within the Commonwealth

17. From the economic point of view the most important relationship within the Commonwealth has been that between Britain on the one hand and the rest of the Commonwealth on the other. Traditionally we exported manufactures to them; they exported raw materials and foodstuffs to us. But they no longer provide a sufficiently growing market for our manufactures, and we are no longer able to absorb most of the expansion in their output of raw materials and food. However, though Britain and the rest of the Commonwealth are less important to each other economically than they once were, the Commonwealth is still a market worth over £1,300 m. a year to us (which is about a quarter of our exports) and still provides slightly over a quarter of our imports.

18. The maintenance of this high level of intra-Commonwealth trade is due in part to the existence of the Commonwealth preference system. But preferences are already diminishing. Moreover in the Kennedy Round, Australia and Canada are offering to bargain more of them away in exchange for improved outlets elsewhere. So, to a lesser extent, are we.
19. On the financial side, our ability to provide Commonwealth countries with development capital — whether by way of private investment or aid — has diminished. Those Commonwealth countries which are large holders of sterling are likely in the course of time to reduce those holdings as our exports of long-term capital to them decline. The poorer countries, which are heavily dependent on aid, are able to obtain from us only a small proportion of the money they need from abroad, and so are increasingly having to obtain it from other financial centres, notably the United States and Europe, and this inevitably leads to changes in the pattern of their trade.

The Commonwealth and British Membership of E.E.C.

20. There is nothing formally incompatible in Britain's joining E.E.C. and in Britain's continued membership of the Commonwealth. Other Commonwealth countries are closely involved in groupings of their own regions, but none of them are as close as ours would be with Europe if we accept the Treaty of Rome. It must be expected that in practice membership of E.E.C. will, in all fields, progressively strengthen our links with Europe and have an effect on our links with the Commonwealth. There will be intangible consequences in the political and cultural fields. Politically the changes could be considerable, but the extent and pace of change will depend on how both Europe and the Commonwealth evolve and develop. Britain's membership of E.E.C. is likely to lead to a diminution of our function as the linchpin of the Commonwealth, and the Commonwealth's continued vitality will depend, more than in the past, on the importance which other Commonwealth Members attach to it and the extent to which they wish to give it active and effective support. At the same time Britain may have a special role to play as a link between the two organisations; this could be important in dissuading the European countries from an inward-looking posture and in encouraging contact and understanding between them and the developing countries.
21. In the economic field, British membership of E.E.C. will create difficulties, which have been clearly identified in other papers, over bilateral trading and commercial relations with a number of individual Commonwealth countries. More generally if we join the E.E.C., most of the preferences we give to the Commonwealth will disappear; and indeed we will have to apply reverse preferences against a number of Commonwealth countries. In this situation those Commonwealth countries will obviously cease to grant preferences to us. And the effects of the levy system, of increased production in the U.K., e.g. of cereals, and of reductions in consumption, e.g. of butter, because of higher prices, will all serve to reduce our imports of food from the Commonwealth. Even now the belief in Commonwealth countries that we are likely to join E.E.C. is encouraging them to bargain away our preferences; thus the possibility that we may join is already having effects upon our exports to the Commonwealth.

22. As indicated in the preceding section, the economic value of the Commonwealth to us, and of us to the Commonwealth, is declining. This decline will be markedly accelerated if we join E.E.C. It is obviously not in our interest that it should decline unless we gain compensating advantages elsewhere. If we do not join E.E.C. it will be in our interest to do all we can to arrest the decline in the preference system and to make clear our determination to maintain and if possible intensify the Commonwealth economic connection.

Our Bilateral Interests

23. In identifying the effects of the Commonwealth on British policies and interests, it is important to differentiate between those arising from the Commonwealth association as such, and those arising from our interests vis-a-vis individual Commonwealth countries which would remain whether or not the Commonwealth continues. It is misleading to talk about the effects and interests of "the Commonwealth" when what are really at issue are the effects and interests of our relations with individual, or groups of, Commonwealth countries. The following examples
illustrate the point.

(a) Even if there were no Commonwealth, the stability and economic progress of India would continue to be a major British interest both because of our economic stake in the country and because of India's key importance vis-a-vis China. Similarly the need to maintain some sort of balance between India and Pakistan in our aid and other policies would remain.

(b) In the defence field the decision to maintain a British military presence in the Far East was based on a complex of considerations such as the desirability of our continuing to play a world role and to contribute to the containment of China, the undesirability of creating a vacuum or chaos in the Malaysia/Singapore area and our general relations with the United States, Australia, New Zealand, Malaysia and Singapore. None of these are considerations arising from the Commonwealth association as such. Of course our relations with the latter four countries are coloured by the fact that they are also Members of the Commonwealth. But the basis of our relations with Australia and New Zealand (and the implications for our defence policy) would not be affected if the Commonwealth were to disappear. Nor would such an event affect the main arguments in favour of our staying in our Singapore base for the time being.

(c) Much of our aid to Commonwealth countries arises from the fact that they were very recently dependent territories of ours. Our aid to those Commonwealth countries which achieved independence since 1957 began, in most cases, as a part of the decolonisation process; it was a golden hand-shake marking our sense of some continuing responsibility for their welfare in the immediate post-independence period and recognition that our imperial rule had not completed the process of making them viable and fully equipped for an independent existence.
(d) Commonwealth or no Commonwealth our very large commercial and financial stakes in, for instance, Australia and India will continue to be important considerations.

24. Thus the disappearance of the Commonwealth association would not alter the fact that, as a result of history and in a variety of ways, we have with individual Commonwealth countries specially complex and extensive interests.

25. At the same time - and this is partly at any rate the result of our own propaganda - it is a fact that many new Commonwealth countries believe it to be Commonwealth Membership as such which secures for them preferential treatment from Britain - e.g., trade preferences, sterling area arrangements, Commonwealth Sugar Agreement etc. In fact these need not necessarily be affected if the Commonwealth were to disappear (we still grant preferences to South Africa and the Republic of Ireland, and the sterling area includes non-Commonwealth countries). Per contra some of these arrangements are at the present time out of balance, so far as British interests are concerned, and we may have to review them in any event. It is possible that modifications in these benefits provided by Britain would affect the desire of some of the new Commonwealth countries to maintain their membership. Probably timing and the spacing out of major changes would be an important consideration. It is for instance only recently that general acceptance has been secured for the restrictions - and very severe ones - which we now impose on the entry of Commonwealth citizens into Britain, the privilege of free entry into Britain having previously been thought to be an essential element in the Commonwealth association.

III. IF THE COMMONWEALTH BROKE UP

26. There are two prefatory comments to be made:

(i) We are not considering the matter ideally and looking at what might be the position if the Commonwealth did
not exist. The Commonwealth does exist as a fact and we are looking at what would be the results of a break-up.

(ii) The assumption must be, if the Commonwealth breaks up, not that it just quietly disintegrates, but that it breaks up in hostility towards Britain.

On these assumptions the balance sheet looks as follows.

Pros
27. The advantage we would positively gain would be a release from the special pressures brought to bear upon us by our partners as a Member of the Commonwealth, and, as a result, some increased freedom of manoeuvre in our bilateral relations with individual Commonwealth countries. It can reasonably be argued that, if there never had been a Commonwealth, relations satisfactory to Britain would have been established on a strictly bilateral basis with the individual countries. It may be that, in the case of many if not all of the African and Caribbean countries, where our interests are small in comparison with our total interests overseas and where our influence has had a very limited effect, such a bilateral relationship would have been healthier for both countries and would have relieved Britain of the obligations and vulnerability to pressure which arise from the Commonwealth association. At the same time it must be noted that the prospects of reverting to a bilateral relationship satisfactory to Britain would be highly problematical following a situation where the Commonwealth had broken down as a result of highly emotional hostility on the part of the majority of Commonwealth countries towards Britain. Such hostility would no doubt be mitigated by considerations of self-interest (particularly financial and economic self-interest) in the former Commonwealth countries. But a period of most severely strained relations with at least a dozen former Commonwealth countries simultaneously could not be avoided.

/Cons
28. We should suffer serious disadvantages:

(i) Our prestige throughout the world would take a very heavy knock. Whatever we were able to salvage (e.g., by way of a continuing association with the Old Commonwealth and possibly some other Members) we should have proved that the Commonwealth was indeed a farce and that all our previous aspirations and policies were based on illusion. The Government would be discredited and even the Monarchy would be affected.

(ii) Our economic interests would suffer. It is impossible to quantify the extent to which they would be affected, since much would depend on how many countries remained friendly to us and wished to preserve a special relationship perhaps in a new form of association, the degree of hostility of those who left, and the decisions which we ourselves took about continuing aid and other special relations in each case. But if, as must be assumed, feelings ran high, it seems certain that many expatriate officers in African countries would come home, that the position of British businessmen abroad would be affected (even if British concerns were not expropriated), and that British interests would suffer in the award of future contracts.

(iii) In the circumstances envisaged, British influence in Commonwealth Africa would be removed and the continuance of British aid, at least at anything like its present scale, would be difficult if not impossible. As a result, the Commonwealth countries in Africa would be more unstable even than at present and would invite attention from outside. Whether the Americans or the Chinese could take our place seems an open question. If a wholesale African withdrawal led the Asian Members of the Commonwealth to follow suit, some very difficult questions would arise.
If India were to withdraw in anger, the consequences to our very extensive economic relations with that country could be far-reaching. A rupture by Singapore and Malaysia could involve the sudden and humiliating withdrawal of our defence facilities.

(v) Our relations with the United States would be adversely affected. The Americans have shown that they attach great importance to our influence in Africa and Asia and to our continuing to play an effective role in both continents. A situation in which Britain was regarded in Africa and Asia as a hostile power would be most serious for them and for our relations with them.

29. In sum, therefore, if the Commonwealth were to break up we should greatly damage our present position in the world, the risks of serious instability in Africa and possibly in Asia would be increased, and our valuable commercial interests in those areas would be endangered.

IV. THE COMMONWEALTH IN THE FUTURE

30. The common historical links which have been basic for the Commonwealth association, derive from the days of British imperial rule, and as such they may be expected to diminish with the passage of time. It is not, however, a necessary consequence that this process will mean the eventual disappearance of the Commonwealth as an institution. The old cohesive factors may well be replaced by new ones - the Commonwealth Secretariat and the Commonwealth Foundation are both very recent experiments. Much will depend on Britain’s attitude.

31. We have drawn attention to the present difficulties which the Commonwealth pressure group creates for Britain. At the same time our own influence on other Commonwealth Governments is not negligible and it could be greater if the future provides a more favourable environment. There are prospects of this. The present
difficulties should not be permanent and may well be comparatively short-term. Primarily they arise from "colonialism" in two senses:

(a) The acute interest and concern of the new Commonwealth countries in our liquidation of our colonial responsibilities - above all Rhodesia.

(b) A "new-colonialist" attitude on the part of the new Commonwealth countries themselves.

32. "New-colonialist" is used here to describe the persistence of a colonial attitude after independence - the maintenance of the characteristics of colonial politicians in the last stages of dependent territories, who feel free to make any criticism they wish, or any demand they wish, of the "Imperial" power, but regard any criticism or demand by the latter as an expression of imperialism automatically to be repented. The "double standard" arises from immaturity, and from the previous close relationship and consequent lack of a broad diversification of contacts and interests with other countries. It is reasonable to suppose that these sources of difficulty will progressively lessen in the years ahead. The present discontents are real enough; but any final judgement ought to depend on whether we see the potential value of the Commonwealth, in terms of our own interests, as sufficiently great to make worthwhile an attempt to work our way through the discomforts and difficulties of the Commonwealth in its present phase.

33. It is possible that other members of the Commonwealth could help to find acceptable final solutions to the problems of some of the dependent territories for which we remain responsible; some for instance may in course of time join with Commonwealth countries in one way or another (the Solomon Islands protectorate with Papua/New Guinea and some of the small Caribbean territories might eventually pass into the orbit of Jamaica or Trinidad or into a wider Caribbean grouping); while more generally Canadian interest in the Caribbean and Australian and New Zealand interest in our Pacific territories, are valuable assets. These various possibilities would be less likely if the Commonwealth association were to disappear.

34. Of the major issues facing the world in the next 50 years, population growth, instant communications, and the eventual necessity for the whole North Atlantic technological and industrial base to find greater markets than the North Atlantic area itself can provide, all combine to make perhaps the most important task that of finding some modus vivendi between Western haves and the African, Asian and South American have-nots, and some way to bring the under-developed majority into a self-sustaining world system of prosperity. We in Britain are
adjusting ourselves to a position as a leading power in the "top-middle" category. We no longer command the resources of a major world power. But if Britain still has a role to play in these major issues of rich and poor, coloured and white, the Commonwealth association provides us, and also Canada and Australia, with special opportunities for doing so. There is in the Commonwealth a complex of links, not only political, but economic, educational, administrative and professional, which are directly relevant. It would be a grave matter for us, both nationally and internationally, if we were seen to be throwing away a special asset which could give Britain a position of central importance in the world in, say, the last two decades of this century, out of proportion to her comparative economic and military strength.

V. POSSIBLE AMELIORATIONS

While the existing disadvantages of the Commonwealth for us should not be permanent, there may also be ways in which these disadvantages could be reduced. The following are possible pointers for further study:

(a) The main disadvantage of the Commonwealth for us at this time is its tendency to act as a pressure group on us. This could be exacerbated if other Commonwealth countries were to believe that our policies were dominated by fears for the future of the Commonwealth. In calculating our interests, the maintenance of the Commonwealth association is an important factor to be weighed, but not the only one. It is important, therefore, that other Commonwealth countries should not be lulled by the impression that, however offensive and difficult they may be, Britain can always be relied on in the last resort to ensure that the Commonwealth is sustained. We are not prepared to sustain the Commonwealth at any price to ourselves.
This has become apparent to other Commonwealth countries in the course of the Rhodesia negotiations and has had a healthy effect; they themselves have been forced to ask whether the break-up of the Commonwealth would be a matter of comparative indifference to them and have answered in the negative. Where there is a possibility of one Commonwealth country leaving without dragging others with it, we should be able to adopt an even firmer posture.

If the occasion arises we may need to make it clear that while we do not ourselves choose to dismember the Commonwealth, the classic Commonwealth doctrine of "freedom to differ" applies to Britain as much as to any other member.

(b) We have long abandoned the concept of trying to deal in the same way and on the same footing with all countries of the Commonwealth, but it may be that there is scope for us to pursue more consciously and more strictly policies based on bilateral considerations. We should not be thought to defer to views expressed by a Commonwealth Government simply because it is a Commonwealth Government which expresses them. Our governmental relations with the newer Commonwealth countries are in any case evolving towards a relationship more like that which subsists between this country and foreign countries, or between other Western countries and the developing countries in which they have substantial economic interests. It is not in our interests that such countries should continue for too long after the ending of Colonial rule to regard the Commonwealth association as primarily involving an obligation on Britain to provide them with unilateral benefits, financial and political.

(c) We should not unnecessarily expose ourselves to Commonwealth pressure group tactics. It will be to our advantage if there are fewer Commonwealth-wide meetings on policy issues, since these tend to
facilitate and exacerbate such tactics. With the Commonwealth Secretariat in being this will not be primarily under our control and the Rhodesian problem may force further Prime Ministerial meetings on to us. Nevertheless it should be our general policy for the present not to initiate proposals for Commonwealth-wide meetings on high policy matters (e.g. Prime Ministers and Trade Ministers) and on occasion if necessary to oppose them (e.g. over Common Market negotiations - though of course we should arrange the fullest consultation by other means).

(d) At the same time we should encourage Commonwealth-wide meetings on practical matters of co-operation, and especially those which support the multifarious Commonwealth links in the professions, etc. (e.g. medical conferences, meetings of Law Officers, Speakers, etc.). The links between peoples in the Commonwealth are of a great variety and depth. They are important now and have a high potential value for the future. We should continue to lay particular stress on them.

(e) We should closely scrutinise particular Commonwealth institutions or arrangements if these seem no longer to be operating in our interests, though the timing and inter-relation of any major modifications will need watching if we are not to over-strain the Association itself.

(f) Public opinion in this country is naturally affronted at the violent and blackguardly attacks made on Britain by some Commonwealth leaders in Africa or of African origin, and asks whether we are paying too high a price to maintain a Commonwealth association which includes such obnoxious critics. In our /publicity
publicity we should aim to put this present problem into perspective. We should also seek to present a realistic picture of the Commonwealth as it is today and to discourage illusions. The Commonwealth is not a single cohesive group and it cannot be expected to act just as an instrument for support of British policies. But it has an important role of value to Britain and the other Members and to the world at large.

Commonwealth Office, S.W.1.

7 April, 1967.
On 23rd March and again on 6th April the Cabinet agreed that the right procedure for our further consideration of the approach to Europe would be for us first to assess the results of the discussions which we had with the Heads of Government of the Six countries and to consider such further studies of the European problem as the Cabinet might think necessary, before coming to a definitive consideration of the decision whether, when, and on what conditions to seek membership of the European Economic Community (EEC). We have now had discussions in some depth of the results of our European tour, and of a number of further studies of the effect membership of the EEC would have on our domestic and external position. In our discussions of procedure we proposed, and the Cabinet agreed, that for the definitive stage of our discussions it would be right for us to present a paper setting out the alternative courses before us in regard to membership of the EEC and their respective advantages and disadvantages. This we now do.

2. A number of alternative courses can be formulated, based upon permutations of the basic decisions whether or not to apply for membership of the EEC or some other form of relationship with it, and when to do so i.e. now, later, or not at all so far as the foreseeable future is concerned. Our discussions may be clearer if we first consider whether there is any satisfactory or acceptable means, other than full membership, of securing such closer economic relationship with the EEC. When General de Gaulle at the end of our visit to Paris speculated on this subject (see C(67) 33, Annex, page 48) I at once rejected his suggestion of associate membership because this would be a kind of second-class citizenship which would impose on us many, perhaps most, of the obligations of membership with few of the rights. It would fail to give us an equal or adequate voice in Community Councils and so prevent us from playing our part in developing what we and the well disposed members of the EEC think Europe's role and position in the world ought to be, whether in specialised fields such as technology, or in world affairs generally. It would also prevent us from intervening in the EEC's vital discussions on financing the common agricultural policy (c.a.p.) in 1969-70.
3. Nor would it be realistic to regard the other suggestion made by General de Gaulle at the same time, i.e., to establish "something new and different" as a genuine option. In the context of the immediately preceding remarks it must rather be seen, at least in part, as a tactical device to discourage us, and the Five as well, from seeking early membership of the EEC for the United Kingdom and as a tacit admission of concern that the reasons he had hitherto relied on to justify excluding us from the Community had to a large extent been eroded. Nor can we see what this "something new" might be, save either a project to reshape the EEC so radically as to require years of negotiation (which the Five would not countenance) or one involving the retention of the EEC with a free trade area, including ourselves, built around it. The latter would be a rather superior form of association, a sort of Class IIA citizenship; and again it would be unrealistic to suppose that the French or, indeed, the Five would give us the industrial free trade advantages of membership within the Community without the corresponding obligations in regard to agriculture, external tariffs, and economic "union", since these were a vital part of the terms on which the present Community was established.

4. It would therefore seem best for these and other reasons, both domestic and external, for us to focus our consideration upon full membership of the Community. The main alternatives before us in this context covering the various possibilities from one extreme to the other, would seem to be four.

A. To decide that we should not apply now for membership of the Community, either on the basis that it is not a body of which we should wish to become members on any terms we could expect to negotiate in the foreseeable future or that we do not think we could secure such terms within such a period as to make an early start practical politics.

B. To decide to seek from the Community, in either bilateral or collective discussions, further information and assurances about our prospective membership, on the grounds that we do not yet have sufficient to enable us to decide whether to apply for membership or not.

C. To decide now in principle and to announce (since it would be difficult to conceal for long a decision in principle) that we intend to apply for membership, subject to our receiving further information and assurances about it; and that meanwhile we shall delay our application - in other words a post-dated or open-dated conditional declaration of intent.

D. To decide now to make early application for membership of the EEC and to that end to request either new negotiations or a resumption of those suspended after the French veto in January, 1963.

5. We consider that these are the only logical choices before us because they represent, respectively, a negative decision; a postponement of the decision; a conditional decision, with the onus on us whether to implement it; and a firm decision, with the onus whether to implement it placed as far as possible on the Six i.e., on their being willing to negotiate acceptable terms. In the following paragraphs we analyse each of these courses in turn.
Course A - A Negative Decision

6. Course A covers, theoretically speaking, two decisions, namely to answer the basic question whether or not to apply for membership of the EEC by either "No" or "Not for some time". But, unless we assume something for which we cannot legislate (namely, a change of circumstances within a reasonably short space of time, say 12 to 18 months, which would almost decisively tip the chances of membership of the EEC in our favour) there is really only one option here. First, we should clearly find it extremely difficult to announce and to justify a decision that we would never join the Community; and, if only for over-riding internal and external reasons of presentation, we should prefer to say, if our answer was a negative one, "Not at present" rather than "Never" or even "No".

7. Second, whilst we might retain hopes that sooner or later membership of some new and acceptable relationship with the Community might become open to us, the immediate effects of either of these negative decisions would be similar, both at home and abroad, because the consequences of either decision would be, barring the unforeseeable changes referred to in the preceding paragraph, to rule out for all or most of the effective lifetime of this Parliament the possibility of membership, and perhaps even of a new decision to apply for membership. At home, this would be likely to make membership a major issue of Party political controversy, which in turn would have withering effects on the possibilities of membership in the foreseeable future, and would considerably damage the prospects of a revival of private investment in productive industry on which we greatly rely for the achievement of a faster rate of economic growth. Abroad, a negative decision of this kind would be ill received in the United States, which has all along supported our membership of the EEC, EFTA countries would at once wish to know our view of the future of EFTA; and some of them would not easily be put off with the status quo. Some Commonwealth countries would see that for some time the Community, save to some extent on temperate agricultural produce, would offer them the advantages of a European market four times greater and with a faster growth rate and less balance of payments constraint than ours; and some Commonwealth countries could be expected to follow the lead of Nigeria and the East African territories in seeking to negotiate for association with the EEC, or at least for trade agreements with it.

Course B - Postponement of a Decision in order to seek Further Information

8. This course, in theory, could be pursued either multilaterally or bilaterally with individual countries of the Six. To the extent that it were done multilaterally, it might become more of a negotiation, since the Six would then be obliged to speak with one voice; but it could be made clear that no commitment was involved. But the tempo in which such purely exploratory talks could be conducted, in view of the priority the Six would naturally accord to their own affairs, national and communal, would be likely to be slow. If the talks were bilateral, they could be useful, though less conclusive, and their tempo could be quicker; but without a multilateral confrontation there could be no guarantee that anything acceptable to one member of the Six would be acceptable to the others, and the French would see that we were seeking to avoid a veto or obstruction by them, and would accordingly seek to establish a common line among the Six.
9. The advantages of this course are:

(i) That some Germans and Italians believe that further detailed exploration of a satisfactory basis for negotiations would be advantageous - but they also have in mind that it would absolve them from any immediate responsibility towards us,

(ii) That we should not be exposed to a risk of collective refusal or inability of the Six to agree to negotiate.

(iii) That it would keep most of our options open, save of course the important one of securing entry by 1969, before the EEC's discussions of common policies, especially on agricultural financing, have reached a definitive stage.

10. The disadvantages of this course are:

(a) That it would allow the momentum and interest generated by our European tour to be dissipated in proportion as the exploratory discussions were prolonged,

(b) That it is likely to be seen as the result of our failure to agree on any more definite course and that it would, therefore, be taken as discouraging by those who are the keenest supporters of our membership and as an encouragement by those, such as the French, who are concerned that we should not press ahead.

(c) That it would certainly be used by the French to sow distrust of our sincerity and determination, thus losing one of the principal assets which we have gained by the recent round of discussions with the Six. The French, who have been rather thrown off balance both by the seriousness of our approach and, to a lesser degree, by their own election results, would be able easily to recover lost ground.

(d) That in these circumstances it is very doubtful whether there would emerge from the continuation of the probe at whatever level any further assurances on which we could place reliance and that in any event we could hardly expect to conduct such a further probe without revealing more than might be desirable of our negotiating position.

(e) That, while we continued our explorations, the Community would continue its development without our being able to influence it. And the more time we lost, the more likely it would be that the Community would come to finalise or develop communal policies - such as the renegotiation of its agricultural financing arrangements, its association arrangements with African countries and its policies in such fields as technological collaboration, common patents, commercial, and transport policies - without our participation.
11. The procedure which could be followed if this course were adopted would depend on whether the further exploratory talks were multilateral or bilateral. If a multilateral probe were envisaged, an ad hoc meeting of the Six would have to be requested. This might be refused on the ground, as the French and perhaps others might well argue, that, as there is no application in, there is nothing to discuss. But for the reasons above, bilateral meetings would probably be preferable. They could be arranged ad hoc to discuss different subjects, or to cover a general discussion of all outstanding problems with which we are concerned, e.g. on the exact manner of handling capital movements, the sterling question, and the questions arising out of the common agricultural policy. Or discussion could take place in the standing bilateral Economic Committees with Benelux, France, Germany and Italy. But it is doubtful whether such bilateral discussions would be productive - the Six would be likely to concert a common line which would be limited to what the French would accept; at best the Five would be uncertain what the French would accept and so would fall back on a non-committal line, and the French would either make difficulties or avoid commitment, as suited them best.

12. There would have to be an announcement to the effect that the Government required further information in order to enable it to decide whether the conditions existed for a fruitful negotiation. If this course were adopted, it might be enough to explain both to EFTA countries and to Commonwealth countries, through the diplomatic channel, that we did not propose to take any final decision at this stage but to proceed merely with further exploration. There would thus be nothing to stop the process of further bilateral discussion with the Six being initiated at any time.

13. The central fact that this course would be one of postponing a decision would entail presentational difficulties, both general, i.e. arising from the absence of a decision, and particular, in respect of the various disadvantages indicated above, to which attention would inevitably be drawn in the course of discussion of its announcement at home and abroad. Careful presentation would be necessary to counter adverse reactions; and we should not be successful in this unless the further explorations were seen to be pursued usefully and with vigour; in which event a decision following these explorations would have to be taken within a limited space of time, by say the autumn of 1967 at latest; probably with little more information than we now have.

Course C - A Decision to apply for Membership in Principle, but to engage in a Further Period of probing before actually applying

14. This is a compromise between Courses B and D. It would involve a definite decision, and an announcement (it could hardly be concealed) that we intended to apply for membership subject to clarification of certain points (on which we should be keenly questioned at the time of the announcement).

15. The advantages of this course are:

(i) That if we wish to seek membership it is more positive than Course B (though, of course, less positive than Course D). It is probably the minimum consistent with maintaining any satisfactory momentum.
(ii) It has the other advantages - (ii) and (iv) under Course B above - of not exposing ourselves to a refusal by the Six to negotiate, and of keeping options open.

16. The disadvantages of this course are:

(a) It might still be taken as discouraging by those of our friends in the Community who advocate rapid movement.

(b) It has the disadvantages - (c) and (d) - of Course B above, misrepresentation by the French and no results without revealing our negotiating position.

(c) It may give the appearance of an uneasy compromise in which, whilst appearing to take a positive decision and go ahead, we still prefer to keep our options open.

(d) It would risk (because the decision in principle to apply for entry subject to further exploration would have to be announced) producing all the pressures in Parliament, from EFTA, the Commonwealth and special interests in the United Kingdom, which might be expected from Course D, whilst giving these pressures more time and more scope (in respect of the assurances we should be seeking) to build up.

17. The procedure to be followed under this course would be the same as for Course B, except that the announcement of our intention to explore further would be accompanied by a statement that the Government were convinced, following the tour of the Six capitals, that, given goodwill, the conditions for a successful negotiation existed. The further exploration would have to be represented as merely seeking confirmation or elaboration of certain points. There would have to be prior EFTA and Commonwealth consultation, in view of the commitment in principle to membership of the Community which the course would involve. The actual application to join the Community would be deferred until after the further exploration had taken place; meanwhile it would be necessary to present the decision in a positive light both at home and abroad, if domestic, foreign and Commonwealth pressures, and French sapping techniques, were not to frustrate our decision before we came to act on it.

Course D - To apply now for Negotiations for Early Membership of the Community

18. The advantages of this course are:

(i) It gives us the best hope of being able to influence the future development of the Community at a stage when it is still developing (see paragraphs 26 and 27 below).

(ii) It is clear that we have a better chance of securing modification of the Community's policies in our favour from a position of membership than from a position of candidate.

(iii) It provides us with a clear position which should command respect in all quarters even if it is not universally supported.
(iv) It will maintain the momentum and initiative which we have now gained, following our European tour.

(v) It is the course strongly recommended to us by our best friends in the Community.

(vi) Short of a negotiation, we cannot really determine at all precisely what terms will be available to us.

(vii) It gives the French - on the assumption that they would still prefer to exclude us from membership - less room for manoeuvre. Any objections they put forward are more likely to be recognisable as the political pretexts they would be.

(viii) It would frustrate what is probably at present France's principal objective - to stop us getting as far as submitting an application; in any case it is the only means of determining whether the French would in fact oppose our entry to the point of again deliberately frustrating it.

(ix) Even if our application fails we shall still have demonstrated our sincerity and determination, both at home and abroad. (Any course short of Course D would expose us to the imputation of not really having tried). Moreover, to have tried and failed would be the best basis for proceeding to some alternative arrangement, if it were available and desirable. At the meeting of the Cabinet on 20th April the view was widely expressed that the dynamic required to make a "go-it-alone" policy workable could best - some argued could only - be achieved in the climate of a rejection of Britain's application by the EEC. It was further argued that, while AFTA was not an immediate possibility, encouraging developments in an AFTA or partial-AFTA direction might follow a hostile EEC decision, particularly if the United States as a result moved into a more aggressive posture vis a vis France.

19. The disadvantages of this course are:

(a) There can be no guarantee that negotiations, once opened, would succeed.

(b) There can be no guarantee that an application for membership would in fact lead to negotiations. (A refusal by the Six to negotiate is however highly improbable, though the French will no doubt attempt to impose delay. But the more simple and straightforward the application, the more likely it is to be acceptable to the Community and to inhibit opposition from inside it).

(c) Some Ministers and officials of Community Governments - especially some Germans and Italians - profess to believe that further exploration is needed in order to provide an adequate basis for negotiation. But see paragraph 9(i) above.
20. The procedures involved in this course are that after the announcement of the decision in Parliament, and a debate on it, and after consultation with EFTA and the Commonwealth, and bearing in mind the problems of timing with regard to the Kennedy Round (see the general considerations of timing in paragraph 29 below), the application should be made to the Chairman of the Community Council of Ministers. The application could be presented in this country, and to the Community, in a positive light as an historic decision offering the EEC and ourselves the advantages of economic, technological and political development which would measure up to the role which Europe, if only for its own sake, should play in the world of the last third of our century. After the Community has had time to consider and respond to this application, it might be possible, if our application were made sufficiently quickly, to arrange for an inaugural meeting to take place before the summer holidays, followed by negotiations proper. It is difficult to estimate how long they would take, given the scope of even a simplified negotiation, and given that we may meet with delaying tactics on the part of the French. Thereafter ratification would be needed by the Parliaments of the United Kingdom and the Six members of the Community. It is difficult to see how the formalities necessary to complete our membership of the Community could be completed much before the end of 1968, and more probably it would be early in 1969.

21. This timetable is highly relevant to a number of other considerations which are of special importance in the event of a decision to take Course D, though they are also relevant to Courses B and C in so far as they might lead to negotiations for entry, albeit rather later than Course D. The most substantial items among these considerations are the objectives we should be seeking in any negotiation for full membership, the progress of our own economic recovery and the likely development of the Community over the next few years; but it will be necessary to consider also the outcome of consultations with the Commonwealth and EFTA and of the final negotiations in the Kennedy Round. We have already had some discussion of these and some of them will require further discussion if we decide to follow Course D, but the more salient points need to be decided in principle now.

22. As for our objectives, it is already clear from our discussions that we should need to aim at securing for New Zealand special arrangements to assure her export income over a period long enough to make it certain that in practice this income will, in one way or another, be permanently assured. For the rest of the Commonwealth, we should need to seek terms broadly similar, mutatis mutandis, to those provisionally agreed in the 1961-63 negotiations, and, in particular, to carry over the offers then made of association for independent African and Caribbean countries and for most dependent territories, coupled with comprehensive trade agreements to cover the requirements of certain Asian countries. We shall also need to make arrangements in respect of the Commonwealth Sugar Agreement. For ourselves, we shall need to secure, again as a minimum, arrangements to reduce to tolerable proportions the burden the common agricultural policy will otherwise impose on our balance of payments and to assure the other points covered in discussion of C(67) 44, agriculture and the Common Market, including adequate transitional periods. For other items we have discussed, notably freedom of capital movements, regional policies, free movement of labour and tariff adjustment, we shall need transitional periods and some understandings to meet our special problems.
23. EFTA countries will expect us to assist them to become members or associate members and to avoid resurrection of the tariff barriers EFTA has abolished. We should certainly do our best to ensure that other EFTA countries who wish to become members or associates of the EEC are able to do so; and we should not wish to re impose tariff barriers against such countries. For such EFTA members as are unwilling, or prove unable, to accept obligations of Community membership or associate membership we should aim to achieve the most favourable timetable for the reimposition of tariffs.

24. In our view, the negotiating points should be kept as few and as simple as possible, confined to the items of major importance identified by the Cabinet's discussions. In our view if this is done, there is a good prospect that the Six as a whole would find it very difficult to reject our application. We should, however, at this stage, bear two things in mind. First, if we are to secure entry in time to participate, de facto or de jure, in the critical formulation of Community policies over the next few years and, indeed, to achieve entry despite French opposition, it will be necessary to keep the negotiations as short and simple as possible. Second, our chances of securing good terms are much better as a member than as a candidate for membership (see paragraph (iii)); and we should therefore, on both this and the preceding count, simplify so far as possible both our application and the subsequent negotiations. The general reservations we made during our European visits will enable us to do this without curtailing our freedom during and after the negotiations.

The Progress of our Economic Recovery

25. We have said that we would only enter the Community with a healthy economy and a strong balance of payments, and that we are determined to restore the strength and stability of our own economy. In view of the likely timetable for negotiations with the Community set out in Course B (paragraph 6 above), there must be a delay until 1968 or early 1969 before we could actually enter the Community, even if we apply for negotiations at once. In our talks with the Six, we therefore said that, so far as our own economic situation was concerned, we should be ready to negotiate as soon as the Six were ready (C(67) 33, Annex, page 10). Whether we seek to join the Community or not we cannot afford to permit a recurrence of the inflationary conditions and of the consequential deficit such as we encountered on assuming office; and, provided we do not do so but continue to develop the policies we are now following of controlled reflation with a better regional balance and a reduction of Government overseas expenditure, we shall be doing all we can on our own to develop an increasingly sound economic position.

26. A separate memorandum is being circulated about the impact which entry to the EEC might have on our balance of payments and on our economy generally on the basis of certain assumptions.

Development of the Community

27. It now seems likely that the proposed meeting of the Heads of Government of the Six at Rome, in connection with the 10th anniversary celebrations of the signing of the Treaty of Rome, will take place about 25th May. If we were to decide to apply for entry, our application
should be made before that meeting. In other respects, however, the meeting is unlikely to produce any startling new developments. There has been talk of re-launching the idea of discussions on political unity or some form of political consultation; but we have been assured by most members of the Community that no major developments may be expected from this meeting. There is, however, a much more substantial consideration. The Community continues to develop whether or not we are inside it. The common agricultural policy is now much more defined than it was at the time of the last negotiations. As the Community continues to develop and to settle its own policies, new problems will be raised for us unless we, by gaining entry, can get into a position to influence the development of these policies.

28. 1969 is a particularly significant year in the development of the Community - their own "transitional stage" under the Treaty of Rome ends with 1969. Before the end of 1969 the Community must negotiate the new agricultural financing arrangements to replace the existing ones which lapse at the end of that year; we have already discussed the importance of this factor. The Yaounde Convention, which governs the association of African States with the Community, and so is of importance to many members of the Commonwealth, expires at the end of May, 1969; unless it were prolonged, negotiations to replace it will have to begin well before this date. In two major areas therefore with which we are concerned, our prospects of achieving satisfactory long-term arrangements depend substantially on membership of the Community by that year - or at least upon our being so close to membership of the Community that we must be allowed a full voice in the renegotiation arrangements. We must also remember that the EEC has already started discussions of a number of other communal policies, notably those on patents (important for technological development), commercial policy and transport policy. If we are right in thinking that a negative decision, or even an insufficiently positive decision, now might postpone our chances of entry until the period of the next Parliament, say 1971 or 1972, we might then find that entry at that time presented us with greater problems and offered us less opportunity to influence Community policies in the more outward-looking directions we (and for the most part, the Five, EFTA and the Commonwealth) would wish.

Conclusions

29. We have set out in this paper the alternatives before us in regard to the approach to Europe, and their relative advantages and disadvantages as these appear to us, with a view to their providing the basis, in the light of all our previous discussions since last October, for a definitive decision. We now invite our colleagues to decide which of the four courses in paragraph 4 of this memorandum we should follow.

30. It is our view that the right decision would be to follow Course D, and make an early application for negotiation for entry. In that event, we should make a new application, rather than seek to resume the negotiations initiated by the previous Administration. Clearly we could not contemplate an unconditional application, i.e. one that fails to secure the minimum conditions for entry which our discussions are establishing. On the other hand to demand the prior acceptance of conditions before applying for entry would strengthen opposition to us.
in the Six and we might get the application returned "invalid". The statements we should make in connection with any application under alternative D should therefore stress our willingness to accept the Treaty of Rome and the spirit and organisation of the Community. But in announcing to Parliament that an application in this form was being made, we should make it clear that, as is generally known, there were a number of substantial problems that needed to be resolved as part of the process of British entry and that these must form the principal subject matter of the negotiations. What these are, the Cabinet has still to decide - there would appear to be some four or five, and they should be included in the Parliamentary statement as the "essential British and Commonwealth interests" which should lie at the centre of our negotiations.

H.W.
G.B.

10, Downing Street, S.W.1.

24th April, 1967
EUROPE: EFFECT OF ENTRY INTO THE EUROPEAN ECONOMIC COMMUNITY ON THE UNITED KINGDOM BALANCE OF PAYMENTS

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate for consideration by the Cabinet at their meeting on THURSDAY, 27th APRIL, 1967 the attached note by a group of Permanent Secretaries covering a report by officials and Economic Advisers on the effects of entry into the European Economic Community on the United Kingdom balance of payments.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.
25th April, 1967
NOTE BY A GROUP OF PERMANENT SECRETARIES

1. The attached report has been prepared by a working party of officials and Economic Advisers in accordance with the instructions of Cabinet on 6th April. It is not a wholly agreed report, and we must draw attention to the qualifying note in its concluding paragraphs.

2. We suggest that Ministers, in considering the report, should have the following points in mind:

(a) It is relevant to compare our likely condition as a full member of the EEC in the mid-1970s with our likely condition if we are not a member by the same period. If, by 1975, the EEC is still in being as a going concern, with 8 years of further progress towards larger-scale forms of economic and industrial organisation appropriate to a community of approaching 200 million people, it is scarcely arguable that the existence of so large an economic unit on the other side of the Channel would have some effects on our relative position as an economic competitor and, therefore, as a worthy object of investment. In so far as those effects were adverse, they would constitute an important element to be taken into account in our calculations of the net economic advantage or disadvantage of membership of the EEC. It is also relevant, for the same reasons, that the erosion of Commonwealth preferences is likely to continue and that EFTA cannot be counted on to persist indefinitely in its present form.

(b) Entry into the EEC will have advantageous, as well as disadvantageous, effects on our balance of payments. We have noted that the working party have attempted to quantify the adverse forces but have not found it possible to do the same for the advantageous forces. Moreover, the quantification is based on the explicit assumption that "we shall have accepted the Treaty of Rome and the regulations made under it without modification (paragraph 8);" and the report itself admits that "The present figures may therefore over-state the adverse effect of membership on our balance of payments if we succeed in negotiating more favourable conditions before or after entry." As a result, despite its many repeated reservations, the report seems to us to be liable to create a misleading impression. Since it was not possible to quantify the positive elements, it is necessary, in attempting to form a balanced judgment, to rely on a qualitative assessment of the many considerations which the report itself admits are imponderable, including the extent to which we may succeed in modifying the adverse factors in negotiation. That this view was held within the working party itself is evident from the qualifying note. It is important, therefore, to emphasise that the report, as is made clear in paragraph 4, "must not be treated as a forecast of the balance of payments" but is, in a sense, only an abstraction of certain elements, themselves highly speculative in total, from a situation in which many other factors would certainly be at work, not least the influence which we ourselves could bring to bear on the policies of the Community, once we were a member.
The domestic adjustments which the report emphasises are necessary before the beginning of the transitional period are not essentially different from those which are required in order to achieve the Government's economic objectives in the medium term which have been approved by Ministers and were the basis of the Chancellor of the Exchequer's recent Budget. We think it important to emphasise this point. It means that the policy which is an essential preliminary to entry to the EEC is one which Ministers have already endorsed as necessary in any event.

A certain timetable is implicit in the report. It is assumed as a working hypothesis that, if we entered the Community, there would be a transitional period of at least five years, during which tariffs would be reduced and abolished and we should progressively adopt the agricultural arrangements of the Community. It is also assumed that the obligations of that transitional period would probably not start much before 1970. The hypothesis of this timetable seems to us to be acceptable. Even if we are able to secure formal entry into the Community well before 1970, it will not be unreasonable to have as our objective that the obligations which not only we but also the other members of the Community will have to undertake should not begin to take effect significantly before 1st January, 1970. Indeed, it would probably be unrealistic to adopt an earlier date, even if we wanted it.

The report indicates that, in order to offset the disadvantageous effects of entry on the balance of payments - in particular, the modification of our present agricultural system - we shall have to ensure a very significant increase in our exports and that this is unlikely to be achieved without some "worsening of the terms of trade". By this we understand an increase in our relative competitive power, resulting from increased industrial productivity, the maintenance of an effective prices and incomes policy, the promotion of technological development, and so forth. All these factors are already the declared objectives of Government policy. We do not, therefore, regard it as beyond our capacity to achieve the necessary "worsening of the terms of trade" by the policies which we are already pursuing, provided that we do not relax our efforts to make those policies effective and that we can operate on the basis of the timetable implicit in the report. That timetable is both compatible with, and dovetails satisfactorily into, our present policy objectives. We have to secure a satisfactory surplus on the balance of payments of a size sufficient to enable us to discharge our IMF debt. This is the objective of policy between now and 1970. Membership of the Community, with a transition period beginning in 1970 and continuing for at least another five years, will mean that the restraint on consumption, public or private, which will be necessary in any case between now and 1970 would - on the assumptions in the report - have to be continued, and perhaps intensified, throughout the transitional period in order to ensure that additional resources were made available for export. At some point during this period, and increasingly thereafter, we should begin to reap the benefits in industrial efficiency and increased productivity which will flow from membership - benefits which, as the report admits, "may be very great, though they are unquantifiable in balance of payments terms". Thus, provided the timetable is acceptable and provided that we do not relax the pressures designed to switch resources from consumption to export both before 1970 and thereafter during the transitional period, there is nothing in this report to require us to think that the balance of payments problems arising from our entry into the EEC would be unmanageable.
At its meeting on 6th April the Cabinet agreed that studies should be prepared by officials in consultation with the Economic Advisers of the economic effects of entry to the Community if this were in 1967, or alternatively in 1968, and that a report should be submitted on the total effect of entry on our balance of payments.

2. We begin by emphasising that the effects on the British economy of entry into the E.E.C. will be very much affected by the economic conditions prevailing at the time of entry. It is clearly essential that the U.K. economy should be fully competitive prior to entry, with an adequate surplus in the balance of payments, and efficiency-wages at a level adequate to preserve this surplus in face of the adverse effects discussed below. This alone would ensure conditions favourable to growth. If these conditions were not fulfilled, not only would there be a much greater danger after entry that investment, both British and foreign, would be directed towards other parts of the Community and so aggravate any deficit in the balance of payments, but it would also be necessary to maintain restrictive policies that would offset the advantages expected from membership and risk a cumulative deterioration in the economic position of the U.K. We cannot regard the balance of payments in 1967 as meeting these conditions. It is affected by a number of abnormal circumstances, such as a low level of stockbuilding, so that it appears to be more favourable than the underlying trend; it is obviously inadequate for long-term purposes (quite apart from the need to repay debt). If the resources necessary for a continuing surplus of the order that Ministers have thought necessary are to be released, there are major domestic adjust-

*Efficiency-wages are a measure of the competitive position. They may be defined as the cost of labour, including social insurance charges, in relation to output per head.
ments still to be made. They entail a reduction of the order of 2-4 percentage points in the share of total output going to personal consumption, depending on decisions to be taken on the size of public expenditure in the next few years. They correspondingly entail a rise in public revenues as a proportion of total income, though this may be partly in the form of higher local authority rates and increased charges by nationalised industries. It is essential that these domestic adjustments, which will have to be made in any event, be completed before entry if the disadvantageous developments described above are to be avoided.

3. We have worked on the assumption that the interval before the beginning of the transitional period can hardly fail to extend over the next 18 months and that it might very well extend to the beginning of 1970. Clearly, the longer the interval, the less the difficulty in completing the necessary prior adjustment in the use of resources and in improving the balance of payments.

II

4. Quite separate from these adjustments which are necessary before entry are the adjustments necessary to deal with the effects of entry. We have assumed that we shall be able to secure a transitional period to give us time to make these adjustments and we have concentrated on the total impact that entry would be likely to have on the balance of payments at the end of that transition period. We have assumed that five years would be a reasonable measure of its general effect. This is without prejudice to the fact that we may seek and obtain different transitional periods for different purposes. Our estimates relate, therefore, to a year in the middle seventies, and deal only with the effects of membership. We have not considered any other influences on the balance of payments at that time. Our estimates must not be treated as a forecast of the balance of payments.
5. Entry to the E.E.C. will cost us the advantages we have so far enjoyed from importing food at world prices and from our preferential trading arrangements with the Commonwealth and E.P.T.A. Entry will bring with it new circumstances, some advantageous, some disadvantageous: we can neither specify them in detail nor quantify them. This means that we can assess the effects of entry on the U.K. balance of payments to only a restricted extent. We can attempt to indicate what may be involved for the balance of payments and the disposition of U.K. resources of some specific changes, notably in respect of agriculture, capital movements and tariffs. But we cannot go on to measure the total effect of entry.

6. Quantification of the apparently measurable effects on the balance of payments of joining the E.E.C. is necessarily a highly speculative undertaking. Any attempt involves making a large number of assumptions, some more arbitrary than others, but all open to argument. The resulting estimates are bound to be no more than the product of all the assumptions made in their preparation and cannot therefore do more than illustrate crudely the direction and magnitude of changes which must be expected. It is peculiarly difficult to decide on the most appropriate assumptions. This is so for three main reasons. First, it is not known on what conditions we shall be able to join the Community nor how it will develop after we have joined. Secondly, there are all the difficulties in translating into numerical terms the probable short-term responses of consumers and producers to the changes in prices and market opportunities that membership will bring. Thirdly, there is little or no agreed body of doctrine on the long-term changes of trend in industrial structure, location and efficiency that would be set on foot: certainly none as to magnitude and very little even as to direction.
7. There are, however, a number of estimates which have already been made by officials of some of the effects. These are summarised below, and brought up to date wherever possible. They relate to agriculture, capital movements and trade in manufactures. These items are not independent of one another. For example, in so far as increases in food prices and the cost of living resulting from adoption of the common agricultural policy lead to compensating increases in money incomes, this would weaken our competitive position as a manufacturing country. Similarly, the flow of capital to or from this country will be affected by the competitive strength of British industry, and in particular by the post-tax rate of return on new investment in the U.K. against other E.E.C. countries.

8. One important assumption is that we shall have accepted the Treaty of Rome and the regulations made under it without modification. The present figures may therefore over-state the adverse effect of membership on our balance of payments if we succeed in negotiating more favourable conditions before or after entry. It should also be noted that the estimates below contain no allowance for the extra charge on the balance of payments which would flow from any compensation we decided to grant any Commonwealth country whose economy suffered as a result of diminished access to the U.K. market.

AGRICULTURE

9. The cost of accepting the common agricultural policy as it stands is probably the firmest of the figures that have been hazarded in assessments of the balance of payments implications of joining the E.E.C., but even this calculation has to rest on many assumptions, for example about world and Community prices, U.K. agricultural production and consumption and the size of the Community's Agricultural Guidance and Guarantee Fund. The cost takes the form of an increase in the total landed cost of our food imports and the net contribution by the U.K. to the Agricultural Fund. It
has been put in the range of £175-250 million in the early 1970's. We would expect as an absolute minimum to be able to negotiate a transitional period, so that the full balance of payments cost would not be felt in the earlier years, but would rise gradually, though not necessarily evenly. We might also hope for some adjustment of the Financial Regulations.

**CAPITAL MOVEMENTS**

10. This is an extremely uncertain area. The most recent assessment by officials of the possible effects on capital movements (for the visits to E.E.C. Heads of Government) assumed entry only in conditions of a strong balance of payments. The range of possibilities was wide, partly depending on the changes in controls that could be negotiated. They ranged from slightly favourable to considerably unfavourable. The order of magnitude was indicated in the analysis by a range for additional net inflows of £50-85 million; and of additional outflows of, say, £70-145 million, including £40 million for the foreign exchange cost of liberalising direct investment in Europe.

11. It is reasonably certain that if we joined the Common Market, capital would come to flow far more freely under the influence of profit considerations between the different countries of the Market than is normally the case with foreign investment, because the risk of changes in exchange rates normally associated with foreign investment would be largely removed and there would be a guaranteed tariff-free trading area. This means that whether the effect on net U.K. direct investment would be favourable or unfavourable would largely depend on the relative levels of "efficiency wages" in the U.K. and in the other industrial areas of the Common Market. Hence from this point of view the question of competitiveness is all-important.
12. The creation of large international concerns comparable in size and effectiveness to the large U.S. firms is one of the great economic advantages likely to follow from the creation of the Common Market, and it is to be expected that British industrialists would play a leading role in this process of integration. Since the London capital market is far more developed than that of Paris, Frankfurt or Milan, it is probable that more of the money for this integration process will be raised in the London market than in the Continental countries. For the same reasons we cannot count on French and German firms investing on a similar scale in the U.K. even if the profit opportunities are favourable, though we could reckon - assuming that we are competitive - that more of the U.S. foreign investment will be concentrated on the U.K. Hence, though it is quite impossible to quantify the net effect, it would be prudent in our view to reckon on a considerable amount of net investment by the U.K. in the Community, and to allow for a further £50 million for net additional outward direct investment beyond that envisaged earlier.

CHANGES IN TARIFFS AND PREFERENCES

13. In addition to the abolition of tariffs between ourselves and the other E.E.C. members (presumably subject to transitional arrangements) membership would entail changes in preferential arrangements vis-à-vis the Commonwealth and E.F.T.A. The effects of tariff cuts on trade flows are always complex and so little is clearly established that any calculation is largely arbitrary.

14. The general lines of the changes are clear: there would be more trade both ways between the U.K. and the E.E.C., partly additional and partly diverted from other channels. We should sell less to the Commonwealth and buy less from them. If all other members of E.F.T.A. joined E.E.C. we would
lose all our preferences in their markets; E.F.T.A. countries which did not come in would almost certainly raise tariffs against us as we imposed the common external tariff on our imports from them. In both cases we should lose exports. Our imports from E.F.T.A. would fall (partly to the gain of E.E.C. suppliers). In trade with third countries, e.g. U.S.A., Japan and the Eastern bloc, both exports and imports would be below the levels that would otherwise have been reached, reflecting diversion of trade towards the E.E.C.

The great problem comes in attempting to quantify these changes. Various attempts have been made, but the results are entirely dependent on the assumptions made about the magnitude of trade flows on which tariff and preference changes are operative, about price changes consequential on tariff changes and about elasticities. One set of estimates made recently by the Board of Trade, based on the pattern of exports to various markets that might have developed by the early 1970's, suggests adverse effects in balance of payments terms ranging from £50 million to £200 million, depending on the assumptions made.

COST AND PRICE CHANGES

The potential effect on costs is clearly critical to the whole assessment. They flow very largely from the changes in agricultural policy. If nothing were done to offset it, the adoption of the common agricultural policy must mean higher food prices. The ultimate increase in the cost of food has been estimated, on certain assumptions about relative prices levels, as equivalent to $2\frac{1}{3}$ per cent on total consumers' expenditure. There would also be some rise in the costs of industrial materials formerly imported free of tariff. On the other hand, there would be lower prices of some imported semi-manufactured and manufactured goods formerly subject to import duties and perhaps some competitive reduction in prices of equivalent home produced goods, though this offset is likely to be small. Taxation
changes, in particular the introduction of a tax on value added, could affect the cost of living, but we have not attempted any assessment of such effects. It has not been possible to make an estimate of the total effect of membership of E.E.C. on prices. Although a rise in consumer prices by itself would reduce the rate of growth of real consumption and so contribute to achieving the required further transfer of resources from consumption to export suggested by the analysis in the following paragraphs, it could hardly fail to increase the pressure for higher wages as workers attempted to maintain their living standards. How strong this would be is difficult to predict. The rise would be spread over some time and it can be argued that its effect on wage claims would be less than if it were to happen all at once. Against this, the rise is concentrated on food prices, and this may well mean that it would provoke a stronger reaction than another increase, equal in total effect, but more diffused in its impact. To some extent it would be possible to reduce the pressure on wages by fiscal action (e.g. in mitigation of the rise in prices). But there would remain a danger that dearer food would give a fresh inflationary impulse to the economy and so endanger our competitiveness and the balance of payments. There are no precise numerical relationships established with which to demonstrate the possible effects on costs, prices and the balance of payments. One set of assumptions of the effects on prices, if no steps were taken to maintain competitiveness, is that a rise of $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent in consumer prices could lead to a $1\frac{1}{2}$ to 2 per cent rise in money wages and this in turn to a rise of $1$ to $1\frac{1}{2}$ per cent in U.K. prices at the end of the day. Such an increase in export and domestic prices could, depending on the assumptions made about export and import elasticities, produce potential adverse cost effects on the balance of trade of £150 to £350 million. This is a measure of the dangers that could result if adequate steps were not taken to maintain competitiveness: but we repeat our warning about the arbitrary and illustrative character of the arithmetic.
18. The effects discussed so far are summarised in the following table. All are adverse.

Table I

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
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<td>(i) Agriculture</td>
<td></td>
</tr>
<tr>
<td>(a) direct effect on balance of payments</td>
<td>175 - 250</td>
</tr>
<tr>
<td>(b) indirect effect on balance of payments via costs</td>
<td>150 - 350</td>
</tr>
<tr>
<td>(ii) Tariffs and preferences</td>
<td>50 - 200</td>
</tr>
<tr>
<td>(iii) Net foreign investment</td>
<td>25 - 150</td>
</tr>
</tbody>
</table>

Total

(a) direct effects 250 - 600
(b) including indirect effect on costs 400 - 950

Three points need to be emphasised in connection with this table. First, the calculations are very precarious. Secondly, all the items are adverse because they reflect the price in balance of payments terms of ending or existing arrangements. Thirdly, the table includes almost none of the dynamic elements that membership will bring into the economy.
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19. It would, of course, be impossible to contemplate an actual deterioration in the balance of payments of the magnitude suggested above. It would be necessary to ensure that in one way or another external balance was maintained, and this would be facilitated to the extent that industry does seize the opportunities of specialisation that the larger market offers.

But in seeking to expand exports or reduce our imports on the necessary scale we should be obliged to trade on less advantageous terms and offer lower prices so that we had to produce and sell a larger volume of goods in exchange for a given volume of imports. This would be part of the price of avoiding a deficit and would leave that much less to be divided between domestic consumption and investment.

20. From the point of view of cost to the economy the four items in Table 1 all have a different significance. Item (i)(b), as indicated above, reflects a weakening in the competitive position and could be eliminated without making any demand on real resources if the forces making for higher export costs were offset by other forces restoring the competitive position. Item (iii) would make it necessary to run a correspondingly larger surplus on current account and this would require an equivalent reduction in domestic consumption or investment. This item does, therefore, represent a charge on resources although it also generates an asset in the form of a claim on foreign resources. In the case of item (ii) the balance of payments effect is a measure of the loss in our competitive position which we should have to restore in some other way. The final cost in terms of resources of the tariff changes is roughly equal to the deterioration that we should have to accept in our terms of trade in avoiding the worsening of our trade balance consequent on the tariff changes.

21. This leaves item (i)(a), a large part of which represents a straight transfer to the Community at our expense.
Another part takes the form of an increase in domestic production at higher cost than the imports displaced. We think that the cost in domestic resources under the heading of the common agricultural policy would tend to be rather higher than the balance of payments cost, and that it should be put towards the upper end of the range £175-250 million.

22. The direct agricultural and investment effects, taken together, would involve an additional load on resources of the order of £250-400 million. This, however, takes no account of the adverse change in the terms of trade that would be required in order to bring about an increase in exports (or a reduction in imports) sufficient to secure the necessary external surplus and to offset the potential balance of payments loss on account of tariff changes. How large this change would have to be is uncertain: we can only make what seem reasonable assumptions about the price reduction needed to achieve any given extra volume of export sales. On these assumptions the total load on resources might be between £300 and £650 million by the end of the transition period. It must again be stressed how precarious this whole pyramid of calculations is.

III

23. So far we have considered only the adverse effects. But the consequence of membership of the Community on our industrial efficiency is crucial. If the spur of greater competition and larger scale markets results in an acceleration of the underlying growth of productivity, the problem of maintaining a competitive cost position is likely to be that much easier. The potential opportunities, provided we are and continue to be competitive, may be very great, though they are unquantifiable in balance of payments terms. The views of both the Production Departments and industry in general (notably as reflected in the C.B.I. Review) are that, on the whole, industry would seize the opportunities which membership offered. On the other hand, it
can be argued that our ability to continue to benefit may be restricted by inherent structural limitations that cannot be quickly eliminated. It is impossible to predict with any assurance what the long-term effect on efficiency of participation in the E.E.C. will be; this is essentially the point where a judgment of probabilities has to be made.

IV.

24. The problems involved in managing a transfer of anything like this order would depend a great deal on the length of the transitional period after entry. If it were five years, the net additional claim on resources would mount throughout the period by an average of the order of £100 million a year. In other words, an extra £100 million a year of resources would have to be diverted in each year from home use (presumably public and private consumption) to export and import-substitution in order to enable us to accept the common agricultural policy and all the other obligations of membership without the balance of payments deteriorating.

25. A total of, say, £100 million a year to be shifted from home use to export can be compared with an expected annual addition to gross national product of the order of 3 per cent or £1,000 million (of which not less than £250 million would be exported in any case). Thus the total required might absorb about a tenth of the annual growth of output over five years, or a smaller fraction over a longer period, if a longer transitional period were obtained. Since over half total exports of goods and services are the product of manufacturing industry, the extent of the shift of manufacturing output would be greater, and past experience does not suggest that it would be easy to bring about. We have not attempted to predict precisely how the diversion of total output might be secured. Clearly it would be desirable to avoid restricting the growth of productivity investment and the main squeeze would be likely to be on the
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growth of personal consumption. To some extent this would be brought into play automatically by higher food prices and the change in the terms of trade. But to the extent that it was necessary to make use of higher taxation, the extra tax revenue required would be substantially more than the reduction in consumption which it was intended to secure. This squeeze on personal consumption would follow on the squeeze prior to entry to which we referred in paragraph 2, and would again reduce the share of consumption in G.N.P. compared with what it could otherwise then be. The sacrifice of personal consumption would be a substantial fraction of the prospective rate of increase of consumption in the early seventies. However, the domestic adaptation required after entry would not be greater than the domestic adaptation required before entry, and which will be necessary whether we join the E.E.C. or not.

26. If industry seizes its opportunities, this will manifest itself in an increase in the rate of growth of industrial productivity, and this would enable us in time to recoup the resources cost of entry. For example, if the effects of rationalisation, increased specialisation and the exploitation of the economies of scale were to lead to an increase in the rate of growth of industrial productivity of roughly \( \frac{1}{2} \) to 1 per cent a year above the present trend rate of about 3\( \frac{1}{2} \) per cent a year - which would not be unreasonable - the total cost of entry in terms of resources would be recouped in about five years. Moreover, if such growth of productivity were to show itself during the transition period, the net cost of adaptation would be reduced, and consumption could be allowed to rise a little faster, though it would be unwise to count on so early a benefit from membership.
27. It is essential that the U.K. economy be fully competitive by the beginning of the transition period, with an adequate surplus in the balance of payments. A surplus of the order needed could not be secured unless there were a release of resources through a reduction of the share of output going to public and private consumption.

28. The longer the interval before the beginning of the transition period, the more manageable these domestic adjustments could be.

29. The effects of entry would be of two kinds. First, there would be the changes resulting from tariff changes, the loss of preferences, the abandonment of our present agricultural import and support policies, and the dismantling of our present restrictions on direct investment in Europe to the extent that these have not been dismantled earlier. Secondly, there would be the dynamic effects on industry flowing from entry into a larger market with the opportunities for specialisation which that would offer. The first can be measured, though the calculations are precarious and the hypotheses on which they are based are uncertain. But there is no question that they would have a significantly adverse effect on our balance of payments. Our calculation of these adverse effects suggests they lie between £250 and £600 million, and this does not include other possible consequences on our prices due primarily to the higher cost of food which could introduce further adverse effects on the balance of payments of the order of £150 to £350 million. For the second, the C.B.I. consider that there would be "a clear and progressive balance of advantage to British industry from membership of an enlarged E.E.C.", and most members of the Working Group share this view though some have doubts. The advantages could be very great, provided that the U.K. economy was competitive at the beginning of the transition period and that policy was adequate to maintain this competitiveness. But it is not possible to give
any indication of the order of magnitude of such possible favourable developments.

30. Those developments that would certainly be adverse could not be allowed to work themselves out and produce a deficit in the balance of payments. Indeed, to the extent that industry becomes more efficient as a result of entry, that would in itself contribute to preventing the emergence of such a deficit. But in any case we could not expect large increases in exports or in import substitution without a worsening of the terms of trade.

31. In order to avoid a deficit on the balance of payments resources would have to be switched from consumption to export and import substitution. One estimate of the shift of resources that would be needed to offset all these adverse effects, including an appropriate allowance for the necessary adverse movement in the terms of trade, would lie between £300 and £650 million. If there is a transition period of, say, 5 years, it would mean on average a shift of the order of £100 million in each of the five years. At 3% growth the annual addition to the Gross National Product would be at least £1,000 million in the seventies, so that about a tenth of this would have to be transferred from consumption to export and import substitution. The burden of the further adjustment required after entry - in terms of the allocation of resources which we would have to make throughout the transition period - is not likely to be greater than the burden of the adjustment required before entry - and which we must make in any case, but it would be additional to it. To the extent that growth is faster - and, if industry seizes its opportunities, it could be - the need to squeeze consumption would be that much less. Even if this advantage did not manifest itself during the transition period, the cost of entry could be recouped over a comparatively few years, if specialisation and the economies of scale led - as they could - to an increase in the rate of growth of productivity.
32. One member of the Working Group wishes to add a qualification to the Report, as follows.

33. The remit to the Working Group was to report on the total effect of entry on our balance of payments. This effect would result from a combination of forces, some clearly adverse, others not necessarily so, depending on the overall competitiveness of the economy. Like earlier studies this one emphasises (paragraph 6) how highly speculative an undertaking it is to quantify even the apparently measurable forces. All the same it goes on to abstract from the totality four factors - agriculture, tariffs and preferences, foreign investment and higher costs. It attaches to them figures (see table 1) that are necessarily unreliable as a guide to policy (though the agriculture figure is less unreliable than others) because so much depends on the assumptions on which they are based. The existence of potentially favourable factors is recognised. However, when they defy quantification - the response of British industry is acknowledged as the crucial example - it becomes increasingly unreal to pursue the argument in statistical terms.

34. The Working Group as a whole did not accept that there was this limitation on its search for quantitative truth, even though it has to admit in paragraph 23 that it has constructed a precarious pyramid of calculations. But it is misleading to offer Ministers such calculations, purporting with a spurious air of precision to strike a total balance, as an aid to one of the most important policy decisions they will ever take. Since over so large a part of this field we do not know the answers, it would be better to say so or to confine ourselves to qualitative exposition of the issues.

H.1. Treasury
26th April, 1967
25th April, 1967

CABINET

LEGAL AND CONSTITUTIONAL IMPLICATIONS OF UNITED KINGDOM MEMBERSHIP OF THE EUROPEAN COMMUNITY

Memorandum by the Law Officers

As requested by the Cabinet (CC(67) 21st Conclusions, Minute 3), we have considered the Report by officials attached to E(66) 7, and have the following comments on the legal and constitutional implications discussed therein.

Implementation of the Treaties

2. The preparation and passing of the Acts implementing the Treaties would be a major legislative operation. We would be faced with the task of unravelling the categories of Community law which have direct internal effect and which would require to be incorporated into the law of the United Kingdom. There would also be need to amend a considerable body of our existing Acts. But these are problems which could be overcome.

Sovereignty of Parliament

3. British constitutional doctrine is that Parliament is sovereign and that no Parliament can preclude its successors from changing the law. It is, however, implicit in acceptance of the Treaties that the United Kingdom will not only accept existing Community law, but also will refrain from enacting future legislation inconsistent with Community law. This requirement thus detracts from Parliamentary sovereignty. Such a restraint on our legislative system would not, however, be unprecedented. Our legislation often takes account of Treaty obligations (for example, the Charter of the United Nations, North Atlantic Treaty Organisation, the General Agreement on Tariffs and Trade, the Ottawa Agreements of 1932), which restrict our future legislative freedom. Further, several Acts of Parliament have reduced for all time vast territorial areas of our sovereignty (the various Acts of Independence granted to India, etc.).
However, the continuing incidence of future Community legislation would be without precedent and would present us with continuing legislative and constitutional problems. Not only would Parliament have to refrain from enacting future legislation inconsistent with Community law, but future Community law would have to be accepted as binding on us. The United Kingdom Parliament could pass legislation enacting that Community law should prevail over United Kingdom law if any conflict arose; but there is in theory no constitutional means available to us to make it certain that no future Parliament would enact legislation in conflict with Community law. In our opinion, if Parliament did in future enact such legislation expressly contradicting Community law, the Courts would apply that legislation, despite its repugnance to Community law.

However, we think that this theoretical possibility could, in practice, arise on a matter of importance affecting the Community, only in political conditions in which the United Kingdom had in any case decided to break with the Community.

The risk of inadvertent contradiction between future United Kingdom and Community law will not be great. After we join the Community, we shall be taking part in the preparation and enactment of all future Community law. Our participation would thus enable us to reduce the likelihood of incompatibility between the Community law and our domestic law.

Character of the Community Law

4. Community law has little direct effect on the ordinary life of private citizens, their rights and obligations. By far the greater part of our domestic law will remain unchanged. Nothing in the Treaties touches our criminal law, matrimonial law, law of inheritance, land law, the law of tort, or negligence, or contract (save in relation to restrictive practices), the relations of landlord and tenant, housing or town and country planning. Direct taxation would not be affected. Nor is there any reason to expect the creation of future Community law in these fields, for the power of the Community to create new law is limited to the purposes set out in the Treaties which cannot be enlarged except by unanimous agreement.

The main impact of Community law would be in the realms of trade, customs, restrictive practices and immigration. It would also affect the operation of the iron and coal industries.

Courts

5. We understand that there would undoubtedly be a British Judge (and perhaps a British Advocate General) at the European Court; we regard this as an important safeguard.

We agree that it would be quite possible to assimilate Community law and rulings of the European Court into our own systems.
We consider that the United Kingdom Courts would be likely to refuse to hold that Parliament had by implication repealed or amended any part of Community law. But if Parliament were to pass an Act expressly derogating from Community law, we consider that the United Kingdom Courts would regard themselves as bound to give effect to the Act even though this involved a breach of the Treaties.

Safeguards for the Protection of Individuals

6. We regard it as important that there is a right of appeal to the European Court, which we believe to be a Court of high standards, from Community decisions which affect individuals and corporate bodies.

We consider that the various powers of the Commission to authorise its inspectors to enter premises, inspect books and interrogate persons is acceptable, provided that such powers are not normally exercised in this country without an order made by a United Kingdom Court.

International Relations

7. The requirements under the Treaties would restrict our independence of action in future international dealings, and would, broadly speaking, have the effect of transferring to Community institutions our power of concluding treaties on tariff and commercial matters. We consider that this would be an inevitable and acceptable consequence of our acceding to the Treaties.

As a matter of international law, we would have no right to withdraw from the Treaties unless there was a fundamental change in circumstances (e.g. if one of the member States were overrun by a foreign power). We regard this as somewhat academic; if for any reason, the United Kingdom decided to withdraw, and an Act of Parliament were passed for this purpose, we find it difficult to imagine that our Courts would not give effect to it. Withdrawal from the Treaties would certainly be an immensely complex operation.

F. E. J.
G. S.
D. F.
H. S. W.

The Law Officers' Department, W. C. 2.

25th April, 1967
BRITAIN AND THE EUROPEAN ECONOMIC COMMUNITY: COMMONWEALTH INTERESTS

Memorandum by the Secretary of State for Commonwealth Affairs

It may be useful if I set out briefly for the information of my colleagues the effects on Commonwealth countries of

(i) our joining the European Economic Community without obtaining safeguards for essential Commonwealth interests;

(ii) the arrangements Commonwealth Governments are likely to ask us to secure on their behalf, and

(iii) what is likely to be negotiable.

Entry without safeguards.

2. Commonwealth countries have traditionally exported their produce to the British market duty free. Moreover, they at present enjoy an average tariff preference of about 12 per cent. If we joined the Community and applied levies or the common external tariff (as appropriate), most Commonwealth imports would, after the transitional period, face a positive duty where they now have free entry and reverse preferences in favour of the Community where they now have preferences. Community products would tend to replace Commonwealth products in our market. This situation would affect different Commonwealth countries in differing degrees.

3. The biggest problem is New Zealand. In 1965-66, we took 45 per cent (£168 million) of her total exports. We took 83 per cent (£50 million) of her mutton and lamb, 86 per cent (£47 million) of her butter and 78 per cent (£16 million) of her cheese. If we entered the Community without special safeguards for New Zealand, mutton and lamb would be subject to a 20 per cent tariff. Butter and cheese, which fall within the common agricultural policy, would be subject to levies which, at present levels, would almost double the landed cost of New Zealand supplies. As a result, New Zealand would face immense economic difficulties.
4. The effect on Australia would be less serious but still important. We take about one-fifth of her exports. The commodities she sells to us which would be particularly affected include dairy produce (£25 million), meat (£31 million), wheat (£11 million), sugar (£17 million), all types of fruit (£18 million), and lead and zinc (£14 million). The Australian Government estimate that, if we entered EEC without any safeguards for them, their exports to us would drop by £80 million.

5. One-seventh of the exports of Canada come to us. Canadian Ministers told us last week that three-quarters of these exports (i.e. about £300 million) would face tariffs or levies if we entered EEC including practically all their cereal and fishery exports to us, over one-third of their other agricultural products, almost 90 per cent of the semi and fully manufactured goods they send us and half their exports to us of such items as newsprint, aluminium and wood pulp.

6. A number of small Commonwealth countries and dependencies rely heavily on sugar exports for their livelihood. Mauritius, Barbados and St. Kitts derive 90 per cent of their export earnings from sugar, and Guyana and Fiji over 50 per cent. For Trinidad and Jamaica the proportion is 25 per cent. The Commonwealth Sugar Agreement (CSA), which runs until 1974, ensures that these producers can sell agreed quantities of sugar to Britain at a price (at present £47 10s per ton) which covers their production costs and shows them a profit. This compares with the present world price of under £20 a ton. The Community is a net exporter of sugar and has a surplus of 400,000 tons compared with our total imports of 2.1 million tons. If we abandoned the CSA on joining the Community, much of the Commonwealth sugar which we now import would have to be sold at world prices. This would almost certainly result in the economic collapse of the countries concerned coupled with widespread unemployment and political unrest.

7. As regards the rest of the Commonwealth, they are mainly developing countries and even a small fall in exports to Britain could have unfortunate repercussions in terms of balance of payments and the prosperity of particular areas and communities if we could not secure safeguards for them. We are directly responsible for Hong Kong, 20 per cent of whose exports would be affected.

What the Commonwealth Governments are likely to ask us to secure

8. (a) New Zealand. Permanent arrangements to maintain the level of New Zealand's exports to Britain or to the enlarged Community (or her export earnings).

(b) Australia. The same, except to the extent that prices and access to the enlarged Community for cereals, meat, dairy produce and sugar are assured by international commodity agreements.

(c) Canada. The same, but with little expectation that we could secure more than transitional arrangements.
(d) **Independent African and Caribbean countries.** The opportunity, as in the 1961-63 negotiations, of applying under Part IV of the Treaty of Rome for either

(i) **comprehensive association,** like the signatories of the Yaoundé Convention, or

(ii) **limited association,** like Nigeria, or

(iii) **trade agreements with the enlarged Community.**

A Morocco-type Protocol, as provisionally agreed in 1962, for Botswana and Lesotho.

(e) **Independent Asian Commonwealth countries.** Association as in (d), with the possible exception of Malaysia which would be affected only marginally by our entry into the Community. India will want us to secure certain tariff reductions on specific commodities and access for cotton textiles.

(f) **Cyprus and Malta.** Association under Article 238 of the Rome Treaty (i.e., similar to the association arrangements which the Six have concluded with Greece and Turkey).

(g) **Dependent Territories and Associated States in the Caribbean.** Association under Part IV of the Rome Treaty, as provisionally agreed in 1962 except for:

(i) **Swaziland.** A Morocco-type Protocol as provisionally agreed in 1962.

(ii) **Gibraltar.** Transitional arrangements to allow the Colony to adopt her free port status to her new position as an integral part of the Community.

(h) **Sugar producing countries.**

Continuation of the Commonwealth Sugar Agreement until 1974 and if possible thereafter; if not possible its replacement by arrangements equally favourable to Commonwealth producers.

(i) **Irish Republic.**

The Irish intend to apply to join EEC if we do and would conduct their own negotiations. If they are accepted there is no problem at this stage.

9. This is not an exhaustive list. In particular, we can expect to be asked by the Commonwealth Governments concerned to make special arrangements to safeguard exports to Britain of tobacco and bananas and, in the case of certain African countries, their exports of temperate agricultural products.
What is likely to be negotiable

10. It is clear that we could not expect to secure everything in the above list. How much we would obtain for Commonwealth countries is at this stage largely a matter of guesswork. The areas in which we should have great difficulty in satisfying Commonwealth desires, and in which we might fail, include the following:–

(a) New Zealand We might have a hard struggle to secure permanent as distinct from long-term arrangements for her.

(b) Australia and Canada We should probably be unable to secure any permanent derogations for them and the outcome would probably be transitional periods for the gradual application of the levy and/or the common external tariff, with perhaps some reduced duty quotas on a few industrial raw materials.

(c) Independent Asian Commonwealth countries There would be no prospect of obtaining association for them. All that we would be likely to secure are the arrangements agreed provisionally with the Six in 1962, i.e. comprehensive trade agreements and some tariff reductions and quota arrangements for them.

(d) Hong Kong Again, there would be no prospect of obtaining association and we might have to settle for an arrangement under which the common external tariff would be applied to imports into Britain from Hong Kong over a transitional period, with provision for review if damage was being caused to her.

(e) Sugar. We might have great difficulty in persuading the Six to agree to adequate arrangements for the sugar producing islands.

11. If these guesses are correct, we should have considerable difficulty with certain Commonwealth Governments, particularly Australia, the sugar producing islands, and, perhaps for certain commodities, India. If the guesses prove over-optimistic, our entry could inflict severe economic damage not only upon these countries but also on New Zealand and perhaps Cyprus, Malta and the Caribbean countries. In either event, a number of Commonwealth countries would be likely to claim, with some justice, that we had not fulfilled our commitment to safeguard their essential interests.

12. What is said above concerns only the effect our entry into the EEC would have upon the interests of Commonwealth countries and their exports to us. But of course the abolition of the preferences we give to Commonwealth countries and the erection of reverse preferences against them in our market would inevitably lead them to terminate the preferences they accord to us. This would lead to major reductions in our exports to the Commonwealth. Mr. McEwen, the Deputy Prime Minister of Australia, told me yesterday that he estimates that we would lose £160 million of exports to Australia which is about half our present level of exports to her. Though I do not necessarily accept his figure, it is a fact that nearly £1,000 million of our total exports enjoy preferences.

H. W. B.

Commonwealth Office, S.W.1.
25th April, 1967
CABINET

SCOTTISH AGRICULTURE AND THE COMMON MARKET

Memorandum by the Secretary of State for Scotland

This memorandum attempts a brief summary of the possible implications for Scottish agriculture of accepting the Common Agricultural Policy of the EEC as it stands. My reason for circulating this paper is to emphasise the crucial importance of the Hill and Upland Sector not only in the Scottish farming structure but to the whole Scottish economy.

2. The following table shows that of the 25,000 full-time units which comprise Scottish agriculture, 40 per cent are hill and upland farms and they contribute about one-third of Scottish farm output.

<table>
<thead>
<tr>
<th>Type</th>
<th>No. of full-time units</th>
<th>Proportion %</th>
<th>Agric. Area, %</th>
<th>Output %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainly Dairying</td>
<td>6,925</td>
<td>28</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Arable</td>
<td>6,640</td>
<td>27</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>Intensive</td>
<td>1,240</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Hill &amp; Upland</td>
<td>9,770</td>
<td>40</td>
<td>36</td>
<td>93</td>
</tr>
<tr>
<td>Total</td>
<td>24,575</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

3. These areas rely for their income almost entirely on the sale of store cattle and store sheep (for which there is no price guarantee) supplemented by the hill grants - the Hill Sheep, Hill Cattle and Winter Keep grants. The hill grants are in effect a recognition that hill and upland farmers get little or no direct benefit from the price guarantee. The return from the market for store cattle and store sheep depends in the final analysis on the strength of demand for beef and lamb and on the level of the guaranteed prices which the lowland fattener receives for the end product.
4. There seems a good prospect that the end price would improve both for cattle and sheep under the Common Agricultural Policy (C.A.P.) and this would be a favourable factor for the hills and uplands since it would tend to improve the store markets. The factor which makes hill and upland farming extremely vulnerable is that their net farm income (on which these farmers have to live and finance their enterprises), and which for most farms is within the range of £750 to £1,500 per annum, is entirely dependent on production grants, essentially the three hill grants. Without the hill grants very few hill or upland farmers would show any profit at all. Including the additional assistance given at the 1967 Annual Review the hill grants now provide total assistance of about £9 million in Scotland.

5. Apart from the hill grants, hill farms and particularly upland farms obtain substantial benefit from the Calf Subsidy (and upland farms, until its recent abolition also benefited considerably from the Ploughing Grant - included in the above table under "other grants"). Taking all the production grants together, the hill and upland farms are of course the main beneficiaries, since the arable and dairy farms get the direct benefit of the price guarantees.

6. Speaking generally, the Border hill and upland farms are better endowed than their counterparts in the Highlands. It is, however, a matter of degree. If the hill grants were totally abolished without any replacement, then there is no doubt that the vast majority of hill and upland farmers would face a disastrous situation which would quickly result in a very substantial loss of confidence in the future of farming in these areas the continued existence of which has considerable social significance. It would also have a pronounced impact on lowland farming systems since these latter areas would increasingly have to breed and rear their own store cattle and store sheep.

7. The Scottish farming position in respect of the other main types, dairying, arable and intensive bears a much closer resemblance to the circumstances in other parts of the United Kingdom, and may be briefly summarised as follows.

8. There are about 6,900 dairy farms mainly in the south-west of Scotland contributing about 33 per cent of Scottish output of which nearly two-thirds is milk. Possibly 40 per cent of our milk producers are on goodish land and are relatively large enterprises comprising about 60 per cent of the total Scottish dairy herd. The other 60 per cent of our milk producers comprising the remaining 40 per cent of the cows include the upland dairies on inferior land and with on the whole smaller enterprises, sometimes of a family kind. The larger farms, after surmounting the difficulties of adjustment, should be able to hold their own since their standard of management is generally high. The smaller dairy farms located mainly in the central belt of Scotland - north Ayrshire and Lanarkshire in particular - would be in very considerable difficulty and circumstances might well force many of them out of dairying and into livestock rearing unless they could substantially enlarge their enterprises.
9. There are about 6,640 arable farms, mainly in the east of Scotland, and mostly large or medium-sized units; they tend to be smaller in size and poorer in land quality in the North-east. Arable farms contribute between 25 and 30 per cent of Scottish output. Of their main enterprises, cereals should become substantially more profitable and cattle and perhaps sheep fattening rather more profitable. Potatoes and sugar beet are uncertain and might go either way. On balance this category of farming should gain and their main problem would be one of adjustment to the new conditions. A reasonable transition period, together with replanning grants, would help with these problems.

10. There are about 1,200 intensive units specialising in pigs, poultry and horticulture. Generally, these forms of production would meet increasingly severe competition, but given the necessary scale of production and efficiency of management, the poultry and egg specialists should be able to meet the challenge. In the case of bacon pig production (as distinct from fresh pork which is more an English speciality and enjoys a high degree of natural protection) the going is likely to be tough particularly for the small and medium-sized producer, but the more efficient bacon pig specialist should survive. Our raspberry growers should at least maintain their position, but there is more of a question mark concerning tomatoes.

11. The above more detailed assessment of the Scottish farming situation illustrates the need for the safeguards mentioned in Part II of C(67) 44. In respect of Scottish agriculture the vital safeguards are:

(a) retention of the hill grants without limit of time, either in their present form or in some other form of roughly equivalent worth;

(b) replanning grants to assist those enterprises which have difficult problems of adjustment during the transition period;

(c) maintenance of existing arrangements for liquid milk;

(d) a transition period of at least seven years.

W.R.

Scottish Office, Whitehall, S.W.1.

26th April, 1967
CABINET

FACTUAL QUESTIONS BY MINISTERS

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate the attached answers prepared by officials to factual questions by Ministers in accordance with the procedure agreed at the Cabinet meeting on 13th April, 1967 (CC(67) 20th Conclusions, Minute 3).

(Signed) BURKE TREND

Cabinet Office, S.W.1.
26th April, 1967
FACTUAL QUESTIONS BY MINISTERS

President of the Board of Trade

Q. Effect on retail prices of individual foodstuffs

The President has asked for a full list of the actual rises in retail prices of individual foodstuffs in the United Kingdom likely to follow one adoption of the common agricultural policy.

A. It is not possible to give precise estimates of changes in the levels of retail prices for various foodstuffs here if the United Kingdom were to accept the common agricultural policy as it stands.

The reasons are:

(i) there are no "common retail prices" for the EEC. Their price aims (where formulated for certain commodities) relate to the wholesale stage, i.e. at the ports or wholesale markets;

(ii) in making our general assessment of a 10 per cent to 14 per cent increase in the cost of food at the retail level, we estimated the effect at the wholesale stage and then allowed for a substantial range in processors', distributors and retailers' mark-up;

(iii) except for a few relatively uniform commodities, e.g. butter and eggs, even at the wholesale level, the general price levels quoted in the EEC countries relate to standards and qualities of products which are not necessarily the same as those generally marketed in this country.

Given these limitations, all that can be done is to provide estimates of the ranges of possible retail price levels for the most important food items, broadly comparable to the range of price increases for food generally of 10 per cent to 14 per cent. In making calculations it has been necessary to take current retail prices in the United Kingdom and to assume the full effect of accepting the common agricultural policy on these price levels as if it had come into force today. The calculations are attached at Annex A.
9. Statistical Work

The President would like to be informed of the progress of any statistical work (including details and methods) on EEC problems undertaken by Departments.

A. It is understood that, in asking this question, the President had two interests in mind. Firstly he wished to know whether any departmental statistical work had been undertaken on the balance of payments effect on entry into Europe; and secondly he wanted to see the answers to any questions of a statistical character raised by Ministers in the present context. The report on the effect of entry into the EEC on United Kingdom balance of payments circulated to the Cabinet under cover of a note by the Secretary of the Cabinet (C(67) 61) answers the first part of the President's question. As far as the second part is concerned, the answers to the questions put by other Ministers are contained in this paper. Lastly, while the Central Statistical Office have maintained regular contacts on publicly available statistics and statistical techniques with the statisticians in the Commission in Brussels, they have not been asked to undertake any work directed specifically towards the implications of United Kingdom entry into the Community.

Minister of Agriculture, Fisheries and Food

9. Possibility of mitigating effects of higher food prices

The Exchequer saving on agriculture has been estimated at possibly as much as £155 million, depending on the future of production grants. Is it possible to make any assessment of the net total Exchequer result of joining the EEC, e.g. taking in such things as tariff revenue, Community taxation measures and all the other relevant factors?

A. The various elements relevant to the Exchequer impact of membership of the EEC are discussed in the Annex B. While there would be savings in respect of agricultural support, there would probably be a net loss of tariff revenue overall and expenditure, some of it additional, on our subscriptions to the EEC and EURATOM Budgets and to the ECSU, the European Development Fund, the European Investment Bank, and the European Social Fund. A major factor in the total Exchequer picture would be the effects of our discontinuing purchase tax and adopting the EEC system of value-added tax. This is an area of the greatest uncertainty. Although the Six have now agreed on the system to be introduced by member countries by 1st January, 1970, they have not yet agreed on whether, or when, the rates of tax should be harmonised and at what level, nor on the question of coverage.

It is impossible to quantify what these various elements would cost the Exchequer. Nor can we say what the yield of the value-added tax would be without knowing the rates and the coverage. To make any estimates would involve assumptions about the conditions of membership which we shall be
able to negotiate and about the course of trade and of prices in the period after we had become members. This would involve a double tier of speculative estimates, the one based on the other. Moreover, for a comprehensive survey, we should have to extend the inquiry into fields where EEC policy has not yet been settled, notably in respect of value-added tax. On the other hand, an inquiry into the Exchequer impact which was not comprehensive could only be misleading.

The only answer which can be given to the Minister's question at this stage, therefore, is to identify the various elements which can be distinguished within the total Exchequer picture. This is done in the Annex. While some of the constituent elements can be quantified, if only very approximately, some of the most important cannot be measured, partly because this depends on the course of any membership negotiations and partly because the relevant decisions have not yet been taken by the Six themselves. Moreover, some of the Exchequer effects would be felt at once and others only over a period of years. Our conclusion, therefore, is that, particularly because of the overwhelming uncertainty in the taxation field, no overall estimate is possible.

**Q. Effects on Commonwealth immigrants**

Is it a fact that accession to the Community will not involve any alteration in Her Majesty's Government's present policy of granting United Kingdom nationality, as of right, to immigrants from the Commonwealth who apply after five years' residence in the United Kingdom?

**A.** Accession to EEC will not require any alteration in our policy, as EEC basic regulations stand at present; and, for our own part, we have no reason to propose any alteration in that policy as a consequence of entry into EEC. No one can say whether the EEC would wish to call our present arrangements in question if we were to join.

**Q. Total of balance of payments cost**

Allowing for the speculation necessary, can we be told what the extreme range of total balance of payments cost might be; and whether, even at the lowest end, it is consistent in the short term with the recovery and strengthening of the economy?

**A.** This question is answered by the report on the effect of entry into the EEC on United Kingdom balance of payments circulated to the Cabinet under cover of a note by the Secretary of the Cabinet (C(67) 61).
Secretary of State for Education and Science

G. The Community’s pragmatic methods of working

In the discussions the Prime Minister and the Foreign Secretary had in the capitals of the Six they gained the impression that the Community has operated in practice in a considerably more pragmatic and empirical fashion than the Treaty of Rome would suggest. Can any factual examples be given of how such pragmatism has operated in fields which would be likely to be of particular interest to the United Kingdom?

A. In their efforts to establish a Community, the existing Six member countries of the EEC have, from the start, adopted a pragmatic approach. First, there was the pilot project of the European Coal and Steel Community. The greater degree of responsibility given (at least in theory) to the central institutions under the ECSC Treaty was regarded as inappropriate for a Community covering the economies of member countries as a whole. In consequence, when the Treaties establishing the EEC and Euratom were negotiated, more power was kept in the hands of the Ministerial Council (the body on which member Governments are represented). The present proposal to amalgamate the three Community executives, and perhaps later to amalgamate the three Treaties, is a further example of the Community’s readiness to change with changing needs.

In the negotiation of the Treaties, it proved necessary to add a number of special provisions making exceptions in favour of one or more member countries. In the drawing up of the large number of regulations and directives so far agreed between the Six, the same overall principles have applied. It has not been in the interest of the Community as a whole to override the special interests of any member country: neither before nor after the crisis in the Community in 1965-66 has a majority vote ever been taken against important interests of any member state. Agreement has been reached unanimously, and the necessary concessions have been made to look after the interests of all member countries, either in the regulations or by derogation from them. Further, when arrangements have shown themselves to be inadequate in practice, they have been changed. Finally there are a number of cases where (sometimes all) member countries have been, or are, in breach of the Treaty and regulations, and where this has been tacitly accepted in the general interest.

A list of the derogations and exceptions so far agreed or admitted in the development of the Community would occupy a very considerable body of paper. By way of illustration, detailed notes on about seventy such derogations and exceptions, some fifty of them in the field of agriculture, are attached at Annex C.
For example, duty quotas have been, and continue to be, granted to member states to enable them to import items, usually those where Community production falls short of consumption, at rates of duty below the common external tariff. In addition, a provision allowing a member state to postpone the adoption of the common external tariff in certain circumstances on up to 5 per cent of the value of its total imports from third countries has been used.

Escape clauses in the directives on capital movements have enabled the French, and other member states, to avoid dismantling their existing exchange control regimes. In this field, some Community countries have drawn our attention to the provisions in the Treaty which would allow measures to be taken to avoid difficulties arising from differing degrees of free movement of capital in different member states. In the field of regional development, Belgium has recently provided for state aid to a number of regions where there is no economic but only political justification; and the Commission, and the Community, have accepted this.

In the field of taxation, although the principle of a common system of added value tax has been accepted, a wide range of exceptions will be allowed in its application.

Since two thirds or more of the Community's work has been in agriculture, it is natural that exceptions and derogations should be most widespread in the agricultural field. Examples are:

(a) a deficiency payments system for vegetable oils;
(b) the payment of consumer subsidies on a national basis;
(c) the radical change in the Community's original arrangements for fruit and vegetables, to meet Italian interests;
(d) the duty free import of live cattle into Italy, without limit;
(e) the granting of a higher proportion of expenditure on structural projects from Community funds for Italy;
(f) the payment of disguised subsidies to milk producers in Germany;
(g) a number of cases in which transitional subsidies or compensation have been paid to farmers in individual member countries.

A number of these exceptions and derogations, however, affect commodities for which a single market has not yet been established; and some are temporary or taper off.
By definition these derogations and exceptions have been designed to meet the interests of existing member countries. For countries seeking membership, two conclusions can be drawn—

(i) once a country joins the Community, its interests become the interests of the Community as a whole, in the sense that it is not to the advantage of the Community as a whole that any one of its members should suffer unreasonably by the operation of the Community or should feel that it is so suffering. The development of the Community depends on the successful and willing cooperation of all its members; and the development of the Community has become a major national interest for all who are inside it, even for France. As Signor Fanfani put it to the Prime Minister and the Foreign Secretary during their visit to Rome in January, whereas wounds (he had Italy's experience in mind) might be inflicted by the Common Agricultural Policy, there was a salvo to be found for them;

(ii) because the safeguarding of individual national interests has been achieved by adopting, or making exception to, the initial rules on an ad hoc basis, the existing members of the Community find it difficult to sympathise with the view that everything should be defined clearly and permanently in advance. Time and again, the Rome Treaty states a general principle in this or that field of operation, only to provide for numerous exceptions and derogations to the general principle. It is in this way that, without the signatories of the Treaty having been able to foresee problems years in advance, the Community has been able to develop up to now, empirically and untidily but nevertheless successfully from the point of view of its members.
### Present U.K. and Estimate of the Possible Range of Retail Prices under E.E.C. Conditions (a)

<table>
<thead>
<tr>
<th>Item</th>
<th>Average levels of Retail Prices in U.K. in 1966 (shillings &amp; pence per lb.)</th>
<th>Possible range of retail prices under E.E.C. conditions (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef (average all qualities)</td>
<td>5/-</td>
<td>7/- to 8/-</td>
</tr>
<tr>
<td>Pork (&quot; )</td>
<td>4/8</td>
<td>about 5/6 (a)</td>
</tr>
<tr>
<td>Bacon (&quot; )</td>
<td>4/8</td>
<td>about 5/6 (a)</td>
</tr>
<tr>
<td>Mutton &amp; Lamb (&quot; )</td>
<td>4/2</td>
<td>4/6 to 5/-</td>
</tr>
<tr>
<td>Poultry Meat (Broilers)</td>
<td>3/7</td>
<td>about 3/10(b)</td>
</tr>
<tr>
<td>White Fish (Fresh)</td>
<td>3/10</td>
<td>4/3 to 4/8</td>
</tr>
<tr>
<td>Liquid Milk (d. per pint)</td>
<td>9 1/2 d.</td>
<td>about 6 1/2 d.</td>
</tr>
<tr>
<td>Butter (average all qualities)</td>
<td>3/6</td>
<td>6/6 to 7/6</td>
</tr>
<tr>
<td>Cheese (Cheddar)</td>
<td>3/5</td>
<td>4/- to 5/6 (c)</td>
</tr>
<tr>
<td>Margarine</td>
<td>2/1</td>
<td>some increase likely</td>
</tr>
<tr>
<td>Eggs (per dozen)</td>
<td>3/8</td>
<td>about the same (b)</td>
</tr>
<tr>
<td>Sugar</td>
<td>6 1/2 d.</td>
<td>10d. to 11d.</td>
</tr>
<tr>
<td>Bread (standard white loaf)</td>
<td>9 1/2 d.</td>
<td>about 11d.</td>
</tr>
<tr>
<td>Flour</td>
<td>7 1/2 d.</td>
<td>about 9d.</td>
</tr>
<tr>
<td>Potatoes</td>
<td>5 1/2 d.</td>
<td>probably marginally less</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>2/-</td>
<td>about 1/9</td>
</tr>
<tr>
<td>Cucumbers</td>
<td>1/10</td>
<td>1/8</td>
</tr>
<tr>
<td>Carrots</td>
<td>6 1/2 d.</td>
<td>about same or marginally less</td>
</tr>
<tr>
<td>Orions</td>
<td>10d.</td>
<td>less</td>
</tr>
<tr>
<td>Cabbage</td>
<td>7d.</td>
<td></td>
</tr>
<tr>
<td>Apples</td>
<td>1/3</td>
<td>very seasonally but about 1s.</td>
</tr>
<tr>
<td>Corned Meat</td>
<td>5/2</td>
<td>about 6/-</td>
</tr>
<tr>
<td>Pork Sausages</td>
<td>3/5</td>
<td>about 3/10</td>
</tr>
<tr>
<td>Canned Salmon</td>
<td>8/4</td>
<td>some increase likely</td>
</tr>
<tr>
<td>Canned Fruit</td>
<td>1/7</td>
<td>about same</td>
</tr>
<tr>
<td>Tea</td>
<td>6/2</td>
<td>about same</td>
</tr>
<tr>
<td>Coffee</td>
<td>8/-</td>
<td>about same</td>
</tr>
</tbody>
</table>

(a) These estimates relate to the effects of the Common Agricultural Policy (C.A.P.) only and ignore the effect of other factors such as the possibility of a value added tax.

(b) The likely levels of pigmeat, poultry and eggs prices can only be forecast within very broad limits since price levels will vary according to the incidence of production and price cycles. The prices above give orders of magnitude of those which might obtain over a number of years.

(c) Price levels for Cheddar cheese will depend upon whether imports are bound under the G.A.T.T. regulations. If so, then prices may rise to only a small extent whereas if price levels are determined largely by the C.A.P. milk products regulation then prices could rise substantially.
ANNEX B

THE EFFECT ON THE EXCHEQUER OF UNITED KINGDOM MEMBERSHIP OF THE EEC

The main fields in which there would be effects on the Exchequer are-

(1) agricultural support;
(ii) tariff revenue;
(iii) changes in tax revenue;
(iv) subscriptions to Community organisations.

These are further considered separately below.

Agricultural Support

The change to the Community system of agricultural support would bring savings to the Exchequer. If the cost of present Exchequer support to agriculture is taken as £240 million per annum, and £20 million is added for the amount of levy receipts that we should probably be allowed to retain, the gross benefit to the Exchequer would be £260 million per annum. From this must be deducted the cost of the production grants that we could expect to retain (£40 million) and the amount of our assumed contribution to the Agricultural Fund (£65 million). This means a net saving of the order of £155 million at the end of the transitional period. The two main uncertainties in this calculation are production grants and the amount of our contributions to the Agricultural Fund. As regards the latter we may hope to be able to negotiate some mitigation in our favour. We may also hope to obtain Community finance for some of our production grants out of the Guarantee Fund.

Tariff Revenue

Receipts from protective duties at present charged on imports from Community countries, are probably of the order of £70 million a year. This figure would, however, be only one element in a calculation of the revenue effect of tariff changes if we joined the EEC. These changes would include not only the eventual abolition of tariffs on imports from EEC countries, but also the introduction of the Common External Tariff on imports from non-EEC countries at present duty-free. Account would need to be taken of the effect of the Kennedy Round both on our own tariff and on that of the EEC. Also the pattern of imports might be markedly different after we joined the Community from the present pattern and would depend on many factors, including the nature of demand and the overall level of economic activity in this country.
Some of these factors would lead to losses of tariff revenue
and some to gains, and with so many imponderables it is impossible
to make a meaningful calculation of the overall effect.

Changes in tax revenue

This is a vitally important field, but there are very great uncertainties. The Community has made little progress towards harmonising direct taxation, but in the field of indirect taxation the EEC Council has recently adopted two Directives to establish a harmonised Community system of value added tax. Member States are under an obligation to introduce this system by 1st January 1970. Although the ultimate aim of the Six is to harmonise tax rates and to abolish fiscal frontiers between themselves, that stage has not yet been reached and it is only the system of taxation on which they have agreed.

The question of an added value turnover tax has been under study in Whitehall for some months, but it is impossible to anticipate what decisions United Kingdom Ministers may eventually take on this matter. A change to the Community's system would have far-reaching effects on tax revenue and taxation policy.

Subscriptions to Community organisations

(a) The EEC and EURATOM Budgets

Members States are required by the Treaty to contribute to the running expenses of the EEC Commission and the EURATOM Commission (the ECSC is financed by direct income). Total EEC and EURATOM running expenses in 1967 were estimated at £79 million, but if the United Kingdom were a member it is to be assumed that the existing staff would be expanded and hence that we would need to contribute our share of a somewhat larger total figure. This might work out at something like £7 million per annum.

(b) EURATOM (research and development)

The main objective of EURATOM is to encourage the development of peaceful applications of nuclear energy by co-ordinating the activities of its members. In 1962 it was estimated that our contribution to research and development might amount to between £9 million and £11 million and there is no reason to believe that it would now be greater. Ways and means of providing part of this contribution in kind might be possible by making available to our EURATOM partners the facilities of some of our research establishments in the United Kingdom.
(c) The European Coal and Steel Community

The aims of the ECSC are to promote industrial expansion by creating a common market in coal and steel. On accession to it we would become liable for a contribution to the High Authority levy; on the basis that this was at the present rate of 0.25 per cent of the average value of products subject to the Treaty this would amount to £4 million to £5 million. But the Treaty empowers the High Authority to impose a levy of up to 1 per cent and there is at present a proposal under consideration to raise the rate from 0.25 per cent to 0.30 per cent or even 0.35 per cent. This would increase the size of the United Kingdom contribution accordingly.

We might also have to pay an "entrance fee" of anything between £5 million and £30 million for the right to share in existing ECSC funds built up in the past from the annual levy. We might also have to accede to proposals for a Coking Coal Compensation Fund, the setting up of which is being studied. This might involve an additional contribution of about £1.5 million per annum.

(d) The European Development Fund

The Treaty of Rome provided for the creation of a Development Fund for the benefit of the EEC's associated overseas territories. Total subscriptions and allocations for the first five years of the Fund (1958 to 1962 inclusive) amounted each to £581 million. Of the latter, £511 million (88 per cent) was allocated to former French colonial territories. In July 1963 the Six and the AOT's signed a Convention of Association which provided for a total of £730 million to be disbursed by the Development Fund to the AOT's during a second five year period, up to the end of 1967. Of the subscriptions to this £730 million, France and Germany each subscribed £216 million.

The European Development Fund constitutes an element in the Yaounde Convention which governs relations between the Community and its African associates. The Convention is due to expire in 1969 but it will presumably be replaced by comparable arrangements including a fund for providing development aid. If we joined the Community it seems highly likely that we should have to accede to the Yaounde Convention or its successor since this is virtually an integral part of the Treaty of Rome. It is impossible at this stage to estimate what our financial

(3)
commitment would be. This would depend on the size of the fund in the post-1969 period, including the number and economic position of the new Commonwealth associates. It would also be affected by the contributions of any other developed new members. A new "key" would have to be worked out to determine the percentage contribution of each member of the enlarged Community and a new allocation to the associates agreed. Our aims would be to ensure that our contribution did not exceed the total sum which Commonwealth associates received from the Fund and to try to reach agreement, so far as this might appear negotiable, that part of the contribution of the existing and the new members of the Community (other than Britain) was applied for the benefit of the new associates. Subject to the outcome of negotiation our total aid programme would probably have to be increased to take account of our contribution to the European Development Fund.

The European Investment Bank

The Bank was set up when the Treaty of Rome entered into force and its intended function is to facilitate economic expansion of the Community. The Statute of the Bank lays down that this task should be achieved by financing projects in the following fields -

(a) the development of under-developed regions of the Community;
(b) modernisation or conversion of enterprises or creation of new activities called for by the progressive establishment of the Common Market;
(c) projects of common interest to several Member countries.

The Bank has made a large number of loans to private and public enterprises in Member States and has also provided some credits for associated overseas territories.

Participation in the Bank is limited to EEC Member countries, and new Full Members of the EEC must also become members of the Bank. The subscribed capital of the Bank is 1,000 million Units of account (=dollars). France and Germany have each to subscribe 300 million units, Italy 240 million units and Benelux countries the remainder. When a new member joins the Bank its subscription must be additional to the existing total of 1,000 million units of account. Only one-quarter of the total (i.e. 250 million units of account or £90 million) has so far been
paid up. The unpaid balance can be called for in case of need, but the Bank is expected to obtain the major part of its resources on international capital markets by issuing loans, mainly in the form of bonds. Nearly all of the issues made by the Bank have been raised in the six EEC countries. At the end of 1965 the Bank had raised a total of 217 million units of account on the market.

(f) The European Social Fund

The purpose of this Fund, set up by the Treaty of Rome, is to promote employment opportunities in the Community, and the geographical and occupational mobility of workers. For this purpose it is authorised to refund, on application from Member States, 50 per cent of expenditure on the occupational training and resettlement of unemployed or under-employed workers, or on aid to workers whose employment is reduced or suspended while an enterprise is being converted from one line of production to another. Proposals made in 1965 to improve the effectiveness of the Fund are still under consideration. As members of the Community we should be required to contribute to the Fund and would receive certain reimbursements from it. The net United Kingdom contribution to the Fund at current rates has, on a comparison with West Germany's experience, been estimated to be about £250,000 per annum.
1. In the field of the Customs Union there are a large number of cases where member states have legitimately, as a result of special provisions made by the Treaty, escaped the full rigour of the Treaty’s basic provisions. (To the best of our knowledge there have not in this sector been any outright breaches of the Treaty).

2. One example is under Article 17(4) which allows member states to retain a particular fiscal customs duty for up to 6 years after the coming into force of the Treaty where its replacement by an internal charge would cause serious difficulty.

3. In Article 19(2) in the calculation of the COT, specific exception was made to allow calculations to be based on the duties which would have been applied had the Italians not temporarily reduced their duties by 10 per cent.

4. The principal examples lie in the provisions of Article 25 which lays down the rules for the granting of national tariff quotas of products on a number of lists annexed to the Treaty itself. Products on lists B, C, and D can be the object of tariff quotas granted by the Council on a proposal of the Commission and those on lists E and F and Annex II (agricultural products) can be the object of tariff quotas granted at the direction of the Commission without the intervention of the Council. The main purpose of these provisions has been to alleviate the problems of member states approximating towards the Common External Tariff and notably the problems of those member states (Germany and Benelux) moving up towards the CET. They are generally limited to cases where Community production falls short of consumption and where supplies have traditionally come from outside the Community. Tariff quotas under Article 25 have been granted in large numbers on an annual basis since the entry into force of the Treaty; the number of quotas granted, though not always their size has, however steadily diminished under the constant pressure of the Commission to reduce these exceptions to the minimum.

5. In addition to the provisions for national tariff quotas, Article 26 allows the Commission to authorise a member state to postpone raising or lowering its duties as provided for elsewhere in the Treaty, up to a maximum of 5 per cent of the value of its total imports from third countries. This provision has been used, although less frequently than that for tariff quotas; it was most recently used to enable the Germans to avoid raising their tariff on a number of tariff positions where the 20 per cent notional reduction on the Common External Tariff was no longer being maintained.
6. Finally, the Council itself can unanimously modify or suspend duties in the Common External Tariff under Article 28. This procedure has been used to regularise the prolongation of the 20 per cent notional reduction on the Common External Tariff, on those positions which are the object of a full offer in the Kennedy Round. It has also been used to suspend tariffs on tea and tropical hardwoods. It is being increasingly used by the Community in both bilateral and multilateral trade negotiations to grant Community tariff quotas (as distinct from the national tariff quotas referred to in paragraph 4 above).

Article 37 - State Monopolies

7. In so far as the requirement "to adjust any state trading monopolies, so as to ensure that...no discrimination exists..." does not need to have been completed until the end of the transitional period, member states are not at present in breach of the Treaty. But paragraph 1 of the Article did provide that the adjustment was to be gradual and so far there has been little sign of any movement towards the elimination of discrimination. The Commission has undertaken studies of the various problems involved and has recently worked out some proposals for submission to member states concerned, but admits that these are but a step towards implementing the principles enshrined in the Treaty, and do not provide final solutions.

8. It is very much open to question whether the wide range of state monopolies (the Italian monopoly on tobacco, salt, cigarette papers, lighters and flints; the French monopoly on tobacco, petroleum, potassium and explosives; the match monopolies in France, Italy and Germany, to mention just some of them) will all be "adjusted" to conform with the Treaty by the end of the transitional period. Some of the state monopolies are of course linked with other aspects of Community policy - the French import regime for petrol with the Community energy policy, and the French and Italian tobacco monopolies with the organisation of the tobacco market under the Common Agricultural Policy.

9. Articles 38-47 - Agriculture

See the Appendix to this Annex.
Articles 48-51 - Labour Mobility

10. Article 3(c) lists the abolition of obstacles to the free movement of persons, services and capital as one of the Community's main tasks. Article 48 provides that by no later than 1970 workers should have the right to accept offers of employment actually made and have freedom of movement and residence for this purpose. (Employment in public administration is excluded). Consultations between the Commission and government experts have begun over the text of regulations to supersede Regulation 38/64, currently in force and due to last until 31st December 1967 but these are in their early stages. The Regulation in its present form abolished the priority of national labour markets, but member states have the power, under the transitional provisions for departing from the provisions of the Treaty to re-establish national priority for jobs or areas with a manpower surplus by granting priority for two weeks to national workers for filling available posts.

11. The existing regulations have in practice caused no difficulty to any member state. If they did, there are safeguards which could be applied. Germany, Italy and Luxembourg did not use this power in 1966. The Netherlands used it in the first quarter of the year only, in respect of musicians and artistes. Belgium invoked the escape clause in respect of mining employment in three provinces in the first three-quarters of the year, but not in the last. France invoked the escape clause throughout the year in regard to certain engineering occupations, agricultural work and unskilled office work in respect of specified areas. It seems likely that the escape clause will disappear in the revised Regulation that will be adopted.

Article 55 - Right of Establishment

12. Under Article 55, activities involving any exercise of public authority are excluded from the right of establishment. The Council may decide that the right of establishment shall not apply to certain activities.

Articles 67-73 - Capital Movements

13. The Treaty lays very few specific obligations on the member states in this field. The two directives on capital movements agreed by the Council in 1961 and 1962 do involve certain obligations but their terms had taken into account the control then operated by the French and other member states.
The extremely slow progress which is being made in the establishment of a common transport policy (as a result of the failure of the Council to take decisions on a whole range of Commission proposals, one or two of which date back to 1962) results in member states being able to continue to operate systems and pursue policies which are incompatible with the Treaty provisions without, however, being technically in breach. In these circumstances, the ability of the Commission to require a particular practice to be abandoned is very limited. They have, however, been able to act in a few cases. One of them (still however, the subject of dispute between the Commission and the Federal German Government) concerns the special tariffs of the German Federal railways to benefit the economy of the Saar. The Commission does not share the German view that these are "competitive tariffs" permitted by Article 80(iii) and justified in the light of threatened competition from the construction of a Saar-Rhine Palatinate Canal.

The process by which the Commission under the terms of Article 93 is required to examine all systems of aid and to take action in those cases in which they find the aid to be incompatible with the Treaty is a slow and laborious one which will be going on for a long time. In the two years up to March 1966 the Commission pronounced on just over 80 cases but of course they examined a very much greater number. Although the few reports which one sees of member states being formally requested to abandon a particular form of aid (and in most cases reaching agreement with the Commission about doing so) clearly indicate that there are still many state aids which are incompatible with the provisions of the Treaty, it is not possible to judge exactly to what extent this is so. What does seem clear is that the Commission is prepared to stretch the provisions of the Treaty pretty far in order to find cover for aids which one would have expected to be found incompatible.

Article 92(3a) (economic development of particular regions) appears to be a useful escape clause. Under a law of 14th July 1966, the Belgian Government extended the operation of an earlier law of 1959 which provided for state aid to the development of coal mining districts in Belgium and to "certain other regions confronted with acute and urgent problems". A main provision of the law was that firms setting
up in subsequently specified areas should be able to borrow money at 5 per cent below the market rate of interest; other fiscal advantages were also given. The subsequent orders implementing the law provided for these advantages to operate in 576 named communes with a combined population of some 3½ million i.e. ½ of the total population of Belgium. For political reasons the Belgian Government included not only Walloon regions where there are genuine problems arising from declining industries but, to balance them, a number of Flemish speaking areas which cannot be regarded as other than economically prosperous.

17. The Commission's initial reaction at official level was to reject the scheme as incompatible with the provisions of Article 92 of the Treaty, but it capitulated in the face of the Belgian Government's insistence. As a face saving device, the Commission are requiring the Belgian Government to send bi-annual reports on the scheme's operation. This failure of the Commission to implement its own criteria for assessing state and regional aids and their willingness, under political pressure, to allow a member government to drive a coach and horses through the provisions of the Treaty is clearly significant.

18. Soon after this the Commission approved a project involving the construction of a nylon and dacron spinning factory in Germany by the American Company Du Pont at Unna in North Rhine-Westphalia. There was an element of subsidy in the case since because of the co-operation of the local government authority the Company was able to buy the land at a price lower than the normal market value. The Commission were reported to take the view that some "compensation" should be given to a company which was prepared, as in this case, to establish itself in a region where there were significant economic disadvantages. An official of the Commission agreed that once the general principle of "compensation" was accepted as a valid reason for the application of Article 92(3o) of the Treaty, then the doors would open very wide for the admission of all sorts of aids and subsidies.
19. The Commission are presently considering a new Dutch measure which proposes to give certain substantial benefits to investment on a regional basis, including investment finance at a subsidised rate of interest and payment of half of the cost of the land needed to establish new factories: the total effect would be to subsidise 35 per cent of the cost of the initial investment. The Commission's objective was reported to be to reduce the scale of the subsidisation to something in the region of 25 per cent of the initial investment, but if, as seemed likely, the Dutch resisted it was felt most unlikely that the Commission would take formal action against the measure as they were entitled to do under Article 93.

20. In certain sectors - e.g. shipbuilding and the cinematographic industry, Commission proposals have been put forward for aids to be harmonised rather than abolished. But these latter proposals have not yet been approved by the Council and in the meantime certain of the member countries are and are being allowed to remain - in breach. It is noteworthy that the Commission's harmonisation proposals for state aids to shipbuilding have been linked to Article 235 (achievement of an objective of the Community for which the Treaty does not provide the necessary powers of action) and would, if approved, provide for a 10 per cent subsidy until December 1969 - longer than foreseen for shipbuilding subsidies, in paragraph 3c of Article 92.

21. In the elimination of export aids in so far as they relate to intra-Community trade some member states have asked for, and been granted, periods of grace before abolishing illegal aids.

22. Under Article 93(2) Belgium and France have been requested to abolish their preferential rediscount rates and France and Italy to abolish their systems of insurance against risk of increased production costs. Also, under Article 93(2), the Commission has now given formal notice to Germany, Luxembourg and Holland in respect of aids given by the processing of cereals.

23. In the textiles field, the aids granted by various member states are being examined in a working group which may come up eventually with harmonisation proposals. The Commission has yet to pronounce upon a current French system under which the proceeds of a tax on textiles sales (irrespective of their origin) is used for the exclusive benefit of the French textile industry (for research etc.). Commission officials at desk level have expressed a view that this will be found to be incompatible with the Treaty although some aid to textiles in another (harmonised) form would not be.
24. A further example of state aid is as follows. In November 1966, Agence Europe reported that the EEC Commission had initiated the Treaty procedure, applicable in cases of state aids liable to distort competition, in respect of rebates given by the Dutch Government for the production of potato starch.

Articles 108-109 - Balance of Payments

25. Articles 108 and 109 provide for protective measures when a State is in balance of payment difficulties.

Article 226

26. This Article permits a member state to seek authorisation for special measures during the transitional period, designed to rectify difficulties in any particular sector of economic activity.
To allow Luxembourg to export surplus production of:

(a) 64/391 July 1962

(b) 63/677 14th December 1963

(c) 65/156 16th March 1965

To allow Italy to increase import levies on certain:

To authorise countervailing duties on imports of:

To allow Italy to derogate from the provisions of:

Belgium reduced her cereal prices unilaterally

Italy suspected of not following Community rules of

Germany allowed derogations from cereal standards of

Luxembourg maintained a higher upper limit on price of

Italy invoked an escape clause to protect her hard
Derogations allowed by Luxembourgs to export surplus production of

(a) Reg.

To allow Luxembourg to export surplus production of durum wheat.

(b) Dire

To allow Italy to increase import levies on certain products.

(c) "Uno

To authorise countervailing duties on imports of certain products manufactured from potato starch.

To allow Italy to derogate from the provisions of price for durum wheat.

January 1965
Belgium reduced her cereal prices unilaterally

April 1963
Italy suspected of not following Community rules on

June 1963
Germany allowed derogations from cereal standards and rye

June 1963
Luxembourg maintained a higher upper limit on prices

July 1965
Italy invoked an escape clause to protect her hard
AGRICULTURE

allowed by Regulations, Directives, etc.

(1) CEREALS

Subject

(a) Regulations

As production at lower prices.

(b) Directives and Decisions

vièes on certain varieties of soft wheat

on imports of certain starches

duties on imports from Germany, France and the Netherlands

provisions of Regulation 19 as regards fixing an intervention

(c) "Unofficial" derogations (not apparently recorded as covered by a Directive or Decision)

bilateral

Community rules over levy fund

real standards resulting in slightly lower prices for barley

limit on price of rye

protect her hard wheat production from low priced imports

Countries affected

Luxembourg

Italy

France, Italy and Germany

Italy

Italy

Belgium

Italy

Germany

Luxembourg

Italy
### Derogations allowed by Regulations

<table>
<thead>
<tr>
<th>Date and Reference</th>
<th>Subject</th>
</tr>
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<tbody>
<tr>
<td>6th August, 1962 Reg. 118</td>
<td>(a) Regulations</td>
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<td>February, 1963 63/118</td>
<td>(b) Decisions and D</td>
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<td>March, 1963 63/217</td>
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<td>March, 1963 63/219</td>
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<td>April, 1963 63/786</td>
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<td>1963 63/545</td>
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<td>November, 1962 to February, 1963</td>
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EGGS, POULTRY AND POULTRY MEAT

Subject

(a) Regulations

Regulations between Belgium and Luxembourg

Countries affected

Belgium and Luxembourg

(b) Decisions and Directives

Shell eggs for human consumption and derived products - authorised to increase intra-Community levies on shell in Italy

levies on egg products

Italy, Germany, France and the Netherlands

Germany and Italy

slaughtered hens and chickens imported into Berlin

Germany

(c) Unofficial derogation

(official derogations (not apparently recorded as covered by a Directive or Decision)

force the sluice gate price rigidly

sluice price on Danish slaughtered poultry entering levy that was to be imposed

Germany

abolishing entering Germany at a reduced levy rate

Germany
Derogations allowed by Regulations.

(3) FRUIT AND VEGETABLES

Subject

(a) Decisions and Directives

Date and Reference

31st July, 1962

Quantitative restrictions on the import of fruit and vegetables from countries with state run economies

22nd March, 1963  63/253 )
3rd April, 1963  63/254 )
2nd May, 1963  63/255 )

Germany and Netherlands granted tariff quotas for bitter oranges.
Germany only grapefruit (for one year 1963)

2nd December, 1963  63/674 )
21st Sept., 1964  64/554 )
20th May, 1965  65/297 )

France authorised not to grant Community treatment to horticultural produce that enjoys free circulation in other Member States and is raining on 30th September 1964, later extended to 31st May, 1965

(b) "Unofficial" derogations

21st March, 1964 )
16th December, 1965 )
11th February, 1965 )

Italy authorised to keep a cheap rail tariff to aid exports of fruits.
Italy (originally until December, 1964, later extended December 31st, 1965).
France authorised to apply special tariffs for transporting pork until December, 1966.

23rd June, 1966

Italian Government abolished the state monopoly for bananas, and instead import quota instead. Tax is reduced for bananas from Somalia.
Commission's comments:
1) the fiscal discrimination will be deplored.
2) 70% of the quota will be opened.
3) 20% of the quota will be left open.
4) The introduction of a tax design will be deplored.

(4) PIGS AND PIG MEAT

(a) Regulations

43. June, 1962

Luxembourg - exports are exempt from intra-community levies on other than breeding; but Luxembourg must ensure that the consignments are produced for export.

121/65 July, 1965

Pigs imported from Austria exempt from liability to supplements.
by Regulations, Directives, etc.

FRUIT AND VEGETABLES

Subject

Regulations and Directives

and vegetables to be retained for imports

for bitter oranges, and seville oranges;

and horticultural produce from third countries and is re-exported (originally until 1965)

"Official" derogations (not apparently recorded as covered by Directive or Decision)

aid exports of Fruit and Vegetables from Southern ended December 1966)

transporting potatoes and cauliflowers (originally 1966) for bananas, and imposed a consumer tax and an from Somaliland

ation will last only until the end of 1967 will be opened for bananas for the AASM. Total quotas will occur not later than 1970 of a tax designed only to curb consumption is to

PORK AND PIG MEAT

Regulations

levies on pigmeat and live pigs for purposes that the concession does not involve increase in to supplementary levies

Countries affected

All countries

Netherlands, Germany

France

Italy

France

Italy

Luxembourg

ALL
(3) **FRUIT AND VEGETABLES**

**Subject**

(a) **Decisions and Directives**

Quantitative restrictions on the import of fruit and vegetables from countries with state run economies.

Germany and Netherlands granted tariff quotas for bitter oranges. Germany only grapefruit (for one year, 1963).

France authorised not to grant Community treatment to horticultural products that enjoy free circulation in other Member States and is restricted. 30th September 1964, later extended to 31st May, 1965.

(b) **“Unofficial” derogations**

Italy authorised to keep a cheap rail tariff to aid exports. Italy (originally until December, 1964; later extended December, 1965).

France authorised to apply special tariffs for transporting non-fattening pigs until December, 1964; later extended to December, 1966.

Italian Government abolished the state monopoly for bananas, introducing an import quota instead. Tax is reduced for bananas from Somalia.

Commission's comments:

1) the fiscal discrimination will be eliminated.
2) 70% of the quota will be open to free circulation for the quota will occur.
3) The introduction of a tax desirability is being deprecated.

(4) **PIGS AND PIG MEAT**

(a) **Regulations**

Luxembourg - exports are exempt from intra-Community levies other than breeding; but Luxembourg must ensure that the contribution for export is low.

Pigs imported from Austria are exempt from liability to supplements.
### FRUIT AND VEGETABLES

<table>
<thead>
<tr>
<th>Subject</th>
<th>Countries affected</th>
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<tbody>
<tr>
<td><strong>Decisions and Directives</strong></td>
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<tr>
<td>fruit and vegetables to be retained for imports</td>
<td>All countries</td>
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<td>as for bitter oranges, and seville oranges;</td>
<td>Netherlands, Germany</td>
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<td>treatment to horticultural produce from third countries for States and</td>
<td>France</td>
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<td>is re-exported (originally until May, 1965)</td>
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<tr>
<td><strong>&quot;Unofficial&quot; derogations (not apparently recorded as covered by Directive or Decision)</strong></td>
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<tr>
<td>to aid exports of Fruit and Vegetables from Southern Italy extended</td>
<td>Italy</td>
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<td>for transporting potatoes and cauliflowers (originally until November,</td>
<td>France</td>
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<td>for bananas, and imposed a consumer tax and an import duty for</td>
<td>Italy</td>
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<td>discrimination will last only until the end of 1967</td>
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<td>quotas will be opened for bananas for the AASM. Total</td>
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<td>the quota will occur not later than 1970</td>
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<td>tion of a tax designed only to curb consumption is to</td>
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### PIGS AND PIG MEAT

(a) **Regulations**

Community levies on pigmeat and live pigs for purposes to ensure that the concession does not involve increase in liability to supplementary levies

Luxembourg
Derogations allowed by Regulation

(5) MILK AND DAIRY PRODUCTS

(a) Regulations

In determining free-at-frontier prices at the frontier of Italy between Italy and other Member States to be taken into account.

Trade between Belgium and Luxembourg to have no free-at-frontier for exports from both countries.

Benelux countries to have different methods of calculating duty for other members.

Netherlands authorised to dispose of quota of 9,000 M.T. of butter for a certain period.

(b) Decisions

France authorised to postpone the approximation of certain F.S.U. (to avoid the possibility of Swiss retaliation if French duty.

Italy given similar authority - for same reason.

Luxembourg to apply a system of derogation on butter (threshold level).

Belgium, Germany, France and Netherlands to fix a supplement for countries (started in 1964, extended twice up to June 1966)

Netherlands to fix a supplementary refund for exports of milk.

(c) "Unofficial"

Direct subsidies to milk producers paid by Germany and Luxembourg for a transitional period.

Italy allowed to protect butter and cheese production from competition.

A special levy to be imposed on import of Danish Tilsit cheese.

Belgium, Germany and Netherlands to sell surplus stocks of butter.

Similar arrangement for Italy.

Sale of butter (for processing) at cheap prices again allowed.
AND DAIRY PRODUCTS

Subject

Regulations

ontier of Italy the difference in transport charges
2m into account
free-at-frontier price and this price to be the same
Calculating refunds granted by member states on exports
COC M.T. of butter in storage at reduced prices within

Decisions and Directives

of certain French customs duties to the common tariff
if French duties raised)

ter (threshold price and intervention price)

a supplementary refund for export of certain cheeses to
ion from New Zealand)
ports of milk and dairy produce to third countries

"Unofficial" derogations (not apparently recorded as
covered by a Directive or

and Luxembourg are to continue during the

tion from competition of other member states

Tilsit cheese to Germany

stocks of butter outside normal rules (for limited

Again allowed

Countries affected

Italy
Belgium, Luxembourg
Belgium, Netherlands, Luxembourg
Netherlands
France
Italy
Luxembourg
Belgium, Germany, France
Netherlands
Netherlands
Germany, Luxembourg
Italy
Germany
Belgium, Germany, Netherlands
Italy
Belgium, France, Netherlands
Derogations allowed by Regulation

(6) BEEF AND VEAL

(a) Regulation

Until March, 1967. Luxembourg may grant subsidy to reduce customs tariff on frozen cattle meat (to take account of Germany/Danish trade agreement effective till 31st March, 1967 - Request for extension because trade agreement to be concluded before 31st December, 1965)

Germany to take intervention measures to permit cattle imports from Germany to take account of Germany/Danish trade agreement effective till 31st March, 1967 - Request for extension because trade agreement to be concluded before 31st December, 1965)

Germany to suspend customs tariff on frozen cattle meat extended to 31st December, 1965)

(b) Directives

Italy to suspend customs duties on live cattle under 340 kg. for 31st March 1966 (later extended to July 1966)

Germany to suspend customs duties on live cows for processing in Germany to suspend customs duties on live cows for processing (10% 1st July - 14th September, 1965)

Belgium to suspend customs duties on domestic cows from 3rd quarter or at least up to 13th September, 1965

(c) "Unofficial

Italian - Yugoslav Joint Commission agreement - Yugoslavia to import fresh and frozen beef during period 1st January 1965 to 31st December, 1965

Reduced duty of 6% to be charged on 20,000 metric tons of frozen beef and veal imported from Austria

Reduced duty (10%) on 6,000 metric tons of frozen beef and veal imported from Austria

Special intervention measures in beef and veal sector allowed for processing - Measures referred to a temporary "preventive" intervention in case of insufficient national production

Italy to reduce customs duty on some beef and veal imports for processing - Authority later extended to Belgium and Luxembourg.
by Regulation, Directives, etc

**BEEF AND VEAL**

Subject

**Regulations**

- reduce consumer price of products
- reduce price of products: imports from Denmark (1st September to 30th November) effective till 31st December 1965 - Derogation from trade agreement has been renewed.
- frozen cattle meat (originally until June 1965, subsequently
- 1966 Customs duties or up to 6,000 tons of frozen beef

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<td>Luxembourg</td>
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**Directives and Decisions**

- under 340 kg. from 3rd countries, 1st July 1965 to
- for processing from 3rd countries - 7% duty to 30th June;
- from 3rd countries (except below 220 kg.) - indefinitely

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<td>Belgium</td>
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"Unofficial" derogations (not apparently recorded as covered by a Directive or Decision)

-oslavia to import 70,000 head of cattle and 4,000 metric tons January 1965 to 31st December 1967
- from Austria (14,000 Germany, 5,000 Italy, 1,000 France) and veal granted to Germany to cover needs of West Berlin.
- or allowed for France, Belgium, Germany intervention
- Imports for processing, from 3rd countries.

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CABINET

27th April, 1967

BRITAIN AND THE EUROPEAN ECONOMIC COMMUNITY;
LIKELY REACTIONS OF COMMONWEALTH COUNTRIES

Memorandum by the Secretary of State for Commonwealth Affairs

At the meeting of the Cabinet on 20th April (CC(67) 22nd Conclusions, Minute 2), my colleagues invited me to circulate information about the likely reactions of other Commonwealth countries to an early decision by Her Majesty's Government to apply for membership of the Community.

2. The following assessment is based on the latest information obtained from High Commissioners and from recent contacts with Ministers of other Commonwealth countries.

New Zealand

3. After the Prime Minister's statement of 10th November, 1966, Mr. Holyoake sent a message to Mr. Wilson saying that New Zealand "must have a permanent solution, that is, one which endures beyond any transitional provisions for Britain's entry". When I met the New Zealand Cabinet in February, Mr. Marshall again stressed the need for a permanent solution. Mr. Holyoake said that Britain should join the Community and gain in strength since New Zealand would benefit from this provided that her vulnerable position was fully recognised.

4. The prospect of British entry into the Community has been the subject of lively and intensive comment in the New Zealand press. It is widely accepted that Britain's eventual entry is inevitable; but every confidence is expressed that Britain will safeguard New Zealand's essential interests.

Australia

5. Great interest has been shown in the prospect of British entry. In general, press and public reaction has been mild and even sympathetic. Commercial circles have accepted the possibility of British entry realistically, pointing out that Britain's importance to Australia as a supplier and customer is in any case on the wane. The press has, however, expressed concern about the effect of entry on Britain's role East of Suez.
6. When I met the Australian Cabinet in February, Mr. McEwen argued that a transitional period would not meet the needs of Australia, and that, even if she were large enough to stand the strain 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.

7. When I saw Mr. McEwen again in London on 24th April, he said that, although he accepted the British Government's declared intention of safeguarding essential Commonwealth interests was made in good faith, he had only modest expectations of this being achieved. He therefore attached particular importance to the successful conclusion of world commodity agreements, especially one covering cereals.

Canada

8. While the present Canadian Government has expressed no enthusiasm for British membership, it views the prospect more realistically than in 1961. At the recent meeting of the Anglo-Canadian Ministerial Economic Committee (the relevant extracts from the record are attached), Mr. Martin said that Canada recognised that a decision whether to apply was a matter for Britain and he appreciated the desire of Britain to play a full part in European co-operation and trade. At the same meeting, Mr. Winters said that although the Canadian agricultural sector would be affected, it was nevertheless felt that Britain must do what was in her best interests; Canada had the assurance that Commonwealth interests would be safeguarded.

European Commonwealth

9. Cyprus is watching developments with intense interest because of their importance for her own position vis-à-vis the Community. Press reaction has been favourable. There has been no official reaction from Malta. Editorial comment there welcomed the new initiative. The consensus of press opinion is that Malta cannot afford to wait any longer and that the Government should soon start negotiations for its own entry into, or association with, the Community.

Caribbean

10. All the Caribbean countries are concerned about the future of the Commonwealth Sugar Agreement. The Prime Minister of Trinidad and Tobago has written to the Prime Minister about it.

The Jamaican authorities are also concerned about the future of Jamaica's bananas and citrus; indeed, they consider her just as much in need of special arrangements as New Zealand. It seems likely that they will receive any announcement of Britain's intention to apply for membership with grave misgivings.

Trinidad will also want to preserve her protected market in Britain for citrus. However, for some time, Trinidad has assumed that Britain will join the Community and has directed her policies accordingly. Trinidad is not worried unduly that Commonwealth preferences might eventually disappear.
Apart from their concern over the Commonwealth Sugar Agreement, an announcement that Britain will apply for membership is unlikely to cause much stir in Barbados or Guyana. The Barbados Government will probably interpret it as a loosening of British commercial ties with Barbados and they are likely to align themselves more closely with America as a result.

Africa

11. Among the African Commonwealth countries, Nigeria (who has already concluded an agreement for a limited form of association with the Community which has still to be ratified) and Kenya, Uganda and Tanzania (who have applied for a similar form of association), have shown little interest in the British initiative. Press comment shows Zambia to be anxious to retain a favourable market for her tobacco. Press comment in Malawi has been restricted to expressing the hope that Malawi's interests will be safeguarded. Three countries, The Gambia, Sierra Leone and Ghana, have expressed interest in association with the Community. Ghanaian officials welcomed the British move cautiously but said they would prefer to await the review of the Yaounde Convention in 1968 before considering any move. There has been no reaction in Lesotho. Botswana has expressed interest only in safeguarding the British outlet for her beef.

Asia

12. Both the Government of India and the press have so far shown a fairly relaxed attitude towards the prospect of a British application to join the Community. Eventual British entry is viewed as logical and certain. Officials have, however, expressed some apprehension in case a deliberately quick negotiation would not leave time for adequate consultation. Our High Commissioner considers that the present quiescence can be interpreted as meaning that the Indian Government are holding their fire. Strenuous representations can be expected from them later about the effects on their own interests if we decide to go ahead.

13. It is unlikely that any announcement will cause strong reactions in Pakistan. Both officials and the general public have long expected a British application. They are likely to be mainly concerned about the future of their industrial exports to Britain, but their attitude is likely to be speculative rather than hostile.

14. In the view of the High Commissioner, it is unlikely that the Ceylon authorities will have any substantive comments to make at this stage. No other significant local reaction to a British decision to go ahead is expected. Singapore has recently expressed interest in the possibility of association with the Community. The Government of Malaysia have up to now seemed little worried by the prospect of the small loss of preferences involved for them in our entry. But it is possible that the proposals for reducing our defence expenditure in the Far East may lead them to comment that our policies towards Europe seem to be taking precedence over our Commonwealth ties.
Conclusion

15. My general impression is that, following the 1961-63 negotiations, other Commonwealth countries have regarded our eventual entry into the Community as inevitable and, with the possible exception of the West Indies, are therefore unlikely to react strongly to a decision to initiate negotiations. This does not mean that they will fail to press us strongly to ensure that we negotiate terms of entry which really safeguard their essential interests. Their present comparatively relaxed attitude may therefore be more apparent than real. We must expect them to concentrate their efforts not in hostile reactions to a decision to apply for membership but in presenting their individual cases forcefully in the course of detailed consultations which they will expect to be thorough and meaningful.

H. W. B.,

Commonwealth Office, S. W. 1.

26th April, 1967
THE PRIME MINISTER said that his statement of 10th November 1966 would be well known to the Canadians. Since then, he and the Foreign Secretary had completed a successful tour of the capitals of the Community. That had been largely a political operation and was not concerned with the details of negotiation. He was now sure that the Six were satisfied of Britain's sincerity and the desire to make a reality of our entry provided that essential British and Commonwealth interests could be safeguarded.

The talks with President de Gaulle had been very friendly and many of his previous anxieties had been assuaged. The President had, however, said that Britain's entry would change the nature of the Community; it would become bigger and weaker. President de Gaulle had likened British entry to the addition of more coaches to the European train, but the Prime Minister had assured him that we would in fact be adding another engine. In Europe as a whole there was strong support for British entry - not the least of European anxieties were concerned with Germany and the possible resurgence of a German Nazi party. Mr. Kosygin had also been worried about the position in Germany but had been relaxed about Britain's approach to the Community. He had said it was for Britain to decide. He had appeared to be impressed with the argument that British entry would create an easing of tension within Europe and that Europe would become more outward looking.

On the economic side the problems had been narrowed down to a small number of important ones. Some could best be settled once Britain was inside the Community. The Prime Minister and Foreign Secretary had been reassured that Britain would continue to be free to implement her own regional policies. There were problems of immigration still to be solved, though it appeared that the Treaty of Rome was of itself no obstacle. The way it actually worked was of more importance than theoretical powers embodied in it. Problems on the British side had been narrowed down to agriculture, Commonwealth problems and capital movements. On their side the Six had been worried about the international position of sterling.

There were four main aspects of the agricultural problem -
(a) It was expected that the application of the levies to Britain's imports of agricultural products would increase the cost of living in Britain by about 3½ per cent. This was offset to some extent by the import of cheaper manufactured goods.
(b) More serious would be the balance of payments problem as Britain would have to pay more in levies than the rest of the Community put together, and 90 per cent of the levies would have to be transferred to the European Agricultural Guidance and Guarantee Fund. This might have an adverse effect on the balance of payments of about £200 million a year.

(c) The Commonwealth countries who would be the most affected by the British entry into the Community were those producing temperate foodstuffs and those party to the Commonwealth Sugar Agreement. Some Commonwealth countries were solving their own problems by applying for Association; the East African countries were doing so at present and it was possible that some West Indian countries might also do the same.

(d) There would also be the problem of the distortion of the present pattern of British agriculture. Some types of farming would continue to be prosperous but others would be squeezed, though British agriculture as a whole would be likely to be more prosperous.

It was difficult to make firm pronouncements on the effect of British entry on capital movements. THE PRIME MINISTER doubted if there would be any adverse effect on direct investment. There would probably be a two-way movement of portfolio investment. One possible difficulty here was that it seemed possible that the Community could provide an escape route for British investments e.g. into the United States. The international role of sterling was prominent in the discussions. The Six were worried that we would regard Article 108 of the Treaty of Rome as obliging them to underwrite difficulties that we might encounter in consequence of the world-wide uses of sterling. The Prime Minister gave them an assurance that Britain would not invoke Article 108 in the event of the strength of sterling being adversely affected by external factors; we would, as in the past, rely on the International Monetary Fund and the Basle arrangements rather than on the Community as such. The Cabinet were now considering all these questions in great depth, and it was hoped that a decision could be reached in the next few weeks. It was essential that the momentum should not be lost. If possible a decision would be reached before the Whitman recess as, in view of the fact that the Prime Minister would be visiting Canada immediately after the recess, there would otherwise be a delay of about three weeks. The British Government were watching the progress of the Kennedy Round with interest. THE PRIME MINISTER
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MR. MARTIN said that Canada recognised that a decision whether to apply was a matter for Britain. He appreciated the desire of Britain to play a full part in European co-operation and trade. Canada had however important political and economic interests in what British arrangements were made for membership would involve. MR. WINTERS said that timing was important as the Kennedy Round would be working to a conclusion by 30th April. Although the Canadian agricultural sector would be affected it was nevertheless felt that Britain must do what was in her best interests; Canada had the assurance that Commonwealth interests would be safeguarded. While the Canadians did not wish to go in detail into their interests at this stage it would perhaps be useful if they could discuss these more fully at the afternoon session.

MR. DRURY asked how it was proposed to safeguard Commonwealth producers. THE PRIME MINISTER replied that it was hoped that it would be possible to carry over some of the provisional agreements of the 1961-63 negotiations. MR. MULLEY, however, made the point that many of these were now no longer appropriate, especially those regarding temperate zone countries. THE PRIME MINISTER said that there was no hope of changing the common agricultural policy on grain. He had been interested to see that some of the Six were importing as much grain as ourselves. Between them they had imported 19 million tons in 1965-66 from the outside world. British production on the other hand was rising and imports were falling; present Community target prices would encourage this trend.

THE PRIME MINISTER concluded by saying that he looked forward to visiting Canada at the end of May, that the Commonwealth Secretary would be ready to discuss Rhodesia with the Canadians at later sessions, and that Mr. Mulley would be at the afternoon session to continue the discussion on the European Economic Community.

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MR. MULLEY recalled that the Prime Minister had given to the Canadian Ministers a brief resume of the talks that he and the Foreign Secretary had had in the capitals of the Six. The Canadian Government had been informed about these at the time. The British Cabinet were at present engaged in an intensive study of all aspects of the position. Consultations would have to be on a hypothetical basis in advance of any decisions being taken on whether and in what form to apply for entry. It would not be satisfactory to try to keep a decision quiet for a number of days while the British Government consulted the Commonwealth and EFTA partners. Even if a decision were taken, important considerations such as the duration of negotiations and the eventual date of entry would not be within British control. The important thing for Britain and her partners would be to agree on transitional periods. In advance of the Cabinet's decision, it would not be possible to say what Britain's minimum terms would be, but the Cabinet would naturally take into account anything that Canadian Ministers said at this stage.

MR. WINTERS said that the Canadian Government looked on the decision as one for Britain to take. Canada was keenly interested on both political and economic grounds. There would, of course, be trade implications, and an EEC including Britain would be responsible for a third of total world trade. The direct impact of British entry on Canada would depend on the terms and conditions of entry as well as on the Kennedy Round and subsequent tariff negotiations. If Britain adopted the EEC tariff and trade regulations as they stand at present Canada would lose the historic free entry on more than half of Canadian exports to the British market and be faced with preferences in favour of their EEC competitors. The trade which would be affected in this way included practically all Canada's cereals and fisheries exports to Britain, well over one-third of her sales to Britain of other agricultural products and almost 90 per cent of Canadian semi and fully manufactured sales to Britain. In the industrial materials field, almost half of Canada's exports to Britain would no longer enter duty-free, including such major items as newsprint, aluminium and wood pulp. Canada's exports to Britain of soybean oil, tobacco, cheese, flour and a wide range of manufactured goods would face not only the loss of preferences but also would have to face the higher tariffs of the Community. Altogether about
three-quarters of Canada's exports to Britain would stand to face less favourable terms of access to Britain than at present. While trade would probably continue in many of the products affected, it would be less profitable and no doubt in many cases it would be reduced. On the other hand, success in the Kennedy Round would ease Canada's position, particularly in agriculture if there were a cereals agreement, but also in the broad industrial sector. Reduction of the EEC's protection on manufactures and processed foodstuffs would also be beneficial. Canada would face some initial problems and losses, but stood to gain in the long term if Britain and Europe could obtain improved prospects of economic growth and stability. In response to questions, MR. WINTERS reiterated that the agricultural sector, particularly cereals, would be important for Canada, and also manufactured goods in relation to which Canada was still a developing country. MR. GREENE pointed out that the agricultural community in Canada would be the first to bear the impact of Britain's entry.

MR. MULLEY said that, if the Cabinet decided to apply for entry this would be because the Government considered that there were reasonable prospects for influencing the EEC to be more outward looking as well as for growth and stability in the British economy. Previous negotiations had shown that it was not possible to re-write the common external tariff as part of bilateral negotiations. These wider problems would have to be solved in a world forum. Transitional arrangements would have important effects on the initial impact, and the British Government could promise the closest consultation and exchange of information. MR. MULLEY confirmed that it would not be possible to negotiate changes in the common agricultural policy as part of the terms of entry; it was clear, however, that an enlarged community, including other countries such as Denmark, would need to take a further look at detailed agricultural problems.

MR. GREENE indicated the increasing need for wheat to meet world food needs and the possible dangers of discouraging producers; but the meeting accepted that an enlarged community would still need to purchase food from outside and that incentives for producers were a problem for the Kennedy Round negotiations. MR. SHARP said that he had been interested to learn the British estimate of the balance of payments consequences of adapting the financial system of the EEC's common agricultural policy. He also referred to the possibility of pressure to speed up the tariff alignment between the United Kingdom and the Six during a transitional period after entry.
MR. MARTIN concluded by saying that the Canadian Government appreciated the importance of this discussion on the eve of the British Government's decision. The question of British entry into the EEC had been before the Commonwealth for some years. The Canadian Government welcomed with satisfaction the statement that Britain would hope to make an enlarged community more outward-looking. The decision of the British Government would be understood as a desire to share in a wider Europe. Under no circumstances should points of detail mentioned by the Canadian Ministers be interpreted as seeking to deter Britain from making a positive decision. The Canadian Government wished the British Government to be aware of the short-term effects on the Canadian economy if Britain joined but they were themselves aware of the long-term advantages of an outward-looking Common Market. It had been suggested that Canadian circles had once sought to prevent British entry; nothing that had been said today should be interpreted in that sense.
BRITAIN AND THE EUROPEAN ECONOMIC COMMUNITY: THE ECONOMIC BACKGROUND

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

I undertook at today's meeting of the Cabinet (CC(67) 23rd Conclusions) to circulate to my colleagues the factual booklet "Britain and the EEC - The Economic Background" which has been prepared by my Department.

A decision will be required by 1st May if I am to publish this on 10th May.

M. S.

Department of Economic Affairs, S.W.1.
27th April, 1967
BRITAIN AND THE EEC

CONTENTS

Foreword

Progress in European co-operation 1

Steps towards a Common Market 2

How the Communities work 3

Tariffs 4

Agricultural arrangements 5

The European economy 6

Britain's trade in Western Europe 7

Britain's trade with other countries 8

Sources of further information.
FOREWORD

This booklet is designed to provide the public with a summary of the essential facts concerning the European Economic Community and policies with, where necessary, reference to present United Kingdom arrangements and policies. It is not intended to set out the implications for the UK of membership of the EEC or to discuss the possible advantages and disadvantages. The information provided here should, however, clarify for many people the history of European co-operation since World War 2, what the EEC is and how it works, and the present state of the European economies as a background to the present consideration being given by the UK Government to their policy towards Europe.
Chapter I

PROGRESS IN EUROPEAN CO-OPERATION

The peoples of Europe have for centuries shared elements of a common culture which has survived the growth of independent national states. The sense of a common identity has been most marked in the arts and in the development of intellectual ideas. From early times Europeans have co-operated economically. Trade flourished naturally within a small continent containing a wide variety of natural resources and human talents. The realisation of common interests always outlived the most bitter national rivalries and wars.

From time to time, a concept of European unity has emerged. Since 1945, that concept has grown stronger. Several factors have contributed to the strengthening of the European idea. Two world wars severely weakened the European economy. The United States and the Soviet Union have each become extremely powerful — far stronger than any western European country. Another important factor has been the rapid development of technology. To operate to full efficiency, modern industry requires large production units and assured markets larger than any single European country. In co-operation with other countries Britain has taken a leading part in efforts to bring European countries closer together.

Economic co-operation

Immediately after the second world war, several emergency organisations were set up to solve vast social and economic problems in Europe caused by the war and by the breakdown of the normal pattern of life. The United States took a prominent part in most of these organisations. In 1947, the more permanent aspects of economic co-operation were consolidated into a single United Nations body, the Economic Commission for Europe (E.C.E.).

In 1947, General Marshall, then United States Secretary of
State, suggested that helped by massive American aid the European countries should jointly plan and operate a more permanent programme of recovery and development. Britain and France responded by inviting to a conference all European countries except Spain. Communist countries of eastern Europe declined to participate, but most other European governments sent representatives. As a result of the conference the Organisation for European Economic Co-operation (OEEC) was set up. Most western European countries became members and Canada and the United States joined as associate members.

The OEEC urgently set about its task. From 1948 to 1951, massive American aid was channelled to Europe through the OEEC as part of the Marshall Plan. The OEEC induced member states to lower trade barriers. A European Payments Union (EPU), set up in 1950, promoted trade by reducing difficulties of payments between countries. The European Monetary Agreement (EMA), which replaced EPU in 1958, includes most non-communist countries of Europe.

The OEEC achieved some co-ordination of economic and financial policies, and allocated raw materials in short supply. It gave technical assistance to industry and agriculture, and sponsored research and training schemes. It assessed long-term energy requirements and promoted the development of nuclear energy for peaceful purposes. The OEEC ended in 1961, by which time its main task of reconstruction was completed. A new body, the Organisation for Economic Co-operation and Development (OECD), replaced it. The OECD's main task is to co-ordinate the economic, financial, trade, development, and related policies of member countries. Its main objectives are to promote maximum economic growth, to expand trade on a multilateral basis, and to increase the flow of aid to developing countries.
Canada and the United States became full members of OECD. Japan joined in 1964.

**Other forms of co-operation**

Concurrent with the drive for economic co-operation came several moves towards political co-operation. In 1948, Belgium, the Netherlands, and Luxembourg, which had entered into a customs union called Benelux, joined Britain and France in signing the **Brussels Treaty** - a pact for mutual assistance and defence. In 1949, the Brussels Treaty powers joined with Canada, Denmark, Iceland, Italy, Norway, Portugal, and the United States, to form the **North Atlantic Treaty Organisation** (NATO). By entering NATO Canada and the United States identified their own security with that of western Europe. Greece and Turkey became full members of NATO in 1952.

In 1949, the five original Brussels Treaty powers joined with the Irish Republic, Italy, and the three Scandinavian kingdoms to found the **Council of Europe**. Eight other countries became full members later: Greece and Turkey (1949), Iceland (1950), the Federal Republic of Germany (1951), Austria (1956), Cyprus (1961), Switzerland (1963), and Malta (1965). The purpose of the Council is "to achieve a greater unity between its members for the purpose of safeguarding and realising the ideals and principles which are their common heritage, and facilitating their economic and social progress". Defence matters do not come within the scope of the Council.

The Council has a Committee of Ministers representing the governments of member countries. It also has a Consultative Assembly of 147 representatives of national parliaments. It resembles a national parliament in form and procedure, but cannot pass laws. Through the Council, several international conventions have been agreed on matters that include human rights, patents, and extradition.

/Chapter 2.
Chapter 2

STEPS TOWARDS A COMMON MARKET

The imperative need for European countries to help each other to recover from the effects of the war rapidly diminished bitterness and suspicion between countries that had been enemies. In particular, France and the Federal Republic of Germany moved towards a new basis of friendship.

Wider co-operation between six countries

In 1950, M. Robert Schuman, then French Foreign Minister, put forward a plan to rationalise the coal and steel industries of western Europe. Outside Britain, Europe's main coal, iron, and steel resources and industries are concentrated in the northwestern corner of Europe, where the frontiers of Belgium, France, Germany, Luxembourg and the Netherlands almost converge. M. Schuman proposed that the industries should be reorganised into one vast production group unhindered by national boundaries. Beyond the economic implications of the plan lay the hope that integration of French and German industries would make war between the two countries not only unlikely, but physically impossible. M. Schuman's plan led to a treaty in 1951 between the Benelux countries, France, the Federal Republic of Germany, and Italy, which in 1952 established the European Coal and Steel Community (ECSC). The ECSC was provided with an executive - the High Authority - completely independent of national governments in the performance of its functions and duties. In 1954, Britain and the ECSC set up a Council of Association through which they could consult each other on coal and steel policies.

ECSC quickly proved successful. For example, between 1952 and 1955 steel production rose from 42 to 53 million metric tons. An idea emerged in the six ECSC countries that co-operation might be extended to the point of integration of their military forces. This would go far beyond the NATO arrangement, which was...
basically an alliance of independent national forces. It would bring the forces of the Federal Republic of Germany (then still outside NATO) into the western defence force. A treaty was signed by all six ECSC countries to establish a European Defence Community (EDC). But in 1954 the French parliament failed to ratify the treaty and the EDC plan collapsed.

The Federal Republic of Germany and Italy then joined the organisation Brussels Treaty which in 1955 was extended into a new association called Western European Union (WEU). The scope of WEU includes political and economic affairs, apart from defence matters. In 1955, the Federal Republic of Germany joined NATO.

The success of ECSC encouraged the six member countries (called 'the Six') to explore ways of extending economic co-operation between themselves. In 1955, the foreign ministers of the Six met at Messina, in Sicily, and agreed in principle to co-operate in developing nuclear energy and to move towards achieving a common market within which much of the resources and economic activities of their countries would be co-ordinated and gradually integrated. After nearly two years of negotiation and consideration, agreement was reached. The Six signed the Treaty of Rome on 25th March 1957, and the European Economic Community (EEC) - known as the Common Market began to operate on 1st January 1958.

Another treaty, also signed in Rome on 25th March 1957, provided for the co-ordination of nuclear research and power projects of EEC countries through the European Atomic Energy Community (Euratom). The Euratom treaty came into effect simultaneously with the Common Market.

By establishing the EEC, the Six hoped to speed economic and social progress through the closer union of their peoples.

/THEY/
They planned to eliminate step by step, barriers to trade between themselves. They proposed that each EEC country should eventually enforce identical tariffs on imports from countries outside the Six. Beyond this they announced that they favoured reducing barriers to international trade generally.

The EEC governments began to abolish by stages restrictions on the movement of people, capital, and goods within the Community. Within the framework of their far-reaching co-operation, the Six sought to promote fair business competition between firms within the Community. They undertook to control restrictive practices and monopolies in each country and agreed that state aid to industry which distorted competition would be incompatible with the Common Market.

In 1958, Belgium, France, and the Netherlands still possessed large overseas territories. The EEC set up a European Development Fund for Overseas (EDF), through which more than £200 million of aid reached 18 territories in Africa between 1958 and 1963. After the African territories became independent they entered into associate membership with the EEC. Other countries later sought association, including several Commonwealth countries (see Chapter 3). The EEC undertook to provide between 1962 and 1969, £260 million for development in the African countries, and £25 millions in aid for overseas territories and departments of EEC countries.

Advantages to the Six

The combined population of the EEC countries (now about 180 million) almost equalled the population of the United States. The Six reasoned that great benefits would accrue from having a single market of such great size.
For example, they thought that efficient firms would be likely to expand their activities within the Community, and would deploy their resources more efficiently. They would tend to concentrate their production units in the most economically suitable areas of the Community. Firms would tend to specialise, producing larger quantities of a smaller range of goods and benefiting from increased economies of scale. These developments would eventually lower costs and prices.

Put briefly, the governments of the Six believed that if the EEC went forward, a more efficient pattern of production would emerge, with each region and each firm doing the jobs for which they were best equipped. They believed that production costs would diminish, and that providing fair competition was maintained, prices would be kept low. This would bring an improvement in the standard of living throughout the Community.

**Effects on other countries**

The setting up of the EEC was bound to have a considerable effect upon countries outside the Community. Tariff changes, for example, would be likely to affect the pattern of trade, and some countries might suffer as a result. The Six argued that the EEC would benefit the world generally. As prosperity grew, the EEC countries could provide cheaper goods to the world and become better customers. They could provide more aid and investment funds for developing countries.

The Treaty of Rome stated that by establishing a customs union, the member states aimed at contributing to the harmonious development of world trade, the progressive abolition of restrictions on international trade, and the lowering of customs barriers. For the most part, the Common External Tariff (see Chapter 4) as originally constructed, was based on an average of the previously existing Benelux, French, west German, and Italian tariffs.
Several OEEC countries outside the Six feared that the development of the EEC would increase political as well as economic discord in Europe. From July 1957, they sought to find ways of extending co-operation between the proposed EEC and other OEEC countries, including the setting up of free trade area. Negotiations with this aim continued after the EEC was established, but ended in failure in November 1958.

**EFTA**

In 1959, seven OEEC countries outside the EEC - Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom - met together and formed the European Free Trade Association (EFTA) which began to operate in 1960. Finland became an associate member of EFTA in 1961. The EFTA countries, whose combined population totals nearly 100 million, sought to establish an industrial free trade area among themselves. Like the EEC, they agreed to work for the removal of trade barriers between all OEEC countries.

The first tariff reductions between EFTA countries were made on 1st July 1960. The EFTA countries agreed to eliminate all restrictions on free trade in industrial products between themselves in ten years. EFTA, in common with the EEC, originally aimed at the abolition of tariffs between member states by the end of 1969. In fact, the original EFTA countries largely achieved free trade in industrial products in six and a half years, almost all industrial tariffs ending on 31st December 1966. Unlike the EEC, EFTA did not set up a uniform tariff against imports from non-EFTA countries. Each member country retained its own external tariff system.

**Britain's approach to the Six**

EFTA countries emphasized that they wished to avoid extending the split in Europe. The view gained ground and a new approach /to the
to the Six was required. In the summer of 1961, Britain leaders discussed with EFTA the Commonwealth leaders, the implications of possible British membership of the EEC. In August 1961, the British Government made a formal application and negotiations began in October about the terms of admission. The then Lord Privy Seal emphasised that the interests of British agriculture, of the Commonwealth, and of EFTA, must be safeguarded. In March 1962, Britain also applied to join ECSC and Euratom.

Talks continued for fifteen months, but in January 1963, the French delegates requested that negotiations with Britain should be suspended. Talks broke off on 29th January 1963.

Britain and the Common Market

Britain's trade with Europe has increased rapidly during the past ten years. Up to 1964, our trade with the EEC grew faster than our trade with EFTA but since then the trend has been reversed.

During the ten-year period the economic division of Europe became more marked. The EEC lowered its internal tariffs while moving towards its common external tariff. EFTA abolished nearly all its internal tariffs. The ending of the economic division of Europe remained one of the main aims of EFTA.

The British Government's position with regard to Europe was expressed in the following passage in the Queen's speech to Parliament in April 1966:

'My Government will continue to promote the economic unity of Europe and to strengthen the links between the European Free Trade Association and the European Economic Community. They would be ready to enter the European Economic Community provided essential British and Commonwealth interests were safeguarded.'
In Parliament on 10th November 1966, the Prime Minister reaffirmed the Government's policy towards the EEC. He said that:

'the Government 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.'

Britain belongs to several organisations for technological co-operation in Europe, including the European Nuclear Energy Agency (FNEA), the European Launcher Development Organisation (ELDO), and the European Space Research Organisation (ESRO). In these organisations Britain is already an active partner of the EEC countries. On 14th November 1966, the Prime Minister made clear our desire 'to pool within Europe the enormous technological inventiveness of Britain and other European countries' (see Chapter 6).

On 5th December 1966, Heads of Government or senior Ministers from all EFTA countries met in London to discuss economic integration in Europe. The ministers welcomed proposals by the British Prime Minister and his Foreign Secretary to visit all EEC countries for talks to determine whether or not conditions existed in which fruitful negotiations for British membership of the Community might take place. Talks were held in the six capitals between 16th January and 8th of March 1967.
Chapter 3

HOW THE COMMUNITIES WORK

This chapter outlines the aims of the three European Communities set up by the Six - EEC, ECSC and Euratom; how they have set out to achieve their aims; and the progress so far.

MEMBERSHIP OF THE EEC

The Treaty provides that any European state may apply to join. The Governments of all members must agree before a new member is admitted, and acceptance has to be ratified by all the Parliaments. The Community may also conclude association arrangements with any country, union of states or international organisation. It is contemplated that any European country, or union of states, may seek association with the Community in a form ranging from something approaching membership to a very limited relationship.

Since the Treaty was signed, Greece has concluded an association agreement which is intended to lead to eventual membership, and Turkey has entered into a more limited form of association but also sees full membership as her long-term objective. Talks about association are in progress with Algeria, Morocco and Tunisia, with Israel to succeed her present trade agreement, and with Austria. Spain has applied for association.

Trade agreements have been made with Iran, Israel and Lebanon. Overseas association of African and other overseas countries with the EEC is described on page 17 of this chapter and in the next chapter.

MANAGEMENT OF THE EEC

Institutions were set up to elaborate and implement the intentions of the Treaty. Control of the EEC involves more than national governments co-operating, but, at the same time, the institutions are not a "federal government" to which national governments
governments are subordinate.

The main EEC institutions are described below and their relationships are set out in the chart on page 6 of this chapter. The central institutions in the formation and conduct of Community affairs are the Council of Ministers and the Commission.

The Council of Ministers. The Council consists of one minister from each member state. Different Ministers can attend according to the subject under discussion. The Council makes basic decisions and ensures the co-ordination of the general economic policies of the member states. Decisions in the Council are reached by a simple majority or by a qualified majority or by unanimity according to the provision of the Treaty about the particular topic. In practice, in a large number of cases where the Council enacts regulations or issues directives it must do so by unanimity or by a qualified majority. Where a qualified majority is required, the votes of the Council members are weighted as follows: four votes each for France, Germany and Italy, two each for Belgium and the Netherlands and one for Luxembourg. A minimum of 12 out of the 17 votes is needed for a qualified majority decision but where the Treaty requires decisions to be taken on a proposal by the Commission, the 12 votes must include at least four member states. Proposals from the Commission can be amended only by a unanimous vote.

On 1st January 1966, the EEC moved into the third and last of the transitional stages. A consequence of this was that matters hitherto decided by unanimity in the Council of Ministers were now to be decided by a qualified majority. This change in
voting procedure was however, accompanied by differences of opinion among the Six. As a result of their meeting at Luxembourg in January 1966 they agreed that when, in the case of decisions which may be taken by majority vote on a proposal of the Commission, very important interests of one or more Member States were in question, members of the Council are to endeavour to reach within a reasonable period solutions which could be adopted unanimously. The French delegation considered that when very important interests were in issue, discussion should continue until unanimous agreement was reached but this was not accepted by the other countries, and it was simply noted that there was a difference of opinion within the Six on what happened when a complete resolution of the divergent views was not achieved.

The Commission The Commission has nine members each appointed for four years by common agreement among the six governments. There can be no more than two from any one country. Members have to act in the general interest of the EEC with complete independence of any particular country. The Commission formulates proposals for the Council but also has certain powers of decision.

The Commission and its staff constitute the executive institution of the Community, responsible for its day-to-day management. For this purpose, they dispose of considerable powers under the Treaty compared with those exercised by the executives of national administrations.
The Court of Justice
The Court of Justice has seven judges appointed for six years by the six governments in common agreement. Its task is to interpret the Treaty and related legal provisions, and to determine cases. Its jurisdiction covers acts of member states, of the EEC institutions, and of individuals. The Court also exercises jurisdiction under the EEC and Euratom treaties.

One hundred Community law cases have been referred to the Court of Justice.

The European Parliament
This is composed of representatives of the national parliaments of the Six. The Treaty visualises it drawing up proposals for direct election by universal suffrage. It has certain advisory and supervisory functions under the Treaty but its powers are limited. It has to be consulted before certain decisions are taken and it asks questions of the Commission and debates the annual report. It may remove the Commission by a two-thirds vote of censure. It acts also for EEC and Euratom.

No progress has yet been made with proposals for direct election.

Economic and Social Committee
The Committee is a consultative one set up under the Treaty of Rome and consists of representatives of the various categories of economic and social activities (e.g. industry, trade unions, the professions). Under many articles of the Treaty, the Council and the Commission are bound to consult it before taking action.

The Committee has been consulted by the Council and the Commission on many matters, including ones where consultation is not compulsory under the Treaty.

The European Investment Bank
The European Investment Bank promotes investment in the less developed areas of the EEC and

On 3.14
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The European Investment Bank. The European Investment Bank promotes investment in the less developed areas of the EEC and its
its European associates and can help finance projects of common interest to several member states. (In recent years its scope has been extended to making loans to Governments or enterprises in the overseas associates of EEC, in cooperation with the European Development Fund). Its Governors and all but one of its Directors are nominated by member states; the remaining Director is a nominee of the Commission.

For the work of the Bank see Ch 3, p. 15.

The European Development Fund The Fund provides aid to the overseas associates of the Six. It is managed by the Commission to fulfill aims agreed by the member states and the overseas associates.

For the work of the Development Fund see Ch 3, p. 15.

The European Social Fund was set up to improve employment opportunities and mobility of labour, and to tackle social problems created by the move towards the customs union, (for example to help an area dependent on a local industry hard hit by cheaper imports).

For the work of the Social Fund see Ch 3, p. 15.

The European Agricultural Guidance and Guarantee Fund is described in Chapter 5, Agricultural Systems.

Ch 3.5.
INSTITUTIONS OF THE EEC

GOVERNMENTS OF THE SIX

Court of Justice
Appointed by common agreement. Interprets Treaty and related legal provisions. Jurisdiction covers acts of member states, institutions, and of individuals.

Council of Ministers
Each member state sends one minister. Different ministers can be sent to discuss different subjects. Decides basic policy. Gives precision to the Treaty. Decisions are taken on proposals from the Commission. Voting procedure varies - see text. In practice important decisions are unanimous or taken by a "qualified majority".

The Commission
Nine members, each appointed for 4 years by the six governments in common agreement, with not more than two from any one country. Acts in the general interest of EEC. Formulates proposals for Council but also has certain powers of decision.

European Parliament
Delegations from national Parliaments. (Might be directly elected in the future). Has limited powers.

European Investment Bank
Run by nominees of member states and commission. Promotes investment in less developed areas of EEC members and European associates, and in overseas associates.

European Social Fund
Run by Commission. Promotes employment and geographical and occupational mobility of workers.

European Development Fund
Gives aid to economic and social development in overseas countries (e.g. in Africa) associated with the EEC.

Economic and Social Committee
Representatives of economic and social activities e.g. industry, trade unions. Consulted by Council and Commission.

1. Councils of Association have been set up jointly with Associated Countries.
2. The European Agricultural Guidance and Fouled Fund is described in Chapter 5.
The founders of the Community stated in the preamble to the Treaty their determination to establish the foundations of an even closer union among European peoples. Within this framework, the aim of the Community is described as the harmonious development of the economies of member states by establishing a common market and progressively approximating their economic policies. The objectives go well beyond the formation of a customs union and provide for:

- Removal of all barriers to trade between member states.
- Common customs tariff and common commercial policy towards third countries.
- A common agricultural policy.
- Free movement of persons, services and capital between member states.
- A common transport policy.
- Co-ordinated economic policies.
- Rules against unfair competition.
- Co-ordinated social policies.
- Association of overseas territories in the interests of trade and to assist their economic and social development.
The Basic Aims of EEC

The basic aims of EEC are summarised in the box above. The free movement of goods, the common external tariff, and the common agricultural policy are dealt with in the next two chapters, Tariffs and Agricultural Systems. The Treaty provisions on the others and the progress made in each case are outlined below.

Transition Periods

A feature of the way the EEC is being developed is the use of transition periods for stage by stage movement from national systems in particular fields to full functioning of a Community system. For example, the Treaty laid down that the customs union should be established during a transition period, divided into three stages each lasting four years, and it laid down the minimum advance to make at each stage towards the abolition of tariffs on trade between member states and towards establishment of the common external tariff. Subsequently the Six agreed on several accelerations and both will be completed by 1st July, 1968, eighteen months ahead of the final deadline laid down by the Treaty.

Free Movement of Labour

The Treaty provides for free movement of labour within the Community not later than the end of the transitional period (i.e. by 1970). This will mean that people can move freely with their families from one member state to another to take jobs subject to limitation justified by reason of public order, public safety and public health. They will have the right to transfer all their social security benefits (see Ch. 3 p.15) and to settle permanently with their families.

The Community is moving towards the free movement of labour by stages regulated by the Council under the Treaty. At first member states could give priority to their own nationals in filling vacancies, but this was given up in 1964. Member states can still impose a priority for two weeks for particular occupations or regions where there is a surplus of labour but they have rarely done so recently. Workers from any member country are given priority over those coming from countries outside the Community.

Member states have not experienced any disturbances or difficulties under these rules up to the present.

The Council is at present considering proposals for freer movement. These provide for complete equality between workers from within the EEC and workers from outside.
in the filling of vacancies anywhere in the Community. There is to be a more extensive exchange of information between the employment services of member states, and improved machinery to ensure that applications for jobs from workers from other member states are submitted to employers before applications from outside the Community are considered. All migrant workers from within the EEC will be entitled to equality of treatment with national workers in relation to tax and social insurance, housing and membership of trade unions and works councils.

If these proposals are adopted member states will have to admit any worker from within the EEC who comes to their country for the purpose of taking a job. The proposals provide, however, that if a member state experiences or expects serious employment difficulties in a particular area or occupation it will be able to notify the Commission and if the Commission agrees that there is a risk of difficulties all member states will co-operate to discourage workers from moving to the affected areas or occupations.

**Free movement of services**

During the transitional period limits on the freedom of nationals and undertakings of one state to set up business and professional activities in another are to be progressively abolished. This will include any restrictions on the reation of agencies, branches or subsidiaries.

The rate of advance towards freedom of establishment and freedom to supply services is now considered satisfactory by the Commission, although the Community has not kept up with the timetable laid down in 1961.

**Free movement of capital**

During the transitional period members are required to abolish progressively restrictions on the movement of capital by residents of Common Market countries.
The provisions of the Treaty relating to movements of capital have been reinforced by Council Directives of May 1960 and December 1962 which have been accepted by member states. The Commission recently laid an amended version of a further draft directive before the Council, with the object of effecting further relaxation of exchange and other restrictions on capital movements.

Thus, a good deal of progress has already been made in the freeing of capital movements between Community countries, in particular on the reduction of exchange control barriers to inward and outward investment. But some exchange control restrictions remain, and it is with the object of securing some modification of these, and of other legislative and administrative barriers to free capital movement, that the Third Draft Directive has been prepared by the Commission.

**A common transport policy**

By the terms of the Treaty a common policy towards transport is to be adopted and followed by all members.

Little formal progress has been made towards a common transport policy. Agreement in broad principle was reached by the Council of Ministers in June 1965 on a phased programme of a compromise kind, for bringing the transport systems of the Six into line, and the Commission has since submitted proposals to the Council.
Co-ordinated economic policies

The Treaty requires member states to consider their economic policies as a matter of common interest. It commits each state to pursue a policy necessary to ensure equilibrium of its overall balance of payments and to maintain confidence in its currency, while ensuring a high level of employment and stable prices. To achieve this end member states are to co-ordinate their economic policies and evolve a common commercial policy. The Treaty requires the member states and the Commission to consult with each other on economic and commercial matters.

Various joint committees have been established, including ones reviewing the monetary situation and national budgets, and one of Central Bank Governors. The Finance Ministers of the Six hold regular meetings, at which the Chairmen of the Monetary Committee and the Short-Term Economic Policy Committee attend.

The Short-Term Economic Policy Committee each year examines the economic situation of member states and of the Community as a whole. It was associated closely with the drafting of recommendations that the Council has made in recent years to member states on measures to be taken to maintain the Community's internal and external economic balance.

The Medium-Term Economic Policy Committee prepared a draft programme on medium-term economic policies as a basis for the co-ordination of economic policies to be pursued by member states and Community institutions over the period 1966-1970. This programme was discussed in the Community and was adopted by the Council in February, 1967. The programme does not lay down quantitative targets for member states, but sets out initial guide lines for various fields of economic policy, and deals in greater detail with such subjects as employment and vocational training policy, public finance and regional
policy; it also emphasises the need to maintain economic balance while permitting adequate economic growth. The Medium-Term Economic Policy Committee is to review the programme annually and to examine the compatibility of member states' medium-term economic policy with the programme.

Harmonisation of taxation. Early this year the Council adopted two directives, concerning the adoption of a common system of "value-added" taxation on company sales. The common system will mean some amendment of the present French system of value-added taxation and will replace the "cumulative turnover" taxes at present in force in the other member states. The common system is due to come into force by January 1970 at the latest. There are no plans yet for harmonisation of rates of tax. Taxation of services is only compulsory when they have a marked effect on the price of goods. The objective of tax harmonisation is to prevent distortion of trade within the EEC.

As the product moves from the raw material stage to the finished product the value added by each company is taxed.
Common commercial policy

An aim of the Treaty is the establishment of a common commercial policy towards third countries. The Treaty prescribes that after 1970 commercial policy shall be based on uniformly established principles. During the Transitional Period, member states are to co-ordinate their commercial relations with third countries.

Tariff negotiations are conducted by the Commission in accordance with mandates from the Council of Ministers. (In the Kennedy Round, the Commission is negotiating in the cereals arrangement on behalf of the Community).

As explained in the next Chapter, Community commercial relations with some countries are governed by association and trade agreements.

Slow progress has been made with a common commercial policy. The Commission has submitted to the Council proposals for Community policies on export aids, defence of trade, relations with state trading countries and with Japan, but so far no decisions have been made.

Member states still retain the right to impose quantitative restrictions on trade with third countries and to conclude bilateral trade agreements with them.

Rules for competition

The Treaty prohibits all agreements and concerted practices which are liable to affect trade between member states and have as their object or result the prevention, restriction or distortion of competition in the Common Market. But, subject to certain conditions, the Treaty exempts from this prohibition,
agreements or practices which benefit production or distribution or promote progress. The Treaty also prohibits any improper exploitation of a dominant position within the Common Market.

State aids are dealt with below.

In 1962, the Council approved a Regulation which prescribed a machinery of enforcement. Firms have to apply to the Commission for "negative clearance" i.e. a finding that the particular arrangements to which they are party do not conflict with the prohibitions in the Treaty. The Court of Justice has ultimate jurisdiction on the application of the Treaty to a particular agreement. So far, the Commission has announced decisions on or referred to the Court a limited number of cases.

So far no enforcement action has yet been taken in respect of monopolies.

State aids

With the exception of aids of a social character to individuals or those which make good the damage caused by national disasters, any state aid which distorts competition in trade between member states is incompatible with the Common Market. But aids to regional development, or to promote an important European project or to remedy a serious disturbance in the economy of a member state or which facilitate development of certain activities or of certain economic regions, providing there is no detriment to the common interest, may be deemed to be compatible with the Common Market. All aids existing or proposed are subject to scrutiny by the Commission.

If a state does not comply with the Commission's decision, the Commission may refer the matter to the Court of Justice. But the Council may, by unanimous vote, override the Commission's decision.
Regional policies

One of the objectives of economic policy set out in the Treaty is the raising of the living standards of the less prosperous areas of the Community. State aids with this objective in view are allowed by the Treaty (see above), and positive measures to help these areas are also taken by several Community bodies.

Regional problems, including those of areas dependent on declining industries and of isolated agricultural areas, are tackled in various ways by the member states. In May 1965 the Commission published a memorandum recommending certain measures to member states.

Regional policies are mainly the responsibility of member states. The EEC instruments in this field are the European Investment Bank and the European Social Fund, the work of which is co-ordinated with the regional assistance given by the ECSC.

By the end of 1966 the European Investment Bank (see Ch 3 p. 4-5) had lent some £200 million within the Six, nearly two-thirds of this to help finance development projects in Southern Italy, and over £40 million in the European associates - Turkey and Greece.

The European Social Fund (see Ch 3. p.5) began operation in 1961. In its first five years of work it spent over £10 million on re-training and about £1 million on re-employment schemes.

The European Coal and Steel Community (See Ch 3.18) gives loans to aid industrial and regional development in areas where employment in coal and steel has fallen: last year this was worth £6 million. In addition its direct assistance
assistance to the workers affected, in the form of tiding-over and re-training allowances, is now running at an annual rate of over £3½ million.

Co-ordinated social policies

The member states agreed upon the need to promote improvement in the living and working conditions of labour towards a common higher level. The Treaty endorses the principle of equal pay.

As explained in Chapter 6 the member states have each developed varied social security systems. Co-ordinated arrangements have been made for social security for workers and their dependents moving from one member state to another (see Ch.3, p8-9), but general harmonisation has not taken place. The Council agreed that equal pay should be introduced by the end of 1964, and, although this objective has not been fully realised, substantial progress has been made.

For the European Social Fund, see Ch.3, p5 and 15.
Associated overseas countries and territories

The Treaty provides for the association of certain overseas countries with the Community, with a view to increasing trade and to pursuing joint efforts towards economic and social development. These are the countries and territories which, when the Treaty was signed, had a special relationship with Belgium, France, Italy or the Netherlands (for example colonies or ex-colonies).

For trade arrangements with these associated countries and territories see next chapter.

In 1963 an Association Convention (the Yaoundé Convention) was signed to govern for 5 years from 1964 the relations between the EEC and 18 newly independent African states, including Madagascar. This Convention replaced transitional arrangements. Joint institutions were set up by the Convention. Arrangements for the remaining associated overseas countries and territories were laid down by the EEC Council in their Decision of 25th February 1964. The terms of this decision are similar to those of the Yaoundé Convention, except that there are no joint institutions.

The first European Development Fund was replaced by a second one, to which the Six agreed to contribute £260 million and the European Investment Bank £25 million. The fund is spent on aid to economic and social development in the 18 overseas associates which signed the Convention and the small dependent territories of Netherlands and France.

Nigeria signed a separate association agreement in 1966. (This has yet to be ratified). It gives rising duty-free quotas to Nigerian peanut oil, palm oil, cocoa beans and plywood, and free entry to all other Nigerian products. In return Nigeria is to grant preferences on 26 products from the EEC. Nigeria did not request and will not receive development aid from the Community.

Kenya, Uganda and Tanzania have had discussions with the EEC about association.
The basic aim of the Treaty of 1951 which set up the European Coal and Steel Community was to establish a common market in coal and steel in the Six, with common objectives and institutions, so as to ensure the rational development of these industries. It has a High Authority, and a Council of Ministers, and it shares the European Parliament and the Court of Justice with the EEC and Euratom. The High Authority's main powers are to supervise the operation of the common market for coal and steel and particularly the conditions of competition, and to encourage the co-ordination of investment.

Common markets in coal, iron and steel were established during 1953 and 1954, although some tariffs, subsidies and price controls continued for a transitional period which ended in February 1958. The pricing rules of the Community have been applied. These rules are designed to eliminate unfair competition and discrimination.

On 21 December 1958, an agreement was signed between the UK, the High Authority and member governments of the ECSC, establishing a Council of Association which provides a means for exchanging information, consultation and - where appropriate - co-ordination of action on matters of mutual interest relating to coal and steel.

For ECSC aid to regional development and re-training see Ch 3 p. 15-16.
The Euratom Atomic Energy Community Treaty of 1957 set for Euratom the aim of creating the conditions necessary for the speedy establishment and growth of nuclear industries, including research, the construction of the necessary basic facilities, the proper supply of ores and nuclear fuels, and establishment of uniform health standards.

The main institutions of Euratom are similar to those of the EEC and ECSC. In addition there are committees dealing with the social, economic, technical and research aspects of Euratom's functions and there is machinery for co-ordination with the EEC and ECSC.

Euratom is financed by contributions from member states in proportions set out in the Treaty. Most nuclear research and development within the Community is undertaken by member states within national programmes. However, the Euratom Commission in addition to its administrative and information functions, undertakes research or development itself.

Euratom's research budget for the second five-year programme (1963-67) is about £160 million. About one-fifth is for the Commission's main Research Centre in Italy. Association contracts awarded by the Commission to national bodies stimulate and spread information about developments thought to be of wide interest in the Community. Euratom also has collaborative agreements with a number of countries including the UK and the USA.

A common market in nuclear material and equipment came into force on 1st January 1959; and the
Euratom Supply Agency was set up to ensure equal access to resources of nuclear material for fuel within the Community.

Euratom is also concerned with plans for using nuclear power to supply electricity: nuclear power at present provides less than 1 per cent of the total energy supplies in the Community but this proportion is expected to rise to rather more than one-tenth by 1980 and to nearly a third by the end of the century.
Customs duties are of two kinds: revenue duties (which are paid also by similar home produced goods) and protective duties.

The U.K. protective tariff has been considerably reduced in recent years as a result of multilateral negotiations under the General Agreement for Tariffs and Trade (GATT) which seeks to reduce barriers to world trade. It is hoped that the Kennedy Round of trade negotiations, which Britain is strongly supporting, will lead to a substantial reduction in tariffs and non-tariff barriers to world trade. It is envisaged that most tariff reductions would be phased over a period of 4 years, beginning in 1968.

U.K. tariff levels

Nearly all raw materials and many basic foodstuffs are free of import duty from all sources. The main exceptions are where duties are charged on foreign products to give a margin of preference to Commonwealth suppliers. Duties on some horticultural products are varied during the course of the year and are fixed at higher levels for the periods when the home crop is marketed. The rates of duties on semi-manufactured goods are mainly 15 per cent ad valorem or less; while duties on manufactured goods range from 10 per cent to 33 per cent ad valorem, or higher on a few items.

The two diagrams below enable a comparison to be made between the levels of the U.K. most favoured nation tariff and the Common External Tariff of the EEC for industrial goods. Diagram 1 shows the proportion of tariff items in the U.K. tariff and the CET falling within different duty bands. Diagram 2 shows the proportion of U.K. and EEC imports in 1961 within the various duty bands of the U.K. tariff and the CET. Neither of these methods of comparing the two tariffs is entirely...
entirely satisfactory. The first does not make allowance for the greater fragmentation of the U K tariff which contains over 2,800 separate items covering industrial goods, compared with some 2,400 in the C E T. On the other hand, the second method does not take into account the deterrent effect on imports of high rates of duty.

**E F T A**

As a result of the European Free Trade Association, protective duties have been removed from U K imports of industrial goods from Austria, Denmark, Finland, Norway, Portugal, Sweden and Switzerland. Protective duties have also been removed on imports from E F T A countries of some agricultural products of particular importance to E F T A suppliers.

**Commonwealth Preference**

Up to 1932 the U K had very few import duties other than those imposed for revenue purposes; and most of the duties that did exist were applied at preferential rates, or not at all, to Commonwealth goods. When the general protective tariff was introduced under the Import Duties Act, 1932 provision was made to exempt imports from the U K dependencies from the duties imposed under that Act. Later that year the Ottawa Agreements Act gave effect to a series of commercial agreements with the Dominions, India and Southern Rhodesia and extended our duty-free entry commitments to those Commonwealth countries.
These agreements also provided for guaranteed margins of preference on certain goods. The Import Duties Act, 1958 maintained the Commonwealth Preference system by enabling goods grown, produced or manufactured in the Commonwealth Preference Area to be exempted from import duty or to be made liable to duty at preferential rates. All Commonwealth countries, together with South Africa, the Republic of Ireland, Burma and Samoa are within the Area.

Not all Commonwealth countries grant tariff preference to UK goods, but about half of our total exports to countries within the Commonwealth Preference Area enjoy some measure of preference.

Republic of Ireland

In addition to being eligible for Commonwealth preference, goods originating in the Republic of Ireland are entitled to duty-free entry into this country under the U.K/Irish Free Trade Agreement signed in December 1965.

The Common Market

Article 9 of the Treaty of Rome laid down that "The Community shall be based on a customs union covering the exchange of all goods and comprising both the prohibition, as between Member States, of customs duties on importation and exportation and all charges with equivalent effect and the adoption of a common customs tariff in their relations with third countries."

The Treaty of Rome timetable laid down that the transition from four separate customs zones (i.e. France, Germany, Italy, Benelux) to a single Common Market should take place in three stages, to be completed by 1970. The internal tariffs on industrial products traded between Member States have now been reduced.
reduced by four fifths, and on agricultural goods by about two thirds and the process is to be completed by July 1968, eighteen months earlier than originally planned.

The Common External Tariff (CET)

Originally the majority of tariffs in the common external tariff represented the arithmetic average of the tariffs of the separate member states on 1 January 1957. In general this meant a rise in German and Benelux tariffs and a fall in those of France and Italy. Some countries are allowed a "duty quota" on some goods — that is a quota that is allowed to enter at a tariff rate other than the normal rate. The Six have made two of the three projected moves by which their tariffs are to be aligned with the common external tariff. Broadly they have reduced the difference between their former tariffs and the common external tariff by 60 per cent. The final alignment is due to take place in July 1968.

The rates to be applied in the common external tariff are similar for a large range of products to those in the British tariff.

Associated Overseas Countries and Territories

The Treaty of Rome brought into association with the Community the non-European territories which had special relations with Belgium, France, Italy and the Netherlands. In their commercial exchanges with associated countries the member states of the EEC are to apply the same rates which apply among themselves. Imports into EEC member countries originating in associated countries and territories thus benefit from the stage by stage abolition of customs duties. But there are, however, special provisions regarding the customs duties levied.
levied by the associated countries and territories themselves, taking into account, among other factors, the needs for their development and the requirements of their industrialisation.

The first Association Agreement concluded in 1958 was for five years, and a new five year agreement which extended the arrangements was signed in 1963 and commenced in 1964. Under the 1963 agreement Community tariffs on a number of tropical products were abolished altogether.

Although in principle the Associated Countries’ tariffs on imports from the Community should be reduced by 15 per cent annually and quota restrictions on these imports should be abolished within the first four years of the new Convention’s life, the new arrangements in fact also give the African countries the specific right to retain old tariffs or create new ones where these are needed to protect infant industries or to raise revenue.

In addition to these arrangements, a Protocol annexed to the Treaty (commonly known as the Morocco Protocol) provides for preferential arrangements to be maintained between particular countries of the Six and certain territories with which they had special trading relationships.

An Association agreement concluded between Greece and the Six provides for Greece to adopt over an extended period the Community’s common external tariff. Special transitional arrangements were made to safeguard her particular economic position in the meantime.

Turkey has also reached an Association agreement with the Six of more limited scope than the Greek arrangement. It provides for a start to be made on tariff disarmament by opening tariff quotas for products from Turkey. A customs union is envisaged as a long-term objective.
### BAR CHART

**Two ways of looking at the incidence of UK and EEC tariffs** — by the proportion of UK and EEC imports of industrial products falling within the different bands of duty.

<table>
<thead>
<tr>
<th>Band of tariff duty</th>
<th>UK (%)</th>
<th>EEC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free</td>
<td>45.6</td>
<td>51.7</td>
</tr>
<tr>
<td>Up to 5%</td>
<td>4.2</td>
<td>2.7</td>
</tr>
<tr>
<td>over 5% to 10%</td>
<td>12.1</td>
<td>16.9</td>
</tr>
<tr>
<td>&quot; 10% to 15%</td>
<td>15.0</td>
<td>17.8</td>
</tr>
<tr>
<td>&quot; 15% to 20%</td>
<td>13.2</td>
<td>8.4</td>
</tr>
<tr>
<td>&quot; 20% to 25%</td>
<td>5.8</td>
<td>2.2</td>
</tr>
<tr>
<td>&quot; 25% to 35%</td>
<td>3.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Over 35%</td>
<td>0.7</td>
<td>nil</td>
</tr>
</tbody>
</table>

1. UK imports of industrial products (1961) falling within the various duty "bands" of the UK most favoured nation tariff.

2. EEC imports of industrial products (1961) falling within the various duty "bands" of the common external tariff.

by the proportion of tariff headings of industrial products in the UK and the EEC falling within the different bands of duty.

<table>
<thead>
<tr>
<th>Band of tariff duty</th>
<th>UK (%) of headings</th>
<th>EEC (%) of headings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free</td>
<td>9.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Up to 5%</td>
<td>1.0</td>
<td>5.2</td>
</tr>
<tr>
<td>over 5% to 10%</td>
<td>24.3</td>
<td>27.8</td>
</tr>
<tr>
<td>&quot; 10% to 15%</td>
<td>13.0</td>
<td>34.3</td>
</tr>
<tr>
<td>&quot; 15% to 20%</td>
<td>24.5</td>
<td>20.2</td>
</tr>
<tr>
<td>&quot; 20% to 25%</td>
<td>13.3</td>
<td>3.5</td>
</tr>
<tr>
<td>&quot; 25% to 35%</td>
<td>12.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Over 35%</td>
<td>2.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>
The differences between the agricultural policies of the U.K. and the E.E.C. reflect differences between the agricultural situations here and in the Six. Britain produces only half of its total food requirements and about two thirds of its requirements of temperate foodstuffs. The E.E.C. on the other hand produces about nine-tenths of all its food requirements and is self-sufficient or in surplus for many of the main temperate foodstuffs.

British agricultural and food policies

British policy is based on the Agriculture Acts of 1947 and 1957. The main objective is to maintain a stable and efficient agricultural industry, able to produce as much of the nation's food and other agricultural produce as is desirable in the national interest. The Government reviews annually the economic condition and prospects of the agricultural industry, in consultation with representatives of agricultural producers, and then fixes the level of Government support for the coming year. Support is given in the form of guaranteed prices for the main agricultural commodities (cattle, sheep, pigs, eggs, wool, milk, cereals, potatoes and sugar beet) and direct farming grants (designed to raise farm productivity and encourage certain types of production). In general the guaranteed prices are maintained, where necessary, by "deficiency" payments to farmers. Under this system the agricultural industry is given support while market prices for basic foodstuffs are allowed to remain at or near world price levels. In the year 1965/66, the Government spent an estimated £237 million on total agricultural support.

Horticulture is not supported by deficiency payments but by tariff protection against competing imports, and by assistance designed to help improve the industry's competitiveness.

The E.E.C.'s Common Agricultural Policy

The Treaty of Rome provides that the Common Market shall extend to agriculture and to trade in agricultural products; and that over a transitional period the Member States shall develop a common agricultural policy.

Under the Treaty, the Community has made a series of regulations and decisions designed to lead to the eventual establishment of a common agricultural market,
and give effect to a common agricultural policy. This process is not yet complete, and the single market stage—when there are no longer any barriers to trade between member countries—is only due to be reached for the main agricultural commodities during 1967 and 1968. But the main lines of the policy are now established. It comprises three basic elements: the common organisation of markets for particular commodities; common price aims for particular commodities; and arrangements for financing the policy.

In 1962 a series of regulations were made for organising the marketing of some of the principal commodities. The cereals regulation made then has come to be regarded as the prototype for the Community's market organisation, and, although the separate regulations for particular commodities differ quite widely, the general philosophy underlying the cereals regulation informs them all. It is that the protection of national markets against other Community producers should be progressively eliminated and a common market for Community producers established; that producers are to look primarily for their returns to a managed common market and not to price guarantees or subsidies; and that in order to ensure that they receive reasonable returns, the Community market should be protected by charges on imports from non-member countries. For cereals, the aim of the common organisation of the market is defined in terms of a target price, and the protection from imports takes the form of variable levies designed to raise the price of imports to at least that target price. This protection is, in the case of cereals, supplemented by a system of support buying at intervention prices somewhat below the target price and by the subsidisation of Community exports to other countries. The arrangements for other commodities vary—for some there are no target prices or intervention arrangements—but all have the same general purpose of establishing a common market and supporting that market wholly or in part by charges on imports.

The regulations for the various commodities provide for the gradual adjustment of price levels in each member country to a point where all barriers to trade between members can be removed and common producer price levels established for the whole Community. These common prices are of two kinds: prices which are to some extent fixed, if only as aims or targets, by decision of the E.E.C. Council of Ministers; and prices which come about naturally as a result of establishing
a common market in the commodity in question. Common target prices for cereals are due to come into force from July 1967, and for milk and beef from April, 1968. The single market stage for pigmeat, eggs and poultry is due to begin in July 1967.

The Community has created an Agricultural Guidance and Guarantee Fund to finance the common agricultural policy. The Guidance Section of the Fund finances assistance for improving the structure of agricultural production and marketing. The Guarantee Section - much the greater part of the total Fund - finances intervention or support buying and the subsidisation of exports. The Community have decided that from July 1967 to December 1969, member countries should hand over to the Fund sums equal to 90 per cent of the levies collected on imports of food-stuffs from non-members. Latest estimates of the total cost of the Fund at the single market stage, put it at about £580 millions a year. It is estimated that nearly 40 per cent of this total may come from the proceeds of levies on imports; the remainder has to be paid from the national exchequer of member states on a fixed percentage scale of contributions.

Summary

The broad differences between the two systems are as follows:

(i) In the E.E.C., the producer looks for his return to a managed market, protected by charges on imports, and the cost of support falls mainly on the consumer. In the U.K., the home producer is guaranteed a minimum return through the deficiency payments system, imports come in at lower prices, and the cost of support falls largely on the taxpayer.

(ii) The levels of producer prices differ. In general, E.E.C. prices are higher, but the relationship between prices for cereals and for most livestock products favours cereals more than in the U.K.

A fuller account of the two systems, with detailed consideration of particular commodities, is given in a paper submitted by the Ministry of Agriculture, Fisheries and Food to the Select Committee on Agriculture, and published in Minutes of Evidence for 15th March (H.M.S.O., price 4s.)
CHAPTER 6

THE EUROPEAN ECONOMY

Western Europe is one of the most important economic regions of the world and plays a vital part in world trade and industry. Although the countries of Western Europe comprise only about 3 per cent of the world's total land surface, they account for about 10 per cent of the world's total population.

Western Europe's place in the world economy

Western Europe has a population of about 375 million people, 180 million more than the USA and 145 million more than the USSR. About 180 million people live in the six EEC countries and almost 100 million in the seven EFTA countries (with their associate, Finland), of which some 55 million are in the United Kingdom.

The countries of Western Europe supply over two-fifths of world exports and are an important market for exports from all over the world. In 1965, their imports per head of population were twice as high as those of the United States. Western Europe is dependent on the outside world for many major industrial raw materials, including most of its oil supplies, for tropical foodstuffs and for a small proportion of its requirements of temperate foodstuffs. The growth of industrial activity and improved living standards have greatly increased Europe's demands for imports in recent years, and the value of its imports from the rest of the world nearly doubled between 1958 and 1965.

Western Europe contains one of the world's biggest concentrations of industry. The main European industrial zone stretches from the central lowland of Scotland and the northern and midland counties of England, through Belgium, North-Eastern
France and the Ruhr in Germany, to northern Italy. Based originally on coal and iron, it now produces almost all types of manufactured goods. In 1965, Western Europe produced nearly two-fifths of the world's passenger cars, nearly a third of its crude steel, a quarter of its electricity and about a fifth of its coal.

Western Europe and the United States

The economy of Western Europe has grown rapidly during the past 15 years. Total output has about doubled since 1950. But although output in Western Europe has been rising more rapidly than in the USA, the absolute level in the USA is still very much higher, and the real income per head of population is probably nearly twice as great in the USA as in Western Europe as a whole.

Production of electricity per head of the population has increased considerably in Western Europe in recent years, but it is still only about one-third that of the USA. Western European output of steel, however, is now larger than US output, and steel output per head of the population in the UK and the EEC is about 80 per cent of the US level.

The growth of output in Western Europe

Between 1958 and 1965, total output and output per head grew faster in EEC countries than in the United Kingdom. Industrial output grew by about a half in the EEC, but less than a third in the UK; agricultural output on the other hand, increased considerably faster in the UK than in the EEC. The leading growth industries have varied from country to country, but almost everywhere production in the base metal, engineering and chemical industries has risen by more than the average. There has been a shift in the pattern of output towards manufacturing, and, within manufacturing industry itself, away from old-established industries such as textiles.
to new technologically advanced industries such as engineering, chemicals and electronics.

The table shows the changes in output of some major products in the UK and EEC between 1958 and 1965. Output of most of these products has been rising less rapidly in the UK than in the EEC. The notable exceptions have been commercial vehicles, sulphuric acid and man-made fibres (and also shipbuilding, where output in the UK has contracted less than in the EEC).

Agricultural output in the UK is a smaller percentage of total output than in any of the EEC countries. The share of production industries (manufacturing; mining and quarrying; gas, electricity and water; and construction) in UK national output is less than in Germany, about the same as in France, and considerably more than in Belgium, the Netherlands and Italy. The contribution of the service sector (commerce, transport, health, education, public administration, etc.) in the UK is more important than in France, Germany and Italy, but less than in Belgium and the Netherlands.

The big rise in industrial output in the EEC has been obtained partly from the rapid increase in industrial employment and partly from the higher productivity which has accompanied heavy investment in modern machinery and equipment.
## Industrial Production

<table>
<thead>
<tr>
<th>Product</th>
<th>TOTAL OUTPUT IN 1965</th>
<th>PERCENTAGE CHANGE 1958-65</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EEC</td>
<td>UK</td>
</tr>
<tr>
<td>Electricity</td>
<td>402</td>
<td>192</td>
</tr>
<tr>
<td>Hard Coal</td>
<td>218</td>
<td>191</td>
</tr>
<tr>
<td>Crude Steel</td>
<td>86</td>
<td>27</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>5.24</td>
<td>1.72</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>557.8</td>
<td>454.8</td>
</tr>
<tr>
<td>Merchant Vessels</td>
<td>2.25</td>
<td>1.09</td>
</tr>
<tr>
<td>Cotton Yarn</td>
<td>964</td>
<td>220</td>
</tr>
<tr>
<td>Wool Yarn</td>
<td>531</td>
<td>250</td>
</tr>
<tr>
<td>Man-made Fibres*</td>
<td>1,126</td>
<td>374</td>
</tr>
<tr>
<td>Sulphuric Acid*</td>
<td>11.50</td>
<td>3.19</td>
</tr>
<tr>
<td>Cement</td>
<td>85.7</td>
<td>17.0</td>
</tr>
</tbody>
</table>


*Figures relate to total output in 1964 and percentage change 1958-64
Employment

Employment in manufacturing industry accounts for over a third of total civilian employment in the UK, Germany and Belgium; in the other EEC countries it absorbs between a quarter and a third.

Agricultural employment accounts for a smaller share of total employment in the UK than in any of the EEC countries. With the exception of the UK and Belgium, where agriculture’s share of total employment is similar to its share of total output, there is a considerable disparity between agriculture’s contribution to output and its claims on manpower. In the UK agricultural employment is about 3½ per cent of total employment and accounts for about the same proportion of total output. On the other hand, agriculture accounts for nearly a fifth of total employment in France but contributes less than a tenth of the total output; it accounts for just over a quarter of Italy’s total employment but provides less than a sixth of total output.

Up to 1966 employment in the Community as a whole remained at a high level and all countries, other than Italy, recruited additional labour from outside the Community. It is not possible to use the published unemployment statistics of the Member countries to produce a figure of unemployment for the Community as a whole because the concept of unemployment differs considerably from country to country but Community sources state that Community workless numbered 1.1 million (1.4 per cent) at the end of October, 1966. This compares with 405,000 (1.3 per cent) in the UK in mid-October. The Community authorities have announced that unemployment in the Community recently appears to have shown an upward trend which
was accentuated towards the end of 1966 and is continuing in most Member States, particularly Germany and the Netherlands. Although the number unemployed in Italy has declined considerably, that country still has the highest unemployment rate in the Community.
### STRUCTURE OF EMPLOYMENT, 1964

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Civilian Employment (thousands)</th>
<th>Percentage Share of Total Civilian Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing Industries</td>
<td>Other Industries</td>
</tr>
<tr>
<td></td>
<td>Annual Average</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>3,566</td>
<td>35.2</td>
</tr>
<tr>
<td>France</td>
<td>19,251</td>
<td>28.9</td>
</tr>
<tr>
<td>Germany</td>
<td>26,523</td>
<td>38.1</td>
</tr>
<tr>
<td>Italy</td>
<td>19,389</td>
<td>28.8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>138</td>
<td>-----</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4,310</td>
<td>30.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>25,007</td>
<td>36.0</td>
</tr>
</tbody>
</table>

1. Includes mining and quarrying, construction, and electricity, gas, water, and sanitary services.

2. Includes commerce, transport and communications, and other services.

3. Mid-year estimate.

Source: [OECD MANPOWER STATISTICS, 1954-64](#)
## CHANGES IN EMPLOYMENT, 1960-64

### Percentage Changes in Employment, 1960-64

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Civilian Employment</th>
<th>Industry¹</th>
<th>Agriculture</th>
<th>Services²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>+5.3</td>
<td>+6.3</td>
<td>-16.0</td>
<td>+8.0</td>
</tr>
<tr>
<td>France</td>
<td>+3.3</td>
<td>+7.6</td>
<td>-12.7</td>
<td>+8.2</td>
</tr>
<tr>
<td>Germany</td>
<td>+2.2</td>
<td>+3.4</td>
<td>-14.9</td>
<td>+7.0</td>
</tr>
<tr>
<td>Italy</td>
<td>-3.1</td>
<td>+8.2</td>
<td>-24.4</td>
<td>+6.3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>+3.0</td>
<td>+6.8</td>
<td>-13.6</td>
<td>+5.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>+3.9³</td>
<td>+4.3³</td>
<td>-3.2³</td>
<td>+5.1³</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>+3.4</td>
<td>+1.3</td>
<td>-10.0</td>
<td>+5.9</td>
</tr>
</tbody>
</table>

¹Includes mining and quarrying; manufacturing; construction; electricity, gas, water and sanitary services.

²Includes commerce; transport and communications; and other services.

³1962-64

Source: OECD MANPOWER STATISTICS, 1954-64
Investment

There is a significant relationship between a country's growth rate and the proportion of its output which is devoted to capital investment.

The UK devotes a much smaller share of output to investment than any of the EEC countries. We show up slightly better in the rate of increase in the volume of investment since 1958, where we are about level with Belgium, although we have been exceeded by France, Germany and the Netherlands. Since the early 1950s and in common with all European countries, the UK has been using proportionately more of its output on capital investment and less on private consumption; but private consumption in the UK is still running at a proportionately higher level than in the EEC as a whole.
In some of the countries of Western Europe, the growth of the labour force is slowing down and there is a growing need for the introduction of more efficient production methods and more investment in labour-saving machinery and other new and technically advanced equipment. There have been some big improvements in industrial technology in recent years, and more and more resources are being devoted by governments to scientific research and development.

According to an OECD study*, there were over half a million people engaged in scientific research and development in Western Europe in 1962. In the same year, the estimated gross expenditure on research and development was much higher in the UK, both per head of the population and as a proportion of total output, than in Belgium, France, Germany and the Netherlands. Many more people, representing a much higher proportion of the total working population, were engaged in research and development in the UK than in these other European countries.

The scale of the resources committed to research in Western Europe is, however, considerably smaller than in the United States, and governments are working vigorously to expand the scale of scientific research and development in Western European countries. International co-operation in research is developing rapidly. The formation of larger national and multi-national industrial groups is being encouraged, large projects are being promoted in co-operation between individual countries (for example, the Anglo-French Concord project), and international research organisations have been set up (for example, the European Space Research Organisation and the European Launcher Development Organisation).

*The Research and Development Effort in Western Europe, North America and the Soviet Union, OECD, 1965, 158.

Ch. 6. 10.
Wages

Wages have risen rapidly in Western Europe in recent years. The pressure on labour resources has increased everywhere and the steady fall in the level of unemployment has resulted in an acceleration in the rate of increase in wages. Although prices have also been rising, the increase in the cost of living has been a good deal less than in the rise in earnings, and there has been a real increase in European living standards.

In the UK wages have increased more slowly since 1960 than in the EEC countries; they have also risen less proportion to the rise in prices than in the EEC countries, so that the increase in real wages in the UK has been correspondingly lower.
Social Security

The social security systems of the six EEC countries provide much the same range of benefits as the UK system, but there are many differences of emphasis and method. The EEC countries have no National Health Services, but medical treatment is provided as an insurance benefit for insured persons and their dependents generally through re-imbursing them for the whole or part of the cost of any treatment received. Apart from family allowances, benefit rates are generally related to earnings. A much smaller part of the cost falls on general taxation than in the UK. The main burden is borne by the contributions of employers and insured persons. There are many special schemes for particular industries. The administration of benefits is not done directly by Government departments, as in the UK, but mainly by independent institutes run by representatives of workers and employers.
<table>
<thead>
<tr>
<th>Country</th>
<th>Area (in 1,000 sq. km)</th>
<th>Population (mid-1965) in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELGIUM</td>
<td>30.5</td>
<td>9.5</td>
</tr>
<tr>
<td>FRANCE</td>
<td>547.0</td>
<td>48.9</td>
</tr>
<tr>
<td>GERMANY</td>
<td>248.5</td>
<td>59.0</td>
</tr>
<tr>
<td>ITALY</td>
<td>301.2</td>
<td>51.6</td>
</tr>
<tr>
<td>LUXEMBOURG</td>
<td>2.5</td>
<td>0.3</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>33.6</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>TOTAL EEC</strong></td>
<td><strong>1,163.4</strong></td>
<td><strong>181.6</strong></td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>83.8</td>
<td>7.3</td>
</tr>
<tr>
<td>DENMARK</td>
<td>43.0</td>
<td>4.8</td>
</tr>
<tr>
<td>NORWAY</td>
<td>324.2</td>
<td>3.7</td>
</tr>
<tr>
<td>PORTUGAL</td>
<td>92.0</td>
<td>9.2</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>449.8</td>
<td>7.7</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>41.3</td>
<td>5.9</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>244.0</td>
<td>54.6</td>
</tr>
<tr>
<td><strong>TOTAL EFTA</strong></td>
<td><strong>1,218.1</strong></td>
<td><strong>93.2</strong></td>
</tr>
<tr>
<td>FINLAND</td>
<td>337.0</td>
<td>4.6</td>
</tr>
<tr>
<td>GREECE</td>
<td>131.9</td>
<td>8.6</td>
</tr>
<tr>
<td>TURKEY</td>
<td>780.6</td>
<td>31.4</td>
</tr>
<tr>
<td>ICELAND</td>
<td>103.0</td>
<td>0.2</td>
</tr>
<tr>
<td>IRISH REPUBLIC</td>
<td>76.3</td>
<td>2.9</td>
</tr>
<tr>
<td>SPAIN</td>
<td>504.7</td>
<td>31.6</td>
</tr>
<tr>
<td>YUGOSLAVIA</td>
<td>255.8</td>
<td>19.5</td>
</tr>
<tr>
<td><strong>TOTAL W. EUROPE</strong></td>
<td><strong>4,624.8</strong></td>
<td><strong>373.6</strong></td>
</tr>
</tbody>
</table>


Note: This Table includes all the European members of OECD plus Finland, which is not a member of OECD but is an Associate Member of EFTA, and Yugoslavia.
<table>
<thead>
<tr>
<th>Country</th>
<th>Area (1000 sq. KM)</th>
<th>Population (mid-1965) (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>30.5</td>
<td>9.5</td>
</tr>
<tr>
<td>France</td>
<td>547.0</td>
<td>48.9</td>
</tr>
<tr>
<td>Germany</td>
<td>246.5</td>
<td>59.0</td>
</tr>
<tr>
<td>Italy</td>
<td>301.2</td>
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<td>Luxembourg</td>
<td>2.6</td>
<td>0.3</td>
</tr>
<tr>
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<td>33.6</td>
<td>12.3</td>
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<td>TOTAL EEC</td>
<td>1,163.4</td>
<td>181.6</td>
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<tr>
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<td>83.8</td>
<td>7.3</td>
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<tr>
<td>Denmark</td>
<td>43.0</td>
<td>4.6</td>
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<tr>
<td>Norway</td>
<td>324.2</td>
<td>3.7</td>
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<tr>
<td>Portugal</td>
<td>92.0</td>
<td>9.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>449.8</td>
<td>7.7</td>
</tr>
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<td>Switzerland</td>
<td>41.3</td>
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<tr>
<td>United Kingdom</td>
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<td>TOTAL EFTA</td>
<td>1,272.1</td>
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<td>337.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Greece</td>
<td>131.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>780.6</td>
<td>31.4</td>
</tr>
<tr>
<td>Iceland</td>
<td>103.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Irish Republic</td>
<td>70.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Spain</td>
<td>504.7</td>
<td>31.6</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>255.8</td>
<td>19.5</td>
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<tr>
<td>TOTAL W. EUROPE</td>
<td>4,624.8</td>
<td>373.6</td>
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</tbody>
</table>


Note: This Table includes all the European members of OECD plus Finland, which is not a member of OECD but is an Associate Member of EFTA, and Yugoslavia.
### Agriculture (1964-65)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>TOTAL EU</th>
<th>BELGIUM</th>
<th>FRANCE</th>
<th>GERMANY</th>
<th>ITALY</th>
<th>NETHERLANDS</th>
<th>TOTAL EU (million tons)</th>
<th>UNITED KINGDOM</th>
<th>TOTAL WESTERN EUROPE (million tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>29.3</td>
<td>0.9</td>
<td>13.8</td>
<td>5.2</td>
<td>6.5</td>
<td>0.7</td>
<td>3.7</td>
<td>3.7</td>
<td>33.1</td>
</tr>
<tr>
<td>Barley</td>
<td>11.5</td>
<td>0.5</td>
<td>6.8</td>
<td>3.9</td>
<td>0.3</td>
<td>0.4</td>
<td>7.5</td>
<td>7.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Other cereals</td>
<td>19.4</td>
<td>0.5</td>
<td>5.4</td>
<td>7.4</td>
<td>5.1</td>
<td>0.9</td>
<td>7.3</td>
<td>7.3</td>
<td>26.5</td>
</tr>
<tr>
<td>Sugar beet</td>
<td>42.8</td>
<td>3.1</td>
<td>14.8</td>
<td>13.2</td>
<td>7.7</td>
<td>5.9</td>
<td>13.8</td>
<td>6.3</td>
<td>50.1</td>
</tr>
<tr>
<td>Potatoes</td>
<td>21.9</td>
<td>3.1</td>
<td>14.8</td>
<td>13.2</td>
<td>7.7</td>
<td>5.9</td>
<td>13.8</td>
<td>6.3</td>
<td>50.1</td>
</tr>
<tr>
<td>Beef and veal</td>
<td>3.07</td>
<td>0.21</td>
<td>1.29</td>
<td>1.36</td>
<td>0.47</td>
<td>0.26</td>
<td>1.66</td>
<td>0.94</td>
<td>4.01</td>
</tr>
<tr>
<td>Pigmeat</td>
<td>3.16</td>
<td>0.32</td>
<td>1.04</td>
<td>1.08</td>
<td>0.34</td>
<td>0.23</td>
<td>1.09</td>
<td>0.56</td>
<td>4.31</td>
</tr>
<tr>
<td>Poultry and lamb</td>
<td>3.07</td>
<td>0.32</td>
<td>1.04</td>
<td>1.08</td>
<td>0.34</td>
<td>0.23</td>
<td>1.09</td>
<td>0.56</td>
<td>4.31</td>
</tr>
<tr>
<td>Milk</td>
<td>16.9</td>
<td>2.6</td>
<td>23.6</td>
<td>20.9</td>
<td>9.4</td>
<td>3.0</td>
<td>21.6</td>
<td>7.1</td>
<td>39.7</td>
</tr>
<tr>
<td>Butter</td>
<td>1.16</td>
<td>0.18</td>
<td>0.64</td>
<td>0.69</td>
<td>0.06</td>
<td>0.06</td>
<td>0.42</td>
<td>0.05</td>
<td>1.72</td>
</tr>
<tr>
<td>Cheese</td>
<td>1.42</td>
<td>0.23</td>
<td>0.70</td>
<td>0.76</td>
<td>0.30</td>
<td>0.20</td>
<td>0.44</td>
<td>0.11</td>
<td>2.17</td>
</tr>
<tr>
<td>Eggs</td>
<td>2.11</td>
<td>0.18</td>
<td>0.56</td>
<td>0.61</td>
<td>0.46</td>
<td>0.30</td>
<td>1.21</td>
<td>0.85</td>
<td>3.96</td>
</tr>
</tbody>
</table>

1 Includes rye, oats, mixed grain, maize, millet and sorghum, and rice.

2 Dressed carcass weight

### Industry (1965)

<table>
<thead>
<tr>
<th>Commodity</th>
<th>TOTAL EU (million tons)</th>
<th>BELGIUM (million tons)</th>
<th>FRANCE (million tons)</th>
<th>GERMANY (million tons)</th>
<th>ITALY (million tons)</th>
<th>NETHERLANDS (million tons)</th>
<th>TOTAL EU (million tons)</th>
<th>UNITED KINGDOM (million tons)</th>
<th>TOTAL WESTERN EUROPE (million tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard coal</td>
<td>28.9</td>
<td>12.8</td>
<td>9.3</td>
<td>5.5</td>
<td>3.4</td>
<td>1.6</td>
<td>19.5</td>
<td>6.8</td>
<td>42.8</td>
</tr>
<tr>
<td>Electricity</td>
<td>401.4</td>
<td>12.7</td>
<td>101.4</td>
<td>172.3</td>
<td>79.2</td>
<td>7.5</td>
<td>247.3</td>
<td>191.6</td>
<td>447.9</td>
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<tr>
<td>Crude steel</td>
<td>94.0</td>
<td>46.2</td>
<td>19.6</td>
<td>33.6</td>
<td>12.7</td>
<td>9.1</td>
<td>34.8</td>
<td>37.4</td>
<td>72.2</td>
</tr>
<tr>
<td>Passenger cars</td>
<td>5.31</td>
<td>1.27</td>
<td>1.27</td>
<td>2.74</td>
<td>1.10</td>
<td>0.03</td>
<td>1.72</td>
<td>1.72</td>
<td>3.44</td>
</tr>
<tr>
<td>Commercial vehicles</td>
<td>0.56</td>
<td>0.24</td>
<td>0.24</td>
<td>0.21</td>
<td>0.07</td>
<td>0.01</td>
<td>0.46</td>
<td>0.46</td>
<td>0.92</td>
</tr>
<tr>
<td>Merchant ships completed</td>
<td>2.25</td>
<td>0.67</td>
<td>0.48</td>
<td>1.63</td>
<td>0.44</td>
<td>0.23</td>
<td>3.00</td>
<td>1.09</td>
<td>4.09</td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>0.56</td>
<td>0.09</td>
<td>0.47</td>
<td>0.36</td>
<td>0.16</td>
<td>0.07</td>
<td>0.36</td>
<td>0.22</td>
<td>0.58</td>
</tr>
<tr>
<td>Wool yarn</td>
<td>3.53</td>
<td>0.25</td>
<td>0.13</td>
<td>0.72</td>
<td>0.20</td>
<td>0.02</td>
<td>0.28</td>
<td>0.25</td>
<td>0.53</td>
</tr>
<tr>
<td>Man-made fibres</td>
<td>1.13</td>
<td>0.05</td>
<td>0.21</td>
<td>0.51</td>
<td>0.57</td>
<td>0.37</td>
<td>1.80</td>
<td>0.80</td>
<td>2.60</td>
</tr>
<tr>
<td>Sulphuric acid 4</td>
<td>11.5</td>
<td>3.7</td>
<td>2.7</td>
<td>5.6</td>
<td>2.9</td>
<td>1.0</td>
<td>4.6</td>
<td>3.2</td>
<td>8.8</td>
</tr>
<tr>
<td>Cement</td>
<td>30.7</td>
<td>5.2</td>
<td>22.2</td>
<td>34.1</td>
<td>20.2</td>
<td>5.0</td>
<td>36.1</td>
<td>17.0</td>
<td>53.1</td>
</tr>
</tbody>
</table>


Note: Weights are in metric tons.

Western Europe total includes all European members of OECD plus Finland and Yugoslavia.

Figures relate to 1964.
CHART 1: POPULATION

(MID-1965)

<table>
<thead>
<tr>
<th>Country</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>195</td>
</tr>
<tr>
<td>Western Europe</td>
<td>374</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>482</td>
</tr>
<tr>
<td>UK</td>
<td>55</td>
</tr>
<tr>
<td>Continental EFTA</td>
<td>43</td>
</tr>
<tr>
<td>Other</td>
<td>94</td>
</tr>
<tr>
<td>USSR</td>
<td>230</td>
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</tbody>
</table>

*Includes Finland, which is an associate member of EFTA.
†Includes other European members of OECD (Greece, Iceland, Ireland, Spain and Turkey) and Yugoslavia.

### Chart 2: Output of Some Major Industries

**Shares of World Production in 1965**

<table>
<thead>
<tr>
<th>Industry</th>
<th>USA</th>
<th>Western Europe</th>
<th>of which:</th>
<th>EEC</th>
<th>UK</th>
<th>Rest of World</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
<td>35</td>
<td>25</td>
<td>12</td>
<td>6</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td><strong>Coal</strong></td>
<td>23</td>
<td>21</td>
<td>11</td>
<td>9</td>
<td></td>
<td>56</td>
</tr>
<tr>
<td><strong>Crude Steel</strong></td>
<td>27</td>
<td>29</td>
<td>19</td>
<td>6</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td><strong>Passenger Cars</strong></td>
<td>49</td>
<td>38</td>
<td>28</td>
<td>9</td>
<td></td>
<td>13</td>
</tr>
</tbody>
</table>

**Source:** UN Monthly Bulletin of Statistics

December, 1966.
<table>
<thead>
<tr>
<th>Country</th>
<th>Growth of total output (per cent)</th>
<th>Growth of output per head (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>48</td>
<td>36</td>
</tr>
<tr>
<td>Italy</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>Netherlands</td>
<td>47</td>
<td>34</td>
</tr>
<tr>
<td>EEC</td>
<td>46</td>
<td>35</td>
</tr>
<tr>
<td>France</td>
<td>42</td>
<td>30</td>
</tr>
<tr>
<td>Sweden</td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>Belgium</td>
<td>38</td>
<td>32</td>
</tr>
<tr>
<td>USA</td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td>UK</td>
<td>29</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: OECD ANNUAL REVIEWS
## WHERE THE OUTPUT COMES FROM
### INDUSTRIAL ORIGIN OF GDP, 1965

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>6</td>
<td>42</td>
<td>52</td>
</tr>
<tr>
<td>France</td>
<td>8</td>
<td>47</td>
<td>45</td>
</tr>
<tr>
<td>Germany</td>
<td>4</td>
<td>53</td>
<td>43</td>
</tr>
<tr>
<td>Italy</td>
<td>13</td>
<td>40</td>
<td>47</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
<td>41</td>
<td>51</td>
</tr>
<tr>
<td>UK</td>
<td>3</td>
<td>48</td>
<td>49</td>
</tr>
</tbody>
</table>

*Includes forestry and fisheries.

/Includes manufacturing; mining and quarrying; gas, electricity and water; and construction.

## HOW OUTPUT IS USED
### EXPENDITURE ON GNP, 1965

<table>
<thead>
<tr>
<th>Country</th>
<th>Private consumption</th>
<th>Government Expenditure</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>66</td>
<td>13</td>
<td>21</td>
</tr>
<tr>
<td>France</td>
<td>65</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>Germany</td>
<td>57</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Italy</td>
<td>65</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Netherlands</td>
<td>59</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>UK</td>
<td>65</td>
<td>17</td>
<td>19</td>
</tr>
</tbody>
</table>

*Also includes exports less imports plus other net income from abroad.

/Includes fixed capital formation and changes in stocks.

Source: OECD ANNUAL REVIEWS.
<table>
<thead>
<tr>
<th>Country</th>
<th>G.D.P. Per Head* (£ Sterling)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>748</td>
</tr>
<tr>
<td>Switzerland</td>
<td>740</td>
</tr>
<tr>
<td>Norway</td>
<td>672</td>
</tr>
<tr>
<td>Germany</td>
<td>631</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>620</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>606</td>
</tr>
<tr>
<td>Denmark</td>
<td>601</td>
</tr>
<tr>
<td>E E C</td>
<td>565</td>
</tr>
<tr>
<td>France</td>
<td>564</td>
</tr>
<tr>
<td>Belgium</td>
<td>523</td>
</tr>
<tr>
<td>Netherlands</td>
<td>511</td>
</tr>
<tr>
<td>Austria</td>
<td>369</td>
</tr>
<tr>
<td>Italy</td>
<td>369</td>
</tr>
<tr>
<td>Finland</td>
<td>330</td>
</tr>
<tr>
<td>Greece</td>
<td>161</td>
</tr>
<tr>
<td>Portugal</td>
<td>149</td>
</tr>
<tr>
<td>Turkey</td>
<td>107</td>
</tr>
</tbody>
</table>

The figures on which this chart is based have been converted from national currencies into U.S. dollars using "calculated-parity rates" derived by the UK by adjusting official or free market exchange rates by the relative change in the level of prices from 1938 to 1964 between the United States and the country concerned. The dollar values were converted to £ sterling at the official exchange rate.

### Chart 6: Growth of Investment

#### Fixed capital formation

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage increase in the volume of investment, 1950-55</th>
<th>Percentage share of investment in G.N.P., 1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>51</td>
<td>22</td>
</tr>
<tr>
<td>Germany</td>
<td>42</td>
<td>26</td>
</tr>
<tr>
<td>Netherlands</td>
<td>40</td>
<td>24</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>34</td>
<td>18</td>
</tr>
<tr>
<td>Sweden</td>
<td>56</td>
<td>24</td>
</tr>
<tr>
<td>Belgium</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td>Italy</td>
<td>15</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: O.E.C.D. Annual Reviews
The Growth of World Trade

In recent years, world trade in manufactured goods has increased about twice as fast as trade in raw food and other basic materials. Exports of manufactures by the twelve main manufacturing countries grew by an average of 8½ per cent a year between 1955 and 1965, while exports by the "primary producing" countries grew by only 4½ per cent.

Many factors have been at work in promoting this strong growth of trade in industrial goods. Among them are: the higher rate of economic growth in industrial countries, the growing sophistication there, not only of technology; but of consumer tastes, and the liberalisation of trade through tariff cuts and removal of other restrictions.

Nearly nine tenths of all exports of manufactures by countries outside the Sino-Soviet bloc come from the twelve countries - three in EFTA: Britain, Sweden and Switzerland; the Six EEC countries; and the USA, Canada and Japan.

These, with some other industrially developed countries, are also the largest and fastest growing markets for each others' sales. The primary producers have more slowly growing export earnings with which to buy more manufactures.

In 1965, nearly two thirds of all exports of manufactures by the 12 countries were sold in Western Europe including Britain, and North America, (Canada and USA ). Within these areas the EEC has shown the biggest increase as an importer and is second only to Sweden in growth as an exporter. In 1955, the six sold 38 per cent and bought 17 per cent of the total. In 1965, they sold 46 per cent and bought 27 per cent.

1965 was the latest year for which full international statistics were available at the time of writing.
Europe's expanding market

In the ten years, Western Europe's total imports have not only grown very fast, compared with most other areas, but the fastest growth has been in imports from within Europe. (See charts 1 and 2).

Western Europe, including Britain, increased its total imports by about 120 per cent. N.America and Overseas Sterling Area imports both grew by about 80 per cent, those of the rest of the world by about 75 per cent.

While Britain's share of world imports dropped from about 12 to 8 per cent, between 1955 and 1965, the share taken by the rest of Western Europe rose from about 33 per cent to 42 per cent. Taking manufactures alone, Western European imports including those of the UK rose by 210 per cent, those of the EEC by 260 per cent and those of our EFTA partners by 180 per cent.

Where European imports come from

The fastest growth of trade in manufactures has been that of EEC countries' imports from each other. They rose by 330 per cent, while imports from non-EEC countries rose by 190 per cent.

Continental EFTA countries' imports of manufactures from each other rose by 260 per cent, those from non-EFTA countries by 160 per cent.

As a result of this fast growth of trade within Europe, the EEC supplied 42 per cent of all EEC imports in 1965 (see chart 3) compared with 29 per cent in 1955, and 59 per cent of imports of manufactures compared with 49 per cent.

Continental EFTA countries supply only a fairly small share of each others' total imports, but this, too, has increased considerably.

*Excluding imports by the Sino-Soviet bloc.
In 1965, 80 per cent of EEC imports of manufactures and 85 per cent of those of Continental EFTA came from Western Europe, including Britain.

The pattern of British exports

About 85 per cent of UK exports are manufactures. And a large part of the "non-manufactures" we export, such as whisky, are in fact, products of British industry, for which demand is strongest in developed countries.

The broad composition of our total exports has not changed much in recent years. But our exports of chemicals, machinery, cars, consumer goods, and food, drink and tobacco have all risen faster than the rest.

The big change has been in the destination of our exports. (See charts 4 & 5). In 1955, 28 per cent of them went to Western Europe. In 1965, 37 per cent went there. Western Europe has overtaken the Overseas Sterling Area as our biggest export market.

Our exports to the world have grown by an annual average of nearly 4¾ per cent in value over the decade. Exports to Western Europe have grown by just over 5 per cent a year, and exports to the Sterling Area by just over 1 per cent.

Our exports of every main type of goods (except ships and aircraft) have grown faster in the European market than in the world or the Sterling Area, and in most cases, faster than in the USA (See chart 6). More than half of our re-exports, not included in these figures, go to Western Europe. We sold very nearly £100m. worth there in 1965.

Exports to the EEC

In the ten years, our exports to the EEC have more than doubled, growing at an annual average of over 9 per cent. The EEC bought 19 per cent of all our exports in 1965, compared with 14 per cent in 1955.
This growth has not been steady. Our exports to EEC rose by 18, 16 and 14 per cent in 1961, 62 and 63. But there was very little growth in 1964 and 1965. In the earlier years, British firms were making special efforts in the expectation of Britain joining the EEC. The falling away was partly due to recessions in France and Italy, which particularly affected our sales of cars. Our exports to the EEC picked up again in 1966, when they rose by 6 per cent.

All the EEC countries are now among our top 13 trading partners. Germany has been a particularly strong export market, taking 5.4 per cent of all our exports in 1965, compared with only 2.6 per cent in 1955.

Exports to EFTA

Although our exports to EFTA have grown slightly less fast over the decade, they have nearly doubled, growing at an annual average of 7 per cent; and in 1964, our exports to EFTA began rising faster than those to the EEC and have continued growing more strongly ever since, by 12 per cent in 1964, 7 per cent in 1965 and 11 per cent in 1966. EFTA bought over 14 per cent of all our exports in 1965, compared with under 12 per cent in 1955. Sweden is now seventh among our main trading partners and Denmark 11th.

EFTA is one of our best markets for textile exports and an important one for ships. Our sales of machinery and consumer goods there have been rising well.

Our exports to the Western European countries outside both EFTA and the EEC, particularly those to Spain, have grown even faster than those to the two main groups - by an average of 10 per cent a year. But they still make up a very small proportion of our total trade.
The composition of our exports to both EEC and EFTA is broadly similar to that of our total exports to the world.

Over the decade, our exports of chemicals, textiles and some other semi-manufactures have grown faster to EFTA than to the EEC. And in 1965 the UK exported more textiles, petroleum products, plastic materials and transport goods to EFTA than to the EEC's much bigger market.

Although, in total, our exports have grown faster to the EEC than to EFTA over the ten years, we still have a much smaller share of the EEC than of the EFTA market.

How we compare

Our exports to Europe have done well, but some of our competitors have done better.

Chart 2 shows how both EEC and Continental EFTA imports of manufactures from all non-member countries together, and from the USA have grown faster than those from Britain. Over the period 1955-1965 both Britain and the USA have been more successful in holding their share of third-country imports in the EEC than in selling to Continental EFTA, although we are a member of EFTA. Germany has done better in selling to Continental EFTA than we have. However, it should be remembered that the EFTA tariff reductions began only in the second half of the period, and that since 1964 our exports have been rising more rapidly to EFTA than to the EEC.

The fastest growth in EEC imports of manufactures was from other EEC countries; this was twice as fast as the increase in EEC imports of manufactures from Britain.

Chart 7 shows how our performance compares with the world's in the separate countries. Only in Switzerland and Austria, comparatively small markets for our goods, have we increased our share.

Ch 7.5
share of the market for manufactures since 1955. Our share of the market in Germany, Italy, Portugal and Sweden has declined relatively slowly, but it has fallen relatively fast in Finland and in Norway where, however, deliveries of ships happened to be very high in 1955 and unusually low in 1965.

Britain's share of all exports of manufactures to Western Europe by the 12 main manufacturing countries has fallen from 15 per cent in 1955 to about 11 per cent in 1965. Italy has increased her share from 4 per cent to 9 per cent. Germany, France and the Netherlands have slightly increased their shares, Germany supplying over a quarter of the total. The USA has held her share at about 13 per cent of the total.

The Pattern of British Imports

Both the composition of our imports and the share coming from different sources has changed a lot in the ten years. (See chart 4).

Food and raw materials made up 47 per cent of the total in 1965, compared with 52 per cent in 1955. We import a growing proportion of chemicals and other semi-manufactures. And finished manufactures have trebled their share of the total, rising from about 5 per cent in 1955 to over 15 per cent in 1965.

This great increase in our imports of finished and unfinished manufactures has made Britain, like other industrial countries, a much faster growing market for industrial countries' exports than for those of primary producers. And our imports from Western Europe have grown more than from any other area. They grew at an annual average of 6.5 per cent a year over the decade, while imports from the world grew at 3.9 per cent.

Ch 7.6
Western Europe's share of our total imports rose from under 26 per cent in 1955 to 33 per cent in 1965, while the Sterling Area's share fell from nearly 40 per cent to just over 31 per cent.

**Our Imports from Western Europe**

Our total imports from Western Europe have been growing rather less fast than our total exports to Western Europe – at 7.2 per cent a year from the EEC and 5.7 per cent from EFTA. But our imports of manufactures have been rising faster than our exports, at over 10 per cent a year from Western Europe as a whole.

A large rise of nearly 20 per cent in total imports from Western Europe in 1964 fell away to a growth of about 5 per cent in 1965 and 9 per cent in 1966.

Our imports from EFTA and the EEC are made up very differently both from each other and from our total imports from the world. (See Chart 8).

Raw materials and semi-manufactures make up a much larger proportion of our imports from EFTA than of those from the world, mainly because of our large imports of wood, paper and pulp from Scandinavia.

From the EEC we import a very much smaller proportion of food and raw materials than from the world. On the other hand, over a third of all our imports from the EEC, are of finished manufactures, over half of these being machinery.

We buy not only a higher proportion, but a greater quantity of food, particularly meat and dairy produce, and of raw materials from EFTA than from the EEC and about the same quantity of semi-manufactures, other than chemicals.

Chart 9 shows the large share of our total imports of some important industrial goods which come from Western Europe. Over 40 per cent
40 per cent of all our imports of machinery and chemicals, and nearly 60 per cent of all transport goods now come from the EEC. More than a third of all our iron and steel imports come from EFTA.

The Balance of Trade

We do not need to make a surplus on our trade with particular areas, but if deficits occur in some areas they must be offset by surpluses elsewhere.

Our balance of trade with Western Europe varies a good deal from country to country and from year to year. But in balance of payments terms — that is, taking both imports and exports f.o.b. — we have earned a surplus with Western Europe in every year since 1961. In 1965, the latest year for which figures on this basis are available, the surplus was over £80 million.
Chapter 7 - Charts

Throughout Chapters 6 and 7, no % figures are needed in the pie-charts. But total values, as in charts 1, 3, 4, 8, 9 should be put in.

Chart 1

Two Pie-Charts. Where World Imports Went*

<table>
<thead>
<tr>
<th></th>
<th>1955 % of Total</th>
<th>1955 Degrees</th>
<th>1965 % of Total</th>
<th>1965 Degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports by</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.K.</td>
<td>12.4</td>
<td>45</td>
<td>9.2</td>
<td>33</td>
</tr>
<tr>
<td>Other EFTA</td>
<td>8.6</td>
<td>31</td>
<td>10.1</td>
<td>36</td>
</tr>
<tr>
<td>EEC</td>
<td>21.7</td>
<td>78</td>
<td>27.9</td>
<td>101</td>
</tr>
<tr>
<td>Other W.B.</td>
<td>2.9</td>
<td>10</td>
<td>4.1</td>
<td>15</td>
</tr>
<tr>
<td>N. America</td>
<td>18.1</td>
<td>65</td>
<td>16.7</td>
<td>60</td>
</tr>
<tr>
<td>O. Sterling</td>
<td>13.1</td>
<td>47</td>
<td>12.0</td>
<td>43</td>
</tr>
<tr>
<td>Rest</td>
<td>23.1</td>
<td>84</td>
<td>20.0</td>
<td>72</td>
</tr>
</tbody>
</table>

Total value £31,700m. Total value £62,600m.

*Imports by the Sino-Soviet bloc are not included.

Chart 2

Bar Chart How EFTA and EEC Imports Grew

% increase in imports of manufactures 1965 on 1955

<table>
<thead>
<tr>
<th>Imports from</th>
<th>EEC %</th>
<th>Continental EFTA %</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEC</td>
<td>332.9</td>
<td>176.3</td>
</tr>
<tr>
<td>W. Germany</td>
<td>301.3</td>
<td>192.1</td>
</tr>
<tr>
<td>Continental EFTA</td>
<td>200.3</td>
<td>259.6</td>
</tr>
<tr>
<td>USA</td>
<td>196.2</td>
<td>130.7</td>
</tr>
<tr>
<td>*Third Countries</td>
<td>185.2</td>
<td>161.8</td>
</tr>
<tr>
<td>U.K.</td>
<td>161.5</td>
<td>117.5</td>
</tr>
</tbody>
</table>

*All countries not belonging to the group concerned, (EEC or EFTA)
(c) Where EFTA and EEC imports come from

Four Pie Charts

1. All Imports, 1965

<table>
<thead>
<tr>
<th>Source</th>
<th>Continental EFTA</th>
<th></th>
<th>EEC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>Degrees</td>
<td>%</td>
<td>Degrees</td>
</tr>
<tr>
<td>UK</td>
<td>11.3</td>
<td>41</td>
<td>5.3</td>
<td>19</td>
</tr>
<tr>
<td>EEC</td>
<td>43.1</td>
<td>155</td>
<td>41.7</td>
<td>150</td>
</tr>
<tr>
<td>Cent. EFTA</td>
<td>16.8</td>
<td>61</td>
<td>9.7</td>
<td>35</td>
</tr>
<tr>
<td>Other W.E.</td>
<td>1.9</td>
<td>7</td>
<td>2.2</td>
<td>8</td>
</tr>
<tr>
<td>N. America</td>
<td>9.0</td>
<td>32</td>
<td>12.8</td>
<td>46</td>
</tr>
<tr>
<td>C. Sterling</td>
<td>3.7</td>
<td>13</td>
<td>7.8</td>
<td>28</td>
</tr>
<tr>
<td>Rest</td>
<td>14.3</td>
<td>51</td>
<td>20.5</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total value</strong></td>
<td><strong>£36,377m.</strong></td>
<td></td>
<td><strong>Total value</strong></td>
<td><strong>£17,471m.</strong></td>
</tr>
</tbody>
</table>

2. Imports of Manufactures, 1965

<table>
<thead>
<tr>
<th>Source</th>
<th>Continental EFTA</th>
<th></th>
<th>EEC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>Degrees</td>
<td>%</td>
<td>Degrees</td>
</tr>
<tr>
<td>UK</td>
<td>13.4</td>
<td>48</td>
<td>8.4</td>
<td>30</td>
</tr>
<tr>
<td>EEC</td>
<td>51.2</td>
<td>184</td>
<td>58.7</td>
<td>211</td>
</tr>
<tr>
<td>Cent. EFTA</td>
<td>19.3</td>
<td>69</td>
<td>11.3</td>
<td>41</td>
</tr>
<tr>
<td>Other W.E.</td>
<td>0.7</td>
<td>3</td>
<td>1.2</td>
<td>4</td>
</tr>
<tr>
<td>N. America</td>
<td>7.8</td>
<td>28</td>
<td>11.9</td>
<td>43</td>
</tr>
<tr>
<td>C. Sterling</td>
<td>1.3</td>
<td>5</td>
<td>2.2</td>
<td>8</td>
</tr>
<tr>
<td>Rest</td>
<td>6.3</td>
<td>23</td>
<td>6.4</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total value</strong></td>
<td><strong>£21,372m.</strong></td>
<td></td>
<td><strong>Total value</strong></td>
<td><strong>£8,960m.</strong></td>
</tr>
</tbody>
</table>
### Chart 4: The Changing Pattern of Britain's Trade

Four pie-charts showing destination of exports and source of imports 1953 and 1965.

1. **Where our exports went**

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1965</th>
<th>%</th>
<th>Degrees</th>
<th>%</th>
<th>Degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFTA</td>
<td>11.7</td>
<td>14.1</td>
<td>42</td>
<td>51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>14.0</td>
<td>19.1</td>
<td>51</td>
<td>69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Western Europe</td>
<td>2.4</td>
<td>3.5</td>
<td>9</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas Sterling Area</td>
<td>47.0</td>
<td>34.8</td>
<td>169</td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>4.8</td>
<td>4.2</td>
<td>17</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA and Dependencies</td>
<td>7.0</td>
<td>10.6</td>
<td>25</td>
<td>38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of World</td>
<td>13.1</td>
<td>13.6</td>
<td>47</td>
<td>49</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Value:</strong></td>
<td></td>
<td></td>
<td>£2,957m.</td>
<td>£4,726m.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. **Where our imports came from**

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1965</th>
<th>%</th>
<th>Degrees</th>
<th>%</th>
<th>Degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFTA</td>
<td>11.4</td>
<td>13.6</td>
<td>41</td>
<td>49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>12.6</td>
<td>17.3</td>
<td>45</td>
<td>62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Western Europe</td>
<td>1.7</td>
<td>2.1</td>
<td>6</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas Sterling Area</td>
<td>39.7</td>
<td>31.4</td>
<td>113</td>
<td>113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>8.7</td>
<td>8.0</td>
<td>31</td>
<td>29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA and Dependencies</td>
<td>10.7</td>
<td>11.7</td>
<td>39</td>
<td>42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of World</td>
<td>15.2</td>
<td>15.9</td>
<td>55</td>
<td>57</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total value:</strong></td>
<td></td>
<td></td>
<td>£3,936m.</td>
<td>£5,751m.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 7 - Charts

Composition of Imports and Exports 1955 and 1965
Four Pie Charts

3. What we bought

(Composition of total UK imports 1955 and 1965)

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%  Degrees</td>
<td>%  Degrees</td>
</tr>
<tr>
<td>Food, drink, tobacco</td>
<td>36.2 130</td>
<td>29.7 107</td>
</tr>
<tr>
<td>Basic materials</td>
<td>28.5 103</td>
<td>19.3 64</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.9 10</td>
<td>4.9 18</td>
</tr>
<tr>
<td>Other semi-manufactures</td>
<td>16.5 59</td>
<td>18.9 68</td>
</tr>
<tr>
<td>Minerals, fuels, lubricants</td>
<td>10.4 37</td>
<td>10.6 38</td>
</tr>
<tr>
<td>Finished manufactures</td>
<td>5.2 19</td>
<td>15.3 55</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>0.3 1</td>
<td>1.2 4</td>
</tr>
</tbody>
</table>

4. What we sold

(Composition of total UK exports 1955 and 1965)

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%  Degrees</td>
<td>%  Degrees</td>
</tr>
<tr>
<td>Food, drink, tobacco</td>
<td>5.8 21</td>
<td>6.3 23</td>
</tr>
<tr>
<td>Basic materials</td>
<td>3.8 14</td>
<td>3.2 12</td>
</tr>
<tr>
<td>Chemicals</td>
<td>7.9 28</td>
<td>9.3 33</td>
</tr>
<tr>
<td>Other semi-manufactures</td>
<td>30.7 111</td>
<td>25.6 92</td>
</tr>
<tr>
<td>Minerals, fuels, lubricants</td>
<td>4.7 17</td>
<td>2.8 10</td>
</tr>
<tr>
<td>Machinery</td>
<td>21.7 76</td>
<td>26.7 96</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>14.6 53</td>
<td>15.3 56</td>
</tr>
<tr>
<td>Other Finished Manuf actures</td>
<td>5.8 21</td>
<td>7.6 27</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4.7 17</td>
<td>3.1 11</td>
</tr>
</tbody>
</table>
Bar Chart - How trade with different areas has grown % increase in UK exports and imports 1955 on 1955.

<table>
<thead>
<tr>
<th>Area</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>109.3</td>
<td>87.1</td>
</tr>
<tr>
<td>EEC</td>
<td>118.5</td>
<td>101.2</td>
</tr>
<tr>
<td>EFTA</td>
<td>92.9</td>
<td>73.7</td>
</tr>
<tr>
<td>North America</td>
<td>100.8</td>
<td>46.0</td>
</tr>
<tr>
<td>Overseas Sterling Area</td>
<td>18.5</td>
<td>15.7</td>
</tr>
<tr>
<td>World</td>
<td>59.9</td>
<td>46.1</td>
</tr>
</tbody>
</table>
# Annual average growth of certain UK exports 1955-1965

<table>
<thead>
<tr>
<th>Item</th>
<th>Western Europe</th>
<th>USA</th>
<th>Sterling</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Chemicals</td>
<td>10.8</td>
<td>9.4</td>
<td>3.3</td>
<td>6.4</td>
</tr>
<tr>
<td>2. Textiles</td>
<td>5.4</td>
<td>-1.4</td>
<td>-4.7</td>
<td>-1.2</td>
</tr>
<tr>
<td>3. Metals</td>
<td>9.4</td>
<td>5.8</td>
<td>-1.2</td>
<td>2.9</td>
</tr>
<tr>
<td>4. Road and rail transport</td>
<td>13.9</td>
<td>9.0</td>
<td>1.3</td>
<td>5.5</td>
</tr>
<tr>
<td>5. Other capital goods (mainly machinery)</td>
<td>10.6</td>
<td>12.1</td>
<td>3.5</td>
<td>7.2</td>
</tr>
<tr>
<td>6. Consumer Goods</td>
<td>12.1</td>
<td>12.5</td>
<td>2.5</td>
<td>7.2</td>
</tr>
<tr>
<td>7. Food, Drink, Tobacco</td>
<td>12.0</td>
<td>8.0</td>
<td>1.7</td>
<td>5.1</td>
</tr>
<tr>
<td>8. All Exports</td>
<td>8.3</td>
<td>7.3</td>
<td>1.1</td>
<td>4.4</td>
</tr>
</tbody>
</table>

(excluding Lend Lease silver shipments to USA)
## Chart 7

**Imports of Manufactures**

By EEC and EFTA Countries

% increase 1965 on 1955 from world and from U K

<table>
<thead>
<tr>
<th>Country</th>
<th>World</th>
<th>U K</th>
</tr>
</thead>
<tbody>
<tr>
<td>W. Germany</td>
<td>380.6</td>
<td>336.6</td>
</tr>
<tr>
<td>France</td>
<td>294.3</td>
<td>218.6</td>
</tr>
<tr>
<td>Italy</td>
<td>229.9</td>
<td>174.3</td>
</tr>
<tr>
<td>Austria</td>
<td>226.0</td>
<td>257.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>212.2</td>
<td>146.7</td>
</tr>
<tr>
<td>Switzerland</td>
<td>205.1</td>
<td>254.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>186.3</td>
<td>72.3</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
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<td>166.5</td>
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<td>Finland</td>
<td>163.5</td>
<td>83.5</td>
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<tr>
<td>Portugal</td>
<td>142.5</td>
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<tr>
<td>Norway</td>
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</table>
## Chart 8 - Charts

### Composition of U.K. Imports from EEC and EFTA, 1965

<table>
<thead>
<tr>
<th>Category</th>
<th>E.E.C.</th>
<th>Degrees</th>
<th>E.F.T.A.</th>
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<tbody>
<tr>
<td>Food</td>
<td>15.4</td>
<td>55</td>
<td>25.3</td>
<td>91</td>
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<tr>
<td>Drink &amp; Tobacco</td>
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<td>10</td>
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<td>Raw Materials</td>
<td>6.7</td>
<td>24</td>
<td>29.0</td>
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<td>Mineral Fuels</td>
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<tr>
<td>Chemicals</td>
<td>11.9</td>
<td>43</td>
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<td>Other Semi-Manufacturers</td>
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<td>Machinery</td>
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<td>72</td>
<td>8.8</td>
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<td>Transport Goods</td>
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<td>Consumer Goods</td>
<td>7.9</td>
<td>28</td>
<td>5.0</td>
<td>18</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1.4</td>
<td>5</td>
<td>1.0</td>
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</table>

Total Value: £995m  
Total Value: £782m
Chart 9  Source of certain U.K. Imports 1965

<table>
<thead>
<tr>
<th>Product</th>
<th>From:</th>
<th>% of Total</th>
<th>Degrees (to nearest)</th>
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<tr>
<td><strong>Chemicals</strong></td>
<td></td>
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<tr>
<td>Value of total imports</td>
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<tr>
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<tr>
<td>EFTA</td>
<td>11.5</td>
<td>41</td>
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<tr>
<td>Other W.E.</td>
<td>1.9</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Rest of World</td>
<td>44.9</td>
<td>162</td>
<td></td>
</tr>
<tr>
<td><strong>Textiles</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>£151m</td>
<td></td>
<td></td>
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<td>EEC</td>
<td>31.2</td>
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</tr>
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<td>EFTA</td>
<td>6.7</td>
<td>31</td>
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</tr>
<tr>
<td>Other W.E.</td>
<td>2.1</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Rest</td>
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<tr>
<td><strong>Iron and Steel</strong></td>
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<td>£76m</td>
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<tr>
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<td>£497m</td>
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<tr>
<td>EFTA</td>
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<tr>
<td>Rest</td>
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<td><strong>Road Transport Goods</strong></td>
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<td>£61m</td>
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<tr>
<td>EEC</td>
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<tr>
<td>Other W.E.</td>
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<td></td>
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<tr>
<td>Rest</td>
<td>22.7</td>
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<td><strong>Consumer Goods</strong></td>
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<td>43</td>
<td></td>
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<tr>
<td>Other W.E.</td>
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<td></td>
</tr>
<tr>
<td>Rest</td>
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</table>

Ch.7. 17
Chapter 8

BRITAIN'S TRADE WITH OTHER COUNTRIES

To help put our trade in Western Europe in perspective, this chapter gives a brief summary of our trade with other parts of the world.

As Chapter 7 showed, we now do over a third of all our trade with Western Europe. About another third is with the Overseas Sterling Area. Of the remaining third, more than half is with North America, and less than half with the rest of the world.

Chart I shows how our top ten trading partners, with whom together we do just half of all our trade, are scattered among the different groups of countries. There are three members of the Commonwealth, two ex-members still in the Sterling Area, one EFTA and three EEC countries, and the USA.

Since 1955, the USA and Canada have kept their places at the top, the USA with an increasing share, Canada with a declining one. (Although Canada is our second biggest supplier of imports, she is only our sixth biggest export market). The European countries—notably Germany and the Irish Republic—and South Africa, have gained ground, while Australia and New Zealand have lost it.

Our Commonwealth and Sterling Trade

Between 1955 and 1965, our trade with the Commonwealth and Sterling Area has grown much more slowly than the rest. (Canada and, at present, Rhodesia, are the only Commonwealth countries not in the Sterling Area. Several countries, including South Africa, the Irish Republic, Iceland and some Middle East states, are in the Sterling Area, but not in the Commonwealth.)

Between 1955 and 1965 our exports to the Commonwealth (as constituted in 1965) rose by 11½ per cent from £1,205m. to £1,343m.

Ch 8.1
£1,343m., and our imports from the Commonwealth rose by 10½ per cent, from £1,552m. to £1,718m.

In the same period our exports to the rest of the world rose by 93 per cent, from £1,752m. to £3,383m., and our imports from the rest of the world rose by 69 per cent, from £2,382m. to £2,033m.

Within the Commonwealth, our exports to Canada grew by about 1½ per cent a year, while those to Australia remained at about the same level and those to New Zealand actually declined.

Within the Sterling Area, our exports to the Irish Republic grew by 5½ per cent a year and those to South Africa by over 3 per cent a year.

Our exports to the less developed Sterling countries rose by about ½ per cent a year.

Our share of the total Overseas Sterling import market has fallen from about 34 per cent in 1955 to 23 per cent in 1965. The EEC’s share has risen from under 12 per cent to nearly 15 per cent. In the Canadian market, our share has fallen from 8 to 7 per cent, while the EEC’s has risen from 3 to 6 per cent.

This slow growth of trade with the Commonwealth and Sterling Area is partly the result of the very high proportion of their imports which we supplied in the years following the last war. Dollars were scarce and sterling was not convertible into other currencies. (In the last decade the USA has had a falling share of the Latin American market, where she was in an even more dominant position than Britain was in the Sterling Area).

In 1950, about 10 per cent of all our trade was within the Sterling Area - a much higher proportion than in the 1930s when Commonwealth preferences had their greatest effect. Although these still help inter-Commonwealth trade, world-wide tariff cuts
cuts and new protective tariffs in Commonwealth countries with developing industries have reduced the advantage they give.

The USA, partly helped by her aid programme, Germany and Japan, all trebled their exports of manufactures to the Sterling Area outside Europe between 1955 and 1965. Ours rose by about one sixth. Japan's exports of manufactures to Canada quintupled, Germany's trebled and ours rose by about a half.

Britain's large part

In spite of our falling share, Britain still plays a very large part in Commonwealth and Sterling trade. Chart 2 shows the importance of our exports in the markets of our larger trading partners, the importance of the UK market to their exports, and how these vary greatly from country to country.

The UK supplies nearly a quarter of all Sterling countries' imports and buys a quarter of their exports, a much larger share than is sold or bought either by the EEC or the USA.

Because Canada does far more trade than any other of our Commonwealth partners, and the vast bulk of it is with the USA, Britain's share of the overseas Commonwealth's trade is a good deal smaller than the USA's.

In Australia, the USA now has almost as large a share of the import market as we have, the EEC only half as much. But Australia now sells almost as much to the EEC as to Britain, and a good deal less to the USA.

In New Zealand, our exports have over a third of the market, much more than those of the USA and EEC put together. New Zealand sells almost half of all her exports to us, and about a quarter to the EEC and USA together. Most of New Zealand's exports to the UK are of food, and she is heavily dependent on these to finance essential imports.
South Africa buys nearly a third of her imports from Britain and sells us more than a third of her exports. She does about a fifth of all her trade with the EEC.

India buys less from us than from the EEC and much less from us than from the USA. But she sells nearly a fifth of her exports to Britain, the same amount to the USA and only a third as much to the EEC.

What we import

Food and raw materials make up about 65 per cent of our imports from the Commonwealth, a much higher proportion than they make up in our total imports from the world. Semi-manufactures provide about 20 per cent, oil and other fuels about 5 per cent, and finished manufactures only about another 5 per cent.

Because of the non-Commonwealth oil states in the Sterling Area, fuels make up 15 per cent of our Sterling Area imports, and we import a smaller proportion of food, raw materials and semi-manufactures from the Sterling area than from the Commonwealth. But again, finished manufactures make up only about 5 per cent of our Sterling area imports. It is important for many Commonwealth and Sterling countries with developing industries to build up their exports of manufactures.

Trade with the USA

The USA imports more than any other single country. In the decade 1955 - 1965 our exports there were rising at over 7 per cent a year, only a little less quickly than those to Western Europe and our share of imports into the USA increased from under 5½ per cent to a little over 6½ per cent. However, several other countries, not only Japan, Germany and Italy, increased their share more rapidly than we did.
Our imports from the USA over this period rose by less than 5 per cent a year compared with a 7 per cent a year growth in our exports there. Over a third of these imports are of finished manufactures, and we even buy more of these from the USA than we sell there.

The USA sells almost as high a proportion of her exports to the EEC as we do. She sells far more to the EEC than to Britain, while Canada sells rather more to Britain than to the EEC.

**Trade with other countries**

Apart from Western Europe, the Sterling Area and North America, the rest of the world together bought about 14 per cent of our exports and provided 16 per cent of our imports in 1965. This trade was divided fairly evenly between the non-Sterling Middle East (UK exports £186m., UK imports £182m.) Latin America (£159m., £283m.): non-Sterling Asia, including Japan (£121m., £133m.) and Eastern Europe, including Russia (£113m., £220m.). Our exports to non-Sterling Africa were worth £36m. and our imports from it £79m.

Our exports to Eastern Europe have been among our fastest growing, almost as fast as those to Japan. Both however, still account for only a small share of our total exports. We do more trade with Finland, for example, than with either Russia or Japan. Our exports to Latin America have grown at a slower rate than our exports to the world.

From all the "rest" together we imported about £50m. of finished manufactures in 1965, about 5 per cent of all our imports from these countries. Oil, meat and metals are our biggest imports from Latin America: wood, metals and meat from Eastern Europe: oil and fruit from the Middle East: and metals, minerals and textiles from Asia and Africa.
Figures for Chart I

**Our Top Ten Trading Partners**

Percentage of UK's total trade, 1955 and 1965

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1965</th>
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</thead>
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<td>USA and Dependencies</td>
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<td>11.2</td>
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<tr>
<td>Canada</td>
<td>7.0</td>
<td>6.3</td>
</tr>
<tr>
<td>W. Germany</td>
<td>2.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Australia</td>
<td>7.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.6</td>
<td>4.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.0</td>
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<td>4.1</td>
</tr>
<tr>
<td>France</td>
<td>3.1</td>
<td>3.6</td>
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<tr>
<td>Irish Republic</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.6</td>
<td>3.1</td>
</tr>
</tbody>
</table>

* (Imports plus exports and re-exports)
### Chart 2 - Figures for Chart 2

#### Our Share of some main markets

(UK, EEC and U.S. shares of countries' total imports, 1965)

<table>
<thead>
<tr>
<th>Country</th>
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<th>UK</th>
<th>EEC</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value of total imports</td>
<td>% Degrees</td>
<td>% Degrees</td>
<td>% Degrees</td>
</tr>
<tr>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
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<td>Overseas Sterling Area</td>
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<td>Overseas Commonwealth</td>
<td>8,809</td>
<td>16.4</td>
<td>59</td>
<td>10.7</td>
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</table>

### Chart 3 - Our Share of their exports

(Eight Pie charts showing share of countries' exports going to UK, EEC and USA, 1965)

<table>
<thead>
<tr>
<th>Country</th>
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<th>USA</th>
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<td>Value of total exports</td>
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<td>% Degrees</td>
<td>% Degrees</td>
</tr>
<tr>
<td>£m</td>
<td></td>
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<td>USA</td>
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<td>South Africa</td>
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<td>Overseas Sterling Area</td>
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<td>96</td>
<td>17.1</td>
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<td>Overseas Commonwealth</td>
<td>7,669</td>
<td>18.8</td>
<td>68</td>
<td>11.7</td>
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The English texts of the two Treaties of Rome and of the Treaty of Paris are available from HMSO. HMSO also has catalogues of Community publications, many of which are available from HMSO. Some of the more important are published in English but, in general, items not published in English are stocked by HMSO in the French language version.

The most important source of information on the Communities' activities is the Official Journal of the European Communities (not published in English). It is here that the official texts of all regulations, decisions, agreements and other legislative instruments governing the operations and activities of the Communities are first published authoritatively. There are about 200 issues a year and the annual subscription is £5 a year.

Unofficial English translations of European Economic Community and European Atomic Energy Community regulations, prepared by the Foreign Office from the official texts published in the Journal Officiel are published by HMSO. Full details of titles available can be obtained from HMSO in Sectional List no. 58. Prices vary from 5d. to 6s. per volume. Unofficial translations of some Regulations and of other official announcements from the Journal Officiel are also published from time to time in the Board of Trade Journal.

A brief description of EEC publications available is to be found in Commerce, Industry and HMSO (free from HMSO). Fuller details are to be found in the HMSO publications International Organisations and Overseas Agencies Publications.
28th April, 1967

CABINET

THE APPROACH TO EUROPE:
INFORMATION FROM OVERSEAS POSTS ON THE ATTITUDE
OF FOREIGN COUNTRIES MOST CONCERNED

Note by the Foreign Secretary

The Cabinet on 20th April "took note that the Prime Minister would consult the Foreign Secretary regarding the circulation to the Cabinet of information from overseas Posts on the attitude of the foreign countries most concerned" in our approach to Europe (CC(67) 22nd Conclusions, Minute 2). This followed discussion in which it was suggested that the Cabinet should have available to them the latest advice from our Embassies in the more important member countries of the Community as to the likely reactions of those countries to an early decision to proceed at once with a further development of the approach to Europe.

2. The Prime Minister and I felt that the best way of proceeding would be to obtain a fresh and up-to-the-minute assessment from our Ambassadors in the Community countries and Washington and from the Head of our Delegation to the Communities in Brussels. We did not think it necessary to consult our European Free Trade Association (EFTA) Posts, since the attitudes of our EFTA partners would be manifest at the Ministerial meeting of the EFTA Council on 28th April.

3. The text of my telegram to our Ambassadors in EEC Posts and Washington and of their replies is at Appendix I. At Appendix II is the record of my conversation about our approach to Europe with Herr Brandt on 12th April which was also referred to in the Cabinet's discussion.

G.B.

Foreign Office, S. W. 1.

28th April, 1967
Appendix I

A. FOREIGN SECRETARY'S TELEGRAM OF INSTRUCTIONS TO H.M. REPRESENTATIVES IN E.E.C. POSTS AND WASHINGTON.

F.O. Telegram No. 1202 to Bonn of 24 April

For a forthcoming discussion with my colleagues I should be grateful to have your assessment, in the light of all the information available to you, including any recent discussions between British Ministers and Ministers of the country to which you are accredited, of the likely reaction of that Government in the event of

(a) H.M.G.'s deciding, at an early date, to apply for membership of the Community.

(b) Deciding not to proceed with the question of membership of the Community, at least for the time being.

(c) Deciding to pursue further bilateral consultations with member countries of the Community to seek further information and assurances before reaching a decision.

2. You should not consult the Government to which you are accredited in making this assessment.

3. It would be helpful to have also the assessment by HMRR in Community posts of the extent of support which we might expect in the event of H.M.G.'s deciding to apply for Community membership and how far they think an application could be successfully prosecuted. I should be grateful for a considered telegraphic reply not later than the morning of Thursday, 27 April.

4. I should be grateful for a reply from Sir J. Marjoribanks assessing not only the attitude of the Commission, but his view of the attitudes of Community Governments, as seen from Brussels.

B. H.M. REPRESENTATIVES' REPLIES.

1. Brussels Telegram No. 276 of 24 April

The answers to your questions are as follows:

(a) An early application by H.M.G. for membership of the E.E.C. would be very warmly welcomed by the Belgian Government, assuming always that it was / not /
not accompanied by reservations or qualifications going beyond what the talks which the Prime Minister and you had with Belgian Ministers in February have led them to anticipate. It would also be warmly welcomed by the main opposition party (the Socialists) and by the bulk of Belgian opinion. Those who earlier had reservations, due to the fear that our accession might endanger what had already been achieved within the E.E.C. seem to have been reassured by the statements by Belgian Ministers at the time of your visit that none of the problems posed appeared insoluble.

(b) Such a decision would cause great disappointment to the Government and in the country generally, the more so because all recent reports from London have given the impression that a decision to apply was now highly probable. It would generally be interpreted as a decision to abandon hope of joining the community, since it would be thought that it would be extremely difficult to revive the momentum which has now been generated. And M. Spaak's oft-proclaimed view that time is not on our side is widely shared. It would have the effect of turning the attention of Belgian Ministers increasingly to developing and strengthening the community, without too much regard for the outside world. It would have a very depressing effect on importers of British goods, many of whom have been holding on in the face of increasing tariff difficulties in the hope that we shall before too long become members of the community.

(c) This too would be regarded by Belgian Ministers as a depressing outcome and would be taken as a sign that H.M.G. were halfhearted in their approach. Belgian Ministers do not consider in the light of the visit of the Prime Minister and yourself that such further consultations are necessary at this stage.

2. The Belgian Government would warmly support a British application insofar as they are able to do so. They are however conscious that the weight which they alone, or the Benelux countries together, carry in the deliberations of the six is limited and without clear German and Italian backing, they might soon lose heart. They would not wish to go to lengths which might risk breaking up the community.

3. In my recent talks with M. Hermel, including an informal one at dinner a few nights ago, I have been struck by his relative optimism. He accepts of course that the General does not want us in, but he does not believe that a second veto would be possible. He thinks that the negotiations might prove very difficult, but, perhaps because he is personally so very keen to see us in the community, he seems reluctant to admit that they could fail.

2.....The Hague .....
2. The Hague Telegram No. 156 of 25 April

I assess the likely reaction of the Netherlands Government to the three alternative courses as follows:

(a) They would warmly welcome a decision by H.M.G. to apply for membership at an early date.

(b) They would be damaged by a decision not to proceed, even for the time being. They would regard it as missing what could be the last chance of bidding for membership and would be likely to interpret it as indicating that we were losing interest in the E.E.C. and groping for other solutions.

(c) I believe that they would be upset and puzzled at a decision to pursue further bilateral consultations, unless there were some clear indication that these would be likely to improve the prospects for our admission; and they would be disturbed at the prospect of further delay in taking the decision of principle.

2. Briefly, the Netherlands Government want us in the Community because they believe that this is essential for the healthy economic and political development of Europe. They have never wavered in this. They have no illusions about the difficulty of overcoming French objections to our entry, but they believe that delay will only result in a hardening of existing positions and loss of momentum. They fully understand our anxiety to avoid a second rebuff, but they believe that we can play our hand to avoid this.

3. In the event of a decision to apply for community membership we could count on maximum support of Holland in pressing counsels of reason in Paris and in encouraging solidarity among the other community countries. Support would, however, stop short of breaking up the six. Holland is admittedly a small country and it is realised here that the attitude of Germany is crucial, but the stature of Dr. Luns gives Holland added importance among the six, and he seems to be developing increasingly close and intimate relations with M. Couve de Murville. The Netherlands Government fully realise that early success is problematical but they regard our membership as a historical necessity which can in the end be achieved. For this however they regard an early and straightforward bid for membership as the essential preliminary.

/ ... Luxembourg telegram ...
4. Luxembourg Telegram No. 65 of 25 April

Decision (a) would be wholeheartedly approved on understanding that this means that Britain claims no permanent special position, but wishes to join Community as an equal partner accepting the Treaties and subsequent Community decisions subject only to transitional or other arrangements to meet specific United Kingdom difficulties as outlined by Prime Minister and yourself during your discussions here. These difficulties are sympathetically viewed and not regarded as insuperable. A British guarantee in recourse to Article 108 would certainly be welcome. Luxembourg sees Britain's proper place as being within Europe and hopes that British membership would not only add strength to Europe but act as a balancing factor among partners particularly in any discussions on political cooperation, which is dear to their hearts as ultimately this is the only guarantee of their independent existence.

2. Decision (b) would hardly be understood. Werher at least believes that progress has been made and many issues cut down to size, in this process the statesmen of the Five have helped. To cry off now would disappoint our friends and fortify those who suggested that we were not serious in our intentions. We have heard much less since your round of visits than before it, of the view that the present time is not propitious and that Britain is not yet European enough to be an acceptable member.

3. A postponement "for the time being" would be construed as lasting for our generation. The general view is that the present momentum is an essential factor for success.

4. Luxembourg would see no point in decision (c). They believe that the main issues are now clear and that the next stage must be discussion on the basis of an unequivocal application.

5. Luxembourg will give us support up to the crucial point at which it would be really useful. But I doubt if they would go further and risk either a confrontation with the French or damage to such cohesion as the Community has already achieved. They believe that provided we are modest in our demands and determined in pressing them success is possible as well as desirable. They themselves will certainly raise no new obstacles.


It is widely assumed in the Commission and as far as I can judge amongst member Governments that H.M.G. will in the near future declare in favour of an application for membership. Interest here is concentrated on the nature and date of the statement and the indications it may give about H.M.G.'s minimum requirements and hopes for the dates and methods for starting and finishing the negotiations.
2. A decision on the lines of (b) in your telegram under reference would be a great surprise, and a serious disappointment to our friends such as the Dutch and ammunition for those who have argued that we never have been properly "European".

3. A decision on the lines of (c) runs the risk of having consequences similar to a decision for (b). It is difficult to convince anyone concerned with the Community that more bilateral consultations would provide the best way of furthering an application which must under the Treaty of Rome be considered multilaterally. Hence the risk that such a decision would be regarded as a sign that we are not really serious.

4. Apart from President Hallstein most members of the Commission expect and would welcome a decision on the lines of (a) in your telegram under reference. I have heard that view from Rey, Mansholt, Colombo, Levisandri and von der Groeben. Marjolin has never advocated delay in putting in an application although he has reservations about wider membership. Hallstein would prefer to see lengthy bilateral discussions between the Commission and this Delegation. I believe the Commission as a whole are assuming that an application is likely to be made by us in the next few weeks and they are prepared to acquiesce in the view that this application will pose firmly the question of enlargement of the Community which if baulked once more will permanently damage the prospects of the community system. Our friends in the Commission would like us to be very firm about keeping our application on the table until the problem is dealt with.

5. The extent of the support we can obtain from member Governments and the Commission and the chances of success vary inversely with the conditions we may attach to our application. If we can confine our requests to transition periods except for the special difficulties of sugar and New Zealand and rest on the argument that agricultural finance is a problem which we can consider jointly with fellow members of the Community after entry, provided that suitable transitional arrangements can be made before then to relieve the balance of payments problem for the U.K., I consider that the French would find it difficult to block our application without revealing that their veto was another arbitrary intervention of the General.

6. It seems generally accepted here that the French Government will do everything possible to avoid taking such a drastic step in isolation. They will probably first try to make our effort run into the sands. If they can pick on conditions explicitly or implicitly attached to our application and force discussion within the Six before they will agree to open negotiations, they could postpone the opening of substantive negotiations until the turn of the year and would be well placed (as they are in the chair of the Council of Ministers from January-June, 1968) to run them on until after the summer of that year.
7. The attitude of the Five will also be determined by the nature of our application. If we make things easier for the French we shall make it harder for the Five to support us. Reductions in the degree of support they would offer could be expected if we on our side give the French the occasion for insisting on pre-discussions within the Six before coming to the conference table with the U.K.

8. To sum up. I consider that course (a) would be favoured by the majority of the Commission and by the five member Governments if cast as a straightforward request for negotiations with a view to membership on the basis of article 237 of the Treaty.

5. Paris Telegram No. 363 of 26 April

In answering the questions in your paragraph 1 we must still assume that the personal reactions of General de Gaulle will determine those of the French Government. But we should not lose sight of the fact that a number of French Ministers are positively in favour of an early British entry provided that our approach is what they would regard as whole-hearted and unambiguous and that we do not ask for unacceptable concessions from the Six. Senior Ministers in this group include M. Messmer (who revealed his sympathies with surprising frankness in his recent talk in London with the Minister of Defence), M. Joxe, who probably exercises as much influence as anyone on the General and is a good friend of ours, and M. Pisani, who now carries greater responsibilities on the domestic front. M. Edgar Faure has shown an increasing interest in British entry since his private meeting with you here a year ago. He should carry some weight on the agricultural side. Even M. Debre, I am told, is now in favour of Britain's entry as a means of building an independent "Europe". Of the others, M. Pompidou, though personally not hostile, has been noticeably discouraging recently, both in public and in private; and M. Gouraud's advice will, I believe, be the least helpful to us. But I would guess that support for our entry among his Ministers is sufficiently strong to be an additional element in making the General anxious to avoid any appearance of a French veto.

2. Your paragraph 1 (c). Reports from the French Ambassador in London and a study of the British press must by now have led the French Government to expect an early application by H.M.G. The General would not be pleased by this decision, but he could hardly be surprised by it. I would not expect a sharply hostile reaction, but rather one of cautiously negative reserve. Much would depend on the terms of the announcement, of any Ministerial statements accompanying it or elaborating on it, and of any personal message sent to the General. French spokesmen would take any opportunity which public statements offered them to cast doubts on British readiness and capacity to enter the EEC on terms acceptable to its present members.

/ .... The
7. The French Government would be likely to reserve their position pending discussion with the Five, for which they would call, and to play for time meanwhile. They might for instance argue that there were still dangerous uncertainties about our application which must be clarified before it could be accepted.

3. Your paragraph 1 (b). Reaction would probably be one of scarcely disguised relief. The decision would be treated as confirmation of the view that when it came to the point, Britain would be unable to adopt her ways to those of the continental Six. After the expectations which have now been built up, the decision would lead the French Government to expect that the momentum of the British effort to enter the EEC would be lost and any new attempt postponed for years rather than months. The General would be encouraged to assert France’s own leadership to ensure the solidarity of the Six under French influence, and to promote his version of an independent "Europe". He would, however, also wish to maintain sufficiently close relations with Britain to preserve such technological and other cooperation as suited France and to deter Britain from throwing in her lot permanently with America.

4. Your paragraph 1 (c). The General would prefer this to (a) since it would give him more time to build up "Europe" the way he wants it while Britain was still excluded, and more freedom to argue with the Russians that rapprochement with France was more important to them than rapprochement with Britain because Britain carried less weight in Europe. He could hardly oppose the proposed bilateral consultations, but the French would continue to play up the difficulties. He might try to promote some new initiative A Six which would make it increasingly difficult for them to entertain a British application later this year or in 1968.

5. Your paragraph 3. For the reasons explained above I do not think that we can expect any support for our application from the French Government as such. I believe, however, that provided always that it were made in the simplest possible terms with the minimum of accompanying conditions (whether expressed in the letter of application itself or Ministerial statements commenting on it), there would be a considerable volume of support for it in France. In Parliament we could expect support from the Fédération, from Lescunet's Centre Group and from Giscardians. Some, perhaps even many U.N.R. Gaullists are in fact favourable, but we could not count on their open support in Parliament. In the Council of Ministers itself there would be supporters.

6. The chances of success for an application are very hard to estimate from here. It is first of all necessary that our minimum terms should be acceptable to the Six as a whole. Then we must succeed in convincing the General that British entry is in the interest of France and of the kind of Europe he wants. The whole tenor of my last conversation with him on 20 March makes me think that we have not yet done /...this.
8. Nevertheless I think that there is a chance that it could be done, though it would take time to do it. I think it is probable that he has not yet made up his mind.

7. The problem is essentially to convince the General that he is wrong in thinking that, however strong British feelings towards "Europe" may now be, permanent forces (nécessités) will always make her turn towards Le Grand Large; away from Europe and towards America. This would require both personal contacts and, since he would continue to watch British action critically and sceptically, consistent decisions over the widest possible field of policy, political, economic and technological.

8. The immediate objective must be to deter him from blocking negotiations or delaying them seriously. The negotiations themselves must be so conducted as to give him no opportunity to represent plausibly that their success is impossible. On the contrary he must be brought to think that it is inevitable and the lesser evil. If then he can be allowed to believe that it is his vision and leadership which has brought Britain into "Europe", he may in the end yield with a good grace.

6. Bonn Telegram No. 667 of 26 April

The desire to see the Community enlarged by the accession of Great Britain as well as other EFTA countries was a main feature of the Government's policy declaration to the Bundestag last December, and the significance of this objective for Kiesinger himself can be seen in his remark to the Prime Minister yesterday that since 1950 he had worked for the participation of Britain in the task of achieving European unity. For compelling reasons of self-interest, both economic and political, the Federal Government reflecting in this all three main political parties, German industry and trade unions and public opinion generally, is strongly in favour of British membership of the Community. But the attitude of France puts the Germans in a dilemma. Because of the priority given by the coalition government to the improvement of Franco-German relations the many signs of French opposition to British entry have affected German views on the tactics and timing of a British application and explain the caution tempering undoubted German support and goodwill which you and the Prime Minister found during your visit to Bonn in February and which also characterised the Anglo-German discussions at Königswinter in March.

2. Brandt's successful talks with you in London a fortnight ago showed that he now accepts that, in the event of a British decision to apply for membership, the arguments for definite early action outweigh those previously advanced for delay until the autumn. The Prime Minister's talks here with Kiesinger and Brandt were equally encouraging and showed that Kiesinger has also been brought round to this view. My own

impression
impression of these talks is that Kiesinger has moved considerably, and is now more positive in encouraging H.M.G. to apply for membership and less pessimistic about our chances of success. An important factor was his impression that de Gaulle's opposition was now less rigid than at their first meeting in January.

3. Against this background my answers to your questions are as follows:

(a) An early decision by H.M.G. to apply for membership of the Community would be seen as an historic step towards that strong, united and independent Europe which is a major goal of German foreign policy. Certainly the Federal Government would have preferred if possible to avoid any strain on Franco-German relations at this particular moment. It has, however, become clear to the Germans as a result of our recent talks in Rome, London and Bonn that our decision, if in favour of accession, should be taken and implemented quickly, and that their earlier preference for a slower timetable, based partly on genuine practical considerations but partly also on sheer reluctance to have to choose between London and Paris is unrealistic. Both Kiesinger and Brandt have accepted that it is desirable that H.M.G. should make its position absolutely clear before the Rome Summit. The Federal Government could therefore be expected to welcome our decision, though without any disposition to underrate the difficulties and strains to which our move would be bound to give rise, both in Franco-German relations and within the Community itself. The clearer and simpler the application and the fewer the basic problems for solution mentioned in this context, the stronger German support should be.

(b) Such a decision would revive the suspicions of those, both within the Federal Government and outside, who have only recently become convinced of our determination to throw in our lot with continental Europe. It would deeply disappoint all those - Ministers, officials, politicians, industrialists and others - who have kept support for British entry alive during a period when Germany has been beset by many other grave problems. It would also strengthen the tendency, already apparent, for example, in the results of the recent meeting of the Finance Ministers of the Six in Munich, to align German policies increasingly on those of France, both in the further development of the Community and in other fields.

(c) This course is in line with the advice we have until recently been receiving from the Federal Government but Brandt (and apparently Kiesinger also) have now accepted that it is no longer compatible with the case, which they accept, for keeping up the momentum, more especially before the Rome Summit of the Six. It might well be interpreted as evidence of failing determination.
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or divided counsels in London, which could do great harm.

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The robust statements of Brandt in Brussels on 10 April, and again in the House of Commons and to the press during his London visit, as well as the encouraging attitude of Kiesinger himself in his talks with the Prime Minister, are clear evidence that we should have the full support of the Federal Government in Paris as elsewhere. Their support would not extend to bringing pressure to bear on the French, still less to contemplating any action which could break up or even temporarily paralyse the Community. Kiesinger has said on several occasions that such pressure would not work, and that his Government neither could nor would attempt to use it. This is also the S.P.D. view. But, short of this, the Germans would do their best to overcome French objections on all points on which they themselves were satisfied. We could not of course expect them to make the running for us in Paris, but provided that our arguments and our requirements were demonstrably reasonable in German eyes we should find them ready advocates of our cause.

5.

The Germans never forget that the chances of an application succeeding depend upon President de Gaulle, whose ultimate decision nobody can predict, but they are reluctant to accept how much their own actions must influence this decision. Kiesinger has said before that for de Gaulle the question is one of timing. The Germans do not anticipate a second French veto, at all events ab initio, but they are not optimistic about preventing the French using the Brussels machinery skilfully to delay matters. Hence their strong advice to keep any application as short and as simple as possible.

7. Rome Telegram No. 345 of 26 April

Following are my replies to your questions:

(a) The Italian Government is publicly committed to work for British membership, which most Italians regard as essential for a united and democratic Europe. They will, I am sure, welcome an early application. They have been expecting a decision by H.M.G. since January last and I believe they will be both pleased and relieved when the dye has been cast. There will still be some anxiety, more amongst officials than in the Government, about the difficulties ahead, especially in connexion with the Rome Summit. But if our application is made with confidence and contains the minimum of conditions it will create a political momentum here which will override these doubts.

(b) I think that the Italian Government would be aghast at a British decision not to proceed further. They would regard it as extinguishing for the foreseeable future their cherished hopes of a united, democratically stable, powerful Europe. H.M.G. would be held to have rejected "Europe", and to have done so because the British people feared
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to follow them at the critical moment. The
Italians would then see no choice but to make
the best they could of the community of the Six,
knowing that this would make them the prisoners
of de Gaulle so long as he lives, and probably
of Germany thereafter. I think it fair to say
that, after the exc. undec. expectations
aroused by the evolution of public opinion in
the United Kingdom and by the seriousness of
H.M.G.'s approach over the last few months a
drawing back now would be thought very near a
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drawing back now would be thought very near a
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Italian support for a third try later on.

(c) The Italian Government do not see any point
in further bilateral consultations. They cannot
see what further assurances we could realistically
expect to extract from individual members of the
Community. A decision, therefore, to "pursue
further bilateral consultations" would be
considered here equivalent to an admission of
defeat. It would be regarded as evidence that
H.M.G. had now accepted the French view that the
difficulties were too great. It might well be
thought that we had resigned ourselves to a
Europe fashioned by de Gaulle.

2. As regards your paragraph 3, I think we can be
confident that the Italian Government would support a
British application and do their best during the nego-
tiations to make it succeed. But they would not risk
breaking up the Community rather than see us fail.
Their courage will be measured by our skill and
determination and by the attitude of their other partners.
In particular it will depend on our being able to show
that British entry will advance the Community's develop-
ment on the basis of its existing achievements, thereby
giving no reasonable ground for French veto. President
Saragat, who has great influence, can be expected to
throw his whole weight behind us: so can Nenni and both
wings of the United Socialist Party. Moro, the Prime
Minister, and less certainly Colombo, would also be
likely to do their best. Fanfani too will help if he
judges that if will assist his own advancement, i.e. if he
judges that success is possible. Against these Gaullist
influence will no doubt be exercised through the Extreme
Right in Parliament and in the Ministry of Foreign
Affairs.

3. But when all is said, a vigorous and confident
lead is, in Italy, half the battle.
Washington Telegram No. 1376 of 26 April

(Note. Paragraph 4 of this telegram should be read in conjunction with the following extract from the Foreign Secretary's conversation with Mr. Rusk on 18 April in Washington:

"Mr. Brown asked whether the Americans thought that, if the Kennedy Round had not been completed by 8 May (which he made clear was for us the absolute deadline) and we went ahead with our application it would be possible for this to be seized upon and, if the Kennedy Round broke down (for an engineered or other reason), used as an excuse for this failure. We did not think that the French would argue that way, and this view had been confirmed by H.M. Ambassador in Paris.

Mr. Rusk said that it certainly could not be used as a reason, but might conceivably be made a pretext. Nevertheless he indicated clearly that his view, and that of the others with him, was that we should not be deterred by this consideration."

There is no doubt that despite the preoccupations relating to international liquidity and the Kennedy Round referred to in paragraphs A and 5 below, a decision by H.M.G. to apply for membership of the EEC would be warmly welcomed by the U.S. Administration as a whole. It is their considered judgement that British membership would be in the long-term interest of the United States because they believe it would lead, in time, to the creation of a politically and economically strong and stable Europe, better able to contribute effectively to the achievement of the fundamental free world aims which are common to the United States and Western Europe. Conversely, a divided Western Europe would both compound the relative weaknesses which militate against the achievement of these aims, and increase the dangers of uncontrolled nationalism.

In recent years the Americans have regularly reviewed their original judgement that the economic disadvantages to American trade interests entailed by wider economic integration in Europe will be outweighed by the political advantages. Despite the strains imposed on their patience by unforthcoming European attitudes in the Kennedy Round and international liquidity negotiations, they still regard this judgement as valid.

2. Given this policy position, I am satisfied that the Americans would consider that the prospects for a successful British application would be improved if it is made as soon as possible, and, conversely, that a loss of momentum would harm our chances. Other things being equal, therefore, the Americans would strongly favour an early application and would tend to regard a decision to delay pending further bilateral consultation either as a tactical error on our part, or as evidence that we were less than wholehearted in our approach. Either judgement could, I think, have repercussions on their future assessment of our value to them as an ally in the longer term. This would apply even more strongly to a decision not to proceed with the question of membership.

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3. The Americans have few illusions about de Gaulle's attitude to British entry but they believe that we can and should make any French veto politically costly to France. For this reason, they hope that we would make our application as crisp and as unqualified as possible, and at the same time play up our interest in the political content of the EEC, thus minimising the opportunities for the French to demoralise the Five in the course of protracted negotiations about conditions of our entry.

4. So far as the timing of our application is concerned, however, the Administration is bound to be concerned at the possible effect on the Kennedy Round of a British application to join the EEC if it were to be made before the negotiations were complete, which now seems unlikely to be before 15 May. The Americans would certainly prefer the announcement of an application to be delayed until after the conclusion at any rate in substance of these negotiations, if this could be conveniently arranged. If, on the other hand, the choice lay between an application before this date and a significant delay in applying, the State Department and Mr. Rusk at least would, I think, favour an early application. Mr. Roth's office, however, considering the problem from the point of view of the tactical situation in Genoa, might well have some reservations, although they would probably eventually accept the State Department's judgement on the wider political considerations involved.

At all events, I feel sure the Americans would wish to be given advance notice of our intentions; and, if an announcement were to be made before settlement of the Kennedy Round, we should discuss with them privately ways of mitigating its potentially harmful effects. Such discussions would certainly need to include Mr. Roth as well as the State Department.

5. In view of the uncertain state of talks on international liquidity in which we and the Americans have tended to find ourselves in the same camp, the U.S. Treasury would at least hope that there would not be any interruption in their close cooperation with us arising from the reserve currency roles of sterling and the dollar. Because of the sharp differences between the EEC members and the Americans on certain aspects of the liquidity debate and the patent desire of the U.S. to drum up support from third countries, the U.S. Treasury has some reservations on whether our entry would be in their best interests. As in the case of the Kennedy Round, the Americans would hope to be given some warning if there were any likelihood of our modifying our stand on those financial matters now under discussion, though they seem to regard it as inevitable that our policy from now on will be to seek to find a compromise between the opposing points of view.

/Appendix II
Britain and the EEC

After welcoming Herr Brandt, Mr. Brown said that he and the Prime Minister had given their Cabinet colleagues a full report of their round of consultations in Europe. The Cabinet had held two full meetings devoted to this subject and there would probably be two or three more meetings to come. The Parliamentary Labour Party was also considering the subject.

2. Three problems arose. Firstly we were under an obligation to consult EFTA, but could not risk embarrassing leaks. We still had to work out the way in which consultation with EFTA could best be organised. Secondly he would welcome Herr Brandt's advice on how we should proceed if we did decide to apply to join the EEC. Did Herr Brandt think that the proposed meeting of the Six Heads of Government should take place before any application? He would also be interested to know what the purpose of the meeting would be. Thirdly, did Herr Brandt think that the Kennedy Round should be successfully concluded by 30 April?

3. Herr Brandt said that he appreciated the opportunity afforded by this visit of discussing various urgent problems. With reference to British entry into the EEC the German position was well-known and had been outlined by him in Brussels on 10 April. The Federal Government hoped that Britain and other EFTA countries would join the EEC, along the lines which had been discussed. He had said in Paris...
and elsewhere that this corresponded with German interests and there should be no doubt that this was the German position. It was also understood that the Federal Government would have to discuss the question with those who had doubts on the subject. He would be seeing M. Couve de Murville on 27 April in Bonn in the course of the regular quarterly consultations between the Foreign Ministers of the two countries.

4. The French had now proposed that the meeting of the Six Heads of Government should take place between 20 and 30 May. There would be a discussion on various problems (including perhaps the question of the fusion of the existing executives though this, and the question of Hallstein's successor, would first have to be discussed between him and M. Couve) but his impression was that General de Gaulle was not in favour of a fixed agenda.

5. He thought that everything possible should be done to conclude the Kennedy Round by 30 April or very shortly afterwards. He hoped that the problems between Britain and the EEC could be settled satisfactorily within the next fortnight and that the new instructions sent to the Commission would not cause difficulty.

6. In conclusion Herr Brandt said that when they heard what our plans were in connexion with membership of the Community the Federal Government would try to be as helpful as possible and to get things started even if real discussions could only take place later this year. He enquired whether Mr. Brown had been asking for his advice with regard to consultations with EFTA.

7. Mr. Brown explained that he was not asking for advice on this point but had merely wished to draw it to Herr Brandt's attention. The problem was to work out a way of honouring our commitment to consult EFTA before any decision was taken and at the same time keep in our own hands control of the date of any announcement. If we did apply, it might well be that the
procedure followed would lead to parallel applications by other EFTA countries to join the Community and Herr Brandt might wish to consider the problems which this could raise.

8. Herr Brandt said that he supposed that Denmark, Norway and the Irish Republic might apply at the same time.

9. Mr. Brown said that although there were divided views in Sweden the Swedish Government might also well make an application.

10. Herr Brandt said that the prospect of a number of applications did not scare him.

11. Mr. Brown said that it might nevertheless affect General de Gaulle’s attitude and Herr Brandt might wish to consider how this aspect could be handled. It was, of course, not correct to think that Britain, if she joined the EEC, and the other new members would represent a kind of separate block within the Community: there would be a much more fluid situation.

12. Mr. Brown said that against the possibility of early action by HMG it would be useful to be assured of German support before the Rome meeting. The British Government had to maintain the momentum.

13. Mr. Mulley said that it was important to maintain the momentum not only in Europe but also internally. It would create a very bad impression if through the requirement of adapting to an external timetable the Cabinet were thought to be unable to take a decision on the question.

14. Mr. Brown enquired whether the Governments of the Six would not expect to have a letter from H.M.G. on the subject to discuss at the Rome meeting.

15. Herr Brandt said that if the Secretary of State was referring to a letter solely in the context of the Rome meeting, then it should be a letter to the six Governments but not to the Community; the Rome meeting was not part of the Community machinery.
16. Mr. Brown said that, supposing a decision was taken to apply for membership and H.M.G. applied to the Council of Ministers and informed the individual governments, the Rome meeting could presumably consider the subject.

17. Herr Brandt pointed out that the Rome meeting was not a meeting of the Council of Ministers; General de Gaulle could refuse to agree to the matter being on the agenda and insist on its being remitted to some other meeting. Herr Brandt remarked incidentally that he would be Chairman of the Council of Ministers from 1 July. In reply to a question he confirmed that his view was that the submission of a formal written application was not so important as a public positive decision by H.M.G. and that it would be helpful if the latter could be taken before the Rome meeting.

18. Mr. Brown said that a public positive declaration would amount to the same as writing a letter.

19. Herr Brandt said that a public statement could be combined with letters of application to the six governments and the Chairman of the Council of Ministers. Alternatively the six governments could be told of H.M.G's. intentions and each individual Government could be informed that H.M.G. was ready for further bilateral discussions before actually putting in our application. In reply to a question from Mr. Brown, he confirmed that the six governments would wish to hold a meeting to discuss British entry which would not necessarily be in the form of a meeting of the Council of Ministers. He agreed, rather reluctantly, that it could be discussed at the Rome meeting.

20. Sir C. O'Neill pointed out that if H.M.G. made an application before the Rome meeting the Heads of Government were under no compulsion to discuss it. But until any application was made there was no question of the Council of Ministers discussing it; but they would have to do so before long once application had been made.
21. Herr Brandt then said that a telegram bearing on these aspects had just been received from the German Embassy in Paris. According to this telegram General de Gaulle was willing to discuss various problems in Rome without any fixed agenda. These were listed as the development of the Common Market into an economic union, the fusion of the executives, East-West relations and other problems. It was only the question of British membership that the General would not yet consider a suitable subject for discussion at the conference table in Rome. If the other members of the Community agreed with these ideas, General de Gaulle would attend the Rome meeting. Herr Brandt thought that this information was in line with what M. Alphand had said at the time of the W.E.U. meeting in Rome about the need to find ways and means of discussing the question of British entry without doing so officially at the conference table. (On a subsequent occasion Herr Brandt said that the information about the French attitude contained in this telegram had come from Italian sources. He therefore added that it should be treated very confidentially).

22. Mr. Brown said that if a British application was made before the meeting it would, presumably be hard to give General de Gaulle the assurance that he needed. If the General was allowed to prevent discussion of any application, this would amount to a veto right at the beginning and would have very harmful effects. If an application had been made by the time of the Rome meeting the General could surely not prevent at least a procedural discussion of how it should be handled. If this opportunity was missed we should find ourselves in the holiday season.

23. Herr Brandt said that the Federal Government would consider the matter in the light of later knowledge of the British position.
28th April, 1967

CABINET

THE 1967 UP-RATING OF SOCIAL SECURITY BENEFITS

Memorandum by the Chancellor of the Exchequer

In the context of measures to restrict public expenditure in 1967-68 the Cabinet took the view on 17th November last (CC(66) 58th Conclusions) that the next uprating of social security benefits should be 10s. Od. for a single person's pension and should take effect at the end of October, 1967.

The Basis of the November Decision

2. The Cabinet's decision was based on a forecast at the time and not on actual figures. The forecast was that real earnings would have risen by about 6.7 per cent and prices by 10 per cent between 1st April, 1965 and 1st November, 1967. To match rises of this order fully, an uprating of 14s. 0d. (rounded) would have been needed; but in practice the amount would have been held back to 13s. 0d. as a result of an earlier decision that the next uprating must be held back by 1s. 0d. to help finance the supplementary benefits scheme. The decision of 17th November therefore meant that the next uprating would be 4s. 0d. below the level which it was thought would have been needed to match the expected rise in real earnings and prices, and 2s. 0d. above the expected increase in retail prices.

The Present Position

3. Since last November, however, the picture has changed. As a result of the success of our prices and incomes policies, we now expect earnings to have risen not by 6.7 per cent but by 5.2 per cent, and prices not by 10 per cent but by 8.6 per cent. This means that it is not necessary to increase the pension by as much as 10s. 0d., in order to achieve the same standard of living as we then intended. On this revised basis the equivalent of the 10s. 0d. uprating decided by the Cabinet last November would be about 8s. 3d.
4. The following table sets this out:

<table>
<thead>
<tr>
<th>Nov. 1966</th>
<th>April 1967</th>
</tr>
</thead>
<tbody>
<tr>
<td>(rounded)</td>
<td></td>
</tr>
</tbody>
</table>

Uprating in line with expected earnings  
Less Is. 0d. to help with Supplementary Benefits  
Uprating in line with retail prices  
Uprating decided by Cabinet in November, 1966  
Proportionate uprating in light of smaller prices and wage increases

The Implications for Public Expenditure

5. As my colleagues will know, I am extremely concerned about the level of public expenditure in 1968-69 which is likely to be an even more difficult problem than in 1967-68. We shall have to pay particular attention to this in the review of civil expenditure which we are undertaking this summer. In the case of social security benefits, however, expenditure in 1968-69 will be virtually governed by the 1967 uprating.

6. A 10s. 0d. uprating would mean extra gross expenditure of £230 million a year (about £40 million on the Exchequer). For an 8s. 0d. (for technical reasons upratings need to be at least in multiples of 6d. and preferably of Is. 0d.) uprating the figure would be £170-180 million (almost £30 million on the Exchequer). The difference is therefore about £50 million (over £10 million on the Exchequer) - a sum which could be very significant for other expenditure programmes.

The Implications for Contribution

7. An uprating will mean an increase in contributions and I understand that about Is. 10d. a side would be needed to finance a 10s. 0d. uprating and about 1s. 6d. a side to finance an uprating of 8s. 0d. I understand also that because the numbers of retired, sick and unemployed are higher than were forecast in 1965, it will be necessary to add perhaps 4d., 6d., a side on top of what is needed to finance the next uprating as such. The contribution aspects of the next uprating are, of course, important since the employees' contributions fall on the working population and serve to reduce any increase in real earnings they may have had, and employers' contributions lead to increases in industrial costs and generally in the cost of living.

General

8. I attach a table giving details of all upratings since 1945. The increase we gave in March, 1965 was the largest ever given. It meant a very substantial rise in pensioners' living standards. An 8s. 0d. rise
next October would not only restore the 1965 standard which was widely welcomed but further improve it. Moreover this increase would be made at a time when there is a real prospect of greater stability in the cost of living. With an 8s. Od. increase we should have raised pensions by 20s. 6d. in 2\(\frac{1}{2}\) years as compared with 37s. 6d. in 13 years of Tory rule.

Conclusion

9. I invite the Cabinet to agree, in the light of the latest forecast of the movement of earnings and prices, and of the prospects for public expenditure in 1968-69, that the uprating of social security benefits which is to take effect from the end of October, 1967, should be for 8s. 0d. (single person's pension), and thus to reaffirm in principle the decision reached on 17th November last year.

10. I am proposing 8s. Od. in deference to the Minister of Social Security's view that for administrative reasons upratings should be in multiples of 1s. 0d. rather than of 6d. But my colleagues should know that I would be ready to accept 8s. 6d. and I do not believe there are decisive technical reasons why this should not be done. An 8s. 6d. uprating would give pensioners 1s. 7d. more than the rise in prices would justify and would more than match the Cabinet’s decision of last November.

L. J. C.

Treasury Chambers, S, W.1.

28th April, 1967
The following table shows the pattern of upratings since 1946, including the effect of the proposal in the main paper.

<table>
<thead>
<tr>
<th>Rate (Single person)</th>
<th>Time from previous uprating</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1946</td>
<td>26/-</td>
</tr>
<tr>
<td>October 1951</td>
<td>30/-</td>
</tr>
<tr>
<td>October 1952</td>
<td>32/6</td>
</tr>
<tr>
<td>April 1955</td>
<td>40/-</td>
</tr>
<tr>
<td>January 1958</td>
<td>50/-</td>
</tr>
<tr>
<td>April 1961</td>
<td>57/6</td>
</tr>
<tr>
<td>May 1963</td>
<td>67/6</td>
</tr>
<tr>
<td>March 1965</td>
<td>80/-</td>
</tr>
<tr>
<td>October 1967</td>
<td>(88/-)</td>
</tr>
<tr>
<td>(88/6</td>
<td></td>
</tr>
</tbody>
</table>
CABINET

EUROPE: COMMUNIQUE OF THE MINISTERIAL COUNCIL OF THE EUROPEAN FREE TRADE ASSOCIATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate for the information of the Cabinet the text of the Communiqué issued at the conclusion of the meeting of the EFTA Ministerial Council in London on 20th April, 1967.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

29th April, 1967
MINISTERIAL MEETING OF THE EFTA COUNCIL

London - 28th April, 1967

COMMUNIQUE

The EFTA Council met at Ministerial level in London on 28th April, 1967, under the chairmanship of Mr. Gunnar Lange, Minister of Commerce of Sweden. Finland was also represented by Mr. Ahti Karjalainen, Foreign Minister, who was present in a personal capacity. The only item on their agenda was European integration.

The meeting, held in accordance with an agreement reached at the EFTA Ministerial conference in Stockholm in March of this year, gave the opportunity for a general discussion among Ministers of the prospects of European integration as they appear now that the United Kingdom Government have been able to review their own recent discussions in the six capitals of the European Economic Community, and before any final conclusions have been drawn from them.

The EFTA Governments, desirous of bringing about a single European market in accordance with the purpose of the Stockholm Convention, recognised that, if the British Government were to decide to seek a closer relationship with the EEC, that decision would open up new prospects for a solution of the question of European economic integration, in which they all intended to participate.

In affirming their intention to work towards the goal of European economic integration, all the EFTA Governments reiterated their strong interest in safeguarding, as an important part of an enlarged European community, the free market already established in EFTA by the successful dismantling of trade barriers within the Association.

The change from the present division of Europe to a single market should be as smooth as possible. Were the United Kingdom or any other member of EFTA to apply for participation in the EEC, the process of negotiation and of ratifying any ensuing agreement could hardly be short. In addition, it would be the purpose of EFTA Governments that, should it be necessary in order to give a reasonable opportunity to their partners in the Free Trade Area to conclude negotiations, sufficient transitional periods should be provided for, with a view to avoiding disruption in European trade patterns.

Ministers agreed that their Governments should maintain close and continuous consultation on all the aspects of the future European structure.
THE APPROACH TO EUROPE: VALUE-ADDED TAX

Memorandum by the Chancellor of the Exchequer

I circulate a note by officials covering questions raised in the Cabinet at their meeting this morning (CC(67) 24th Conclusions, Minute 1) on the arrangements for a value-added tax in the European Economic Community and on their implications for the United Kingdom in the event of our entering the Community.

L. J. C.

Treasury Chambers, S.W.1.

29th April, 1967
THE APPROACH TO EUROPE: THE VALUE-ADDED TAX AND THE COMMUNITY

Note by Officials

Article 99 of the Rome Treaty provides for the harmonization of turnover taxes, excise duties and other forms of indirect taxation. The immediate objective of this clause is to remove the distortions to trade that result from arbitrary allowances at the frontiers in respect of cascading turnover taxes. The ultimate objective is the abolition of the fiscal frontiers between member states so that in intra-community trade taxes will no longer have to be rebated on exports or imposed on imports. To achieve this ultimate objective, it is considered necessary to have an identical system of indirect taxation throughout the Community so that any item at any stage of production will have borne the same tax burden in all member countries.

2. In pursuance of these objectives the Council of Ministers have agreed to two directives which provide for the adoption of a system of value-added tax in replacement of existing turnover taxes by members of the Community by 1st January, 1970. The present directives permit exemptions for particular categories of goods; they do not require the extension of the tax to the retail stage; they do not cover agriculture (for which, however, a further directive is envisaged) and the working of the system is to be reviewed in two years. The present directives do not cover the rates of taxation. However, the Commission is to make proposals for the manner and timetable of the harmonization of rates before the end of 1968.

3. The present note assumes that we shall be given a certain transitional period to introduce the TVA system in this country, and a further transitional period for the harmonization of rates. It is assumed that if we entered the Community by 1st January, 1970 we should have to introduce the TVA system by 31st December, 1972 and harmonize the rate structure with the rest of the Community by, say, 1975-77.

Nature of the TVA

4. The value-added tax is a species of a general turnover tax with credit given to traders for the taxes they pay on their purchases. This is best explained by an example. Suppose the rate of the tax is 10 per cent and the trader (who may be a producer of materials or components, or a wholesaler or retailer) sells goods for £100; he charges £10 on sales to the buyer which is shown separately on a sales voucher; but he only has to account to the Revenue for so much of this tax as is in excess of the amount he paid himself on his purchases of materials and components. Supposing that he paid £55 for his purchases (including £5 tax) he needs to account to the Revenue for £5 of the £10 tax collected by him on his sales.

5. The most important feature of this tax is its comprehensiveness. It is levied at all stages of production and distribution, from the raw material to the finished commodity; though agriculture is not covered by the existing directives and retailing is not required to be within the scope of the tax at present. However, once such a system is introduced.
it is quite inevitable that it should sooner or later extend to all commodities and to all traders - for any trader left out of the system cannot claim relief of the tax on the things he purchased and cannot roll the burden forward by imposing an equivalent charge on his sales. For this reason continued exemption would not be in the interests of the agricultural community since they would not be able to recoup the taxes paid on their purchases of fertilizers, seed, machinery, etc.

6. However, comprehensiveness does not imply that the rates of tax paid by the final consumer on different classes of goods need be uniform. Differentiation could be introduced in the final stage and an appropriate adjustment made for the tax paid at earlier stages. In theory, therefore, necessities like food, fuel and light, or rent, could bear a nil rate of tax. In practice, however, complete exemption would involve serious administrative difficulties. To illustrate this, supposing that food was nominally exempt, tax would have been borne on the materials, fuel and capital goods used in its production and transport. It would only be possible to eliminate this tax burden by a massive system of repayments. After an examination in depth of the problems involved, the view of the Customs is that we would find, in the same way as France and Germany have found, that a repayment system would entail such complexities of administration as to make it unfeasible for adoption.

7. Hence the best way to avoid having heavy taxes on necessities is to have a low basic rate of, say 5 per cent and higher rates (which could go up to the present purchase tax rates) imposed on defined classes of goods at the manufacturing or wholesale stage. The introduction of a tax of this kind would need to be phased over a transitional period of five years. Assuming a fully comprehensive tax extending to services of all kinds, including house-rents, it would increase the net yield of taxation (after allowing for the absorption of the purchase tax at the present rates) by about £800 million and it would increase the cost of living by around 4 per cent. If compensating reductions were made in excise duties by cutting the present rates on beer and spirits by one-half, the extra revenue yield would be £500 million and the rise in the cost of living would be 2½ per cent. Even so, the change would involve a considerable shift in the incidence of taxation - particularly between households of different family size - which could only be offset by higher social security cash benefits.

8. While a tax with the above features would conform to the present directives of the Community, ultimately we need a tax with a rate structure that conforms with that to be agreed by the other countries of the Common Market. If one takes the current average yield of turnover taxes among the Six as the basis, this would imply a tax with a general rate of around 14 per cent, with a lower rate of perhaps 7 per cent on food, an overall average of around 12 per cent. The consequences of this on the cost of living index would be substantial, though some compensating reductions could be made by lowering the present excise duties on beer and tobacco.
9. It should however be borne in mind that all decisions concerning the harmonization of the rates and coverage of taxation need to be unanimous. Once we are members of the Community we shall be able to exert our influence in these matters. In addition, the full harmonization envisaged in Article 99 is still a distant objective. There is the question of the present monopolies – like the Italian and French tobacco monopolies – as well as the question relating to differences in excise duties which have not yet been tackled by the Community.
CABINET

EUROPE: DRAFT STATEMENT IN THE HOUSE OF COMMONS

Note by the Prime Minister

In accordance with the procedure agreed by the Cabinet at their meeting yesterday at Chequers (CC(67) 26th Conclusions) I circulate the draft of a Parliamentary statement on the approach to Europe.

H. W.,

10 Downing Street, S.W.1.

1st May, 1967
Mr. Speaker,

With permission I should like to make a statement.

Her Majesty's Government have today decided to make an application under Article 237 of the Treaty of Rome for Membership of the European Economic Community and parallel applications for Membership of the European Coal and Steel Community and Euratom.

As the House will recall I stated on 10th November last that my rt. hon. Friend the Foreign Secretary and I would embark on "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 EEC". (Hansard 10th November, 1966 Column 1540f)

These discussions took place between January and March. Since then the Government have carried out an exhaustive examination of all the issues involved, resulting in the decision I have just announced.

The reports I have made to the House have made it clear that during the discussions in the Six capitals there was no question of negotiating about possible British entry to EEC. But my rt. hon. Friend and I, and indeed the House, have reason to be grateful to our hosts for the very frank exchanges which preceded today's decision.

These exchanges have enabled us to identify the major issues which we, for our part, shall wish to see settled in the negotiations.

On the Treaty of Rome itself, as I informed the House on 10th November, we have throughout our discussions taken the view that, as I then said, "... the Treaty of Rome is not in itself or necessarily an impediment. There are anxieties... but the Treaty 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". In short, as I said then, "the Government 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 about which we see difficulty".

Our discussions in the capitals of the Six have confirmed this approach in terms of the practical working of the Community and its institutions.

It is in this spirit that the Government intend to embark on the negotiations. The House will, I am sure, agree that they ought not to be unnecessarily prolonged or complicated with lesser issues, many of which can be best dealt with after entry. It is our hope that the negotiations will be followed through swiftly, and will relate to the small number of really important issues, which have been identified through our recent discussions, issues on which agreement should be reached if the House and the country are to be satisfied that essential British and Commonwealth interests will be safeguarded. This is the spirit in which the original partners to the Community approached their own negotiations over ten years ago; and our recent meeting with our EFTA partners has confirmed that they too approach the matter in the same spirit.

I now turn to the major issues which it must be our purpose to resolve during the negotiations.

First, there are the problems associated with the operation of the Common Agricultural Policy of the Community - the problems of its potential effects on the cost of living and on the structure and wellbeing of British agriculture; problems of the budgetary and balance of payments implications of its system of financing; and certain Commonwealth problems with which I will deal in a moment.

As I have already made clear, publicly, we must be realistic and recognise that the Community's agricultural policy has come to stay as an integral part of the Community; we must come to terms with it. But the House will feel that
the consequences of that policy for British agriculture involve far reaching changes in the structure of British agriculture which will require an adequate transitional period to enable the necessary adjustments to be made in our agricultural structure.

The House will also share the Government's view that the financial arrangements which have been devised to meet the requirements of the Community as it exists today would, if applied to Britain as they now stand, involve an inequitable sharing of the financial cost and impose on our balance of payments an additional burden which we should not in fairness be asked to carry.

There are also highly important Commonwealth interests, mainly in the field of agriculture, for which it is our duty to seek safeguards in the negotiations. These include in particular the special problems of New Zealand and the interests of Commonwealth sugar producing countries, which are at present safeguarded by the Commonwealth Sugar Agreement. We have, as the House knows, been in touch with all our Commonwealth partners, and will make special arrangements to keep in close consultation with them, as with our EFTA partners, throughout the negotiations.

Again as the House knows, capital movements raise questions of special importance. Our discussions suggest that these can be dealt with by suitable arrangements.

Another important issue is the question of regional policies. Here too we had to satisfy ourselves that we should be able, as members of the Community, to continue to take the necessary steps to ensure the industrial and social development of those areas of the country with which this House is always and rightly especially concerned. Our discussions with the Heads of the Governments of the Community, not least the information we were given about the policies currently being pursued by member countries, have reassured us that the House need not have cause for anxiety on this score.

As I have said, these are major and important issues but I can tell the House that the Government believe that there is nothing either in the Treaty of Rome, or in the practical working of the Community which need make them insoluble.
And it is in this spirit that we for our part will approach these negotiations.

Mr. Speaker, I have gone into some detail about certain specific economic issues, on which hon. Members are rightly concerned. But the Government's decision has been motivated by broader considerations of economic policy and still wider arguments to which I will turn later. On the economic arguments each hon. Member will make his own judgment of the effect on exports and imports, on industrial productivity and investment. Equally, every hon. Member must make his own assessment of the economic consequences of not going into the Community and, in an age of wider economic groupings, of seeking to achieve and maintain viability outside.

But all of us are aware of the long-term potential for Europe, and therefore for Britain, of the creation of a market of perhaps 300 million people, with all the scope and incentive which this will provide for British industry, and of the enormous possibilities which an integrated strategy for technology, on a truly Continental scale, can create. I am glad to say that my rt. hon. Friend and I found that this conception has made a great impact throughout Europe.

But whatever the economic arguments the House will realise that, as I have repeatedly made clear, the Government's purpose derives above all from our recognition that Europe is now faced with the opportunity of a great move forward in political unity and that we can - and indeed must - play our full part in it. As I said last week "... Our conception of European unity is not based on something narrow or inward looking. Europe has a part to play in world affairs which we in Europe are not at present playing. Britain has her own vital political links with Africa and Asia, her vital role within the Western alliance - as have other European countries."
"But a Europe that fails to put forward its full economic strength will never have the political influence which I believe we could exert within the alliance, within the United Nations, and as a means for effecting a lasting detente between East and West; and equally contributing in ever fuller measure to the solution of the North-South problem, to the needs of the developing world."

It is for all these reasons that we intend to pursue our application for membership with all the vigour and determination at our command. As I told the House last November, "We mean business" - and we shall live up to our words.

The House will of course wish to debate this decision at the earliest opportunity and arrangements will be made for a three day debate next week. We shall of course seek to meet the requirements of the House for the fullest possible information over the coming weeks. An initial White Paper will be laid later this week and we shall take the opportunity of the debate and of further White Papers which will be laid, to enable the House, and public opinion generally, to form a full, fair and informed judgment of the great issues involved. For all of us realise that this is a historic decision which could well determine the future of Britain, of Europe and indeed of the world for decades to come.
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CABINET

UPRATIN& OF SOCIAL SECURITY BENEFITS

Memorandum by the Minister of Social Security

Before coming to office in 1964, we pledged ourselves that existing national insurance benefits would be raised and thereafter linked with average earnings. The benefits were raised by 12s. 6d. on the single rate of pension as soon as we could manage it, but there had been no general increase since.

2. When we replaced national assistance by the new scheme of supplementary benefits I agreed that on the next occasion the increase in benefits should be 1s. less than the earnings criterion warranted, so as to help pay for the supplementary benefits. Last November the Cabinet decided that the next general uprating should be postponed until next October and further limited to 10s. in order to moderate the general level of expenditure forecast in the 1966 public expenditure exercise. The Chancellor of the Exchequer now proposes (C(67) 69) that the 10s. should be cut to 8s. 6d.

3. 8s. 6d. would be the smallest increase in benefits, in money terms, since 1961, when the increase was 7s. 6d., and the smallest proportionate increase in the pension since 1952. Indeed every uprating since then has been larger in proportion than the rise in earnings, except in 1961. Even then, however, the benefit went up by over 5s. more than was required to counteract the rise in prices. Details are given in the Annex.

4. On the latest forecasts of earnings and prices, an 8s. 6d. increase would be 2s. 11d. less than the rise in earnings would justify and only 1s. 7d. more than will be needed to match the rise in prices since March 1965. I do not see what rational justification we could offer for so small an improvement. If the increase were 10s., rational explanation would be much less necessary and more easily found.
5. We have had to restrain the rise in earnings, and have had some success in this. But the 10s., on which the Cabinet decided last November is still 1s. 5d. less than would be needed to match the forecast rise in earnings up to October, so that the pensioner would still be doing worse than wage-earners in general. Moreover, we have acknowledged in our prices and incomes policy that preference must be given to the low-paid wage-earner (defined by the Trades Union Congress as under £15 a week), so that the pensioner will be falling still further behind the level of the lowest wages. This is true with a 10s. increase, but much more so with 8s. 6d.

6. We are now moving towards an incomes thaw, and we can expect a fairly sharp rise in the general wage level during the second half of this year. However successful we may be in restraining prices, this movement in wage costs must presumably have some effect on prices in the months following the uprating. But if benefits are raised by only 8s. 6d., the margin of real improvement of 1s. 7d., compared with the 1965 rates, would disappear as soon as prices had risen by about 1½ per cent. The standard of living of pensioners would then be lower than in March 1965. For the first time for over a decade, the Government would be unable to claim that the existing benefits were worth more than any previous rate. Since we cannot expect a further uprating before the autumn of 1969, this embarrassing situation would have to be defended for a long time.

Contributions

7. We shall have to finance the increase of the insurance benefits by putting up the flat-rate contributions and the proportionate Exchequer supplement, because we cannot look to the graduated pension scheme for further finance until we have reformed it. The increase in the contribution is, in any case, going to look steep because we need extra income to match the higher level of sickness now prevailing and the trend towards earlier retirement, as well as the higher level of unemployment. Depending on the unemployment assumptions used, the total increase in the stamp looks like being between 4s. 4d. and 5s. for a 10s. pension increase, and only about 5d. less for an 8s. 6d. increase. I shall have to put forward proposals about the distribution of this extra burden between employer and employee, but the contribution increase is bound to look severe in relation to the amount of benefit, and this will be greatly accentuated if the pension goes up by only 8s. 6d.
Supplementary and other benefits

8. The increase in supplementary benefits, with the interim increase in the scale rates given last autumn, should match the increase in the national insurance pension. On this principle, if the single rate of the insurance pension goes up by 8s. 6d., the rate of supplementary pension should go up by 3s. 6d. This would be the smallest proportionate increase since 1948.

9. Increases in the subordinate national insurance benefits, industrial injury benefits and war pensions must be derived from the increase in the main pension rate. With the latter at 10s., I have made a balanced set of proposals trimming some rates to make room for other improvements which need to be made from time to time. Clearly, with an 8s. 6d. base, there is less scope for this kind of thing, and it would not follow that we could achieve the full proportionate savings over the whole range of benefits.

Conclusion

10. For these reasons, and particularly fairness to the pensioners, I must press my colleagues to uphold the earlier decision in favour of an uprating geared to 10s. on the single rate of pension.

M.H.

1st May 1967
**ANNEX**

Increases in benefits, prices and earnings between key dates

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate of Benefit</th>
<th>Increase given</th>
<th>Increase needed to match prices</th>
<th>Increase needed to match earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1946</td>
<td>26s.</td>
<td>-</td>
<td>-</td>
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2nd May, 1967

CABINET

CONCESSIONARY FARES

Memorandum by the Minister without Portfolio

The Minister of Transport brought before the Home Affairs Committee at their meeting on 28th April a proposal that she should announce shortly the Government's intention of introducing legislation to extend the provisions of the Travel Concessions Act, 1964, which gave local authorities permissive powers to arrange travel concessions on municipal buses. The Home Affairs Committee did not feel able to agree that a decision should be taken in advance of the current public expenditure survey and were unable to approve the proposal to make an early announcement. The Minister of Transport has asked that the matter should be considered by the Cabinet. The purpose of this paper is to indicate briefly the considerations that were before the Home Affairs Committee and the points on which the Cabinet are asked at this stage to take a decision.

The Proposals

2. The Minister of Transport seeks authority to make a general statement of the Government's intention to legislate next Session for the following purposes among others -

(a) To enable local authorities outside London to arrange travel concessions, except for children, for local journeys on non-municipal buses as well as on municipal buses. The concessions could be provided for the old, the blind, the disabled, students travelling for educational purposes and members of the local authority travelling on duty.

(b) To put a statutory obligation on municipal and non-municipal bus operators to give the concessions, which are as a matter of existing practice given to children up to varying ages, to all children up to the school leaving age.

It is not at this stage proposed to deal with the situation in London which presents a different problem because of its size and the availability of underground and local rail services but to consider how the concessions can be introduced in London in the light of the proposed re-organisation of London transport.
The Cost of the Proposals

3. The cost of the existing concession on municipal undertakings is at present about £2½ million a year and if all the undertakings were to use their permissive powers would be about £3 million a year, of which £2 million would fall on the rates. The cost of extending the concession to non-municipal bus undertakings is estimated to be a maximum of about £9 million a year, of which £5 million would fall on the Exchequer through the rate support grant. This is on the assumption that all local authorities gave the concessions and the maximum figure would probably not be reached for some time. The extension of the concessions to London might add another £5 million to the cost, making a total of £14 million.

The Case for the Proposals

4. The arguments put to the Home Affairs Committee in support of the proposals were -

(a) That the Travel Concessions Act 1964 removed the anomalies created by the Act of 1955, (which froze the then existing concessions) but created new ones, for example, many areas are served by both municipal and non-municipal buses or by municipal services run jointly with non-municipal ones so that concessions cannot be organised even on the municipal component of the joint services.

(b) That the statement made by the Minister of Transport in the House of Commons on 4th May, 1966 that she would review the situation "in order to see what amending legislation, if any, was necessary" and the knowledge that she has been in consultation with the local authorities have created expectation among the public and the authorities themselves, most of whom wish to have some additional powers of the kind proposed, that the Government will take action.

(c) Political support for such action has been reflected in a Private Member's Bill introduced by Mr. Bob Brown.

(d) In exchange for a statement of the Government's intention to legislate Mr. Bob Brown might be persuaded to withdraw his Bill (which is unsatisfactory in form and ought not to be given a Financial Resolution) before it reaches Committee Stage on 10th May.

The Contrary Arguments

5. The following arguments were advanced against taking an immediate decision to legislate on the lines proposed -

(a) In principle it has been found better to help the elderly and the disabled by cash benefits than by concessions in kind which can be enjoyed only by those able to use the service in question. On the analogy of the tobacco concession, there might be a risk of pressure for a cash allowance in lieu. Cash benefits have been and are being raised and the extension of concessions in kind would merely create further anomalies.
There is a difference of principle between enabling local authorities to give concessions on their own services and enabling them to give concessions on those of private operators. An extension into that sphere would open the way to pressure for concessions on other forms of transport and for other forms of service.

The present would be an awkward time for the central Government to make concessions throwing a further burden on the rates.

Apart from their merits on principle the proposed concessions are a form of social security benefit which ought not to be considered in isolation from others such as family endowment, school meals and the uprating of national insurance benefits at present under consideration. Decisions ought to be taken in the light of the public expenditure review and of the other components in the social security package.

In any event there is no justification for providing a Financial Resolution for a Private Member’s Bill, the main purpose of which is to provide for new public expenditure; nor should the existence of a Private Member’s Bill be allowed to force the Government to reach premature decisions on expenditure.

The Conclusions of the Home Affairs Committee

6. In the light of these various considerations the Home Affairs Committee took the view that no decision on the principle of the proposals for legislation should be taken in advance of the public expenditure review and of the consideration of other items of social security expenditure; that since Mr. Bob Brown ought not, in any event, to be given a Financial Resolution it was unnecessary to promise Government legislation in order to persuade him to withdraw his Bill. If, in view of the expectation that had been aroused, it became necessary to say anything, the Minister should say that the question of extending the concessions fell to be considered in the context of the current review of public expenditure.

Conclusion

7. The Cabinet are asked to consider:

(a) Whether a statement should be made in the near future committing the Government to enabling local authorities to extend travel concessions to non-municipal buses on the lines of the proposals indicated in paragraph 2.

(b) Whether the decision of principle on extension of local authorities powers should be deferred until the concessions can be examined in the light of the public expenditure survey and of decisions on other items of expenditure on social security benefits.
Whether, if it became necessary to make any statement on the Government's intentions, the Minister of Transport should limit herself to saying that the question of extending travel concessions will be considered later in the Session in the context of the Government's review of public expenditure generally.

P. C. G. W.

Office of the Minister without Portfolio, S. W. 1.

2nd May, 1967
CABINET

THE THIRD LONDON AIRPORT

Memorandum by the President of the Board of Trade and the Minister of Housing and Local Government

I - INTRODUCTION

The Cabinet considered on 13th April (CC(67) 20th Conclusions, Minute 3), a draft White Paper on the Third London Airport (C(67) 50) and we were asked to circulate a further memorandum in the light of the discussion. Doubts were expressed on two main points: the need for a new major airport for London in relation to the possibility of developing the existing London airports at Heathrow and Gatwick; and the suitability of Stansted as the site for the new airport in comparison, particularly, with a site on the Thames Estuary.

1(a) The need for a third London airport, which rests entirely on civil aviation grounds, is dealt with in Part II of this memorandum. The choice of Stansted, which involves planning and other arguments that concern us both, is the subject of Part III.

factors - the capacity of the existing major London airports (Heathrow and Gatwick) and the likely growth of the traffic wishing to use them.

Capacity

3. The capacity of an airport, measured in terms of aircraft movements per hour, depends on the number and layout of its runways and their dimensions; on the air traffic control procedures; and on local factors, such as the existence of other active aerodromes nearby and the sensitivity of the surrounding area to noise. On this basis, and in the light of forecast improvements in air traffic control (ATC) and piloting procedures and technology the maximum sustainable hourly capacities in all weather at the existing two London airports are likely to be 64 movements an hour at Heathrow and 45 movements an hour at Gatwick (when the second runway is built) in the early years of the next decade.

4. These figures of capacity assume the lengthening of the No. 1 runway at Heathrow, the construction of a second runway at Gatwick, the extension westwards of the controlled airspace of the London Terminal Area, and the successful operation of new air traffic control procedures. They also 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 if any of the assumptions mentioned were to be falsified, actual capacity would fall short of these.
Traffic forecasts

5. A careful study of the likely growth of London's air traffic over the next 15 years has been carried out in conjunction with the Department of Economic Affairs. The forecasts, which are accepted by both Departments, are based in the first place on an analysis of the growth of United Kingdom air traffic which in terms of aircraft movements has been increasing by an average of 8 per cent per annum. 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; account has been taken of the likely effect of the Channel Tunnel; and a thorough investigation has been carried out to the extent to which the development of passenger and freight services at airports in other regions could relieve the pressure on London. On this basis three forecasts of air passengers using the London airports have been made - 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 used to convert the forecasts of passenger traffic into forecasts of aircraft movements.

6. Table 2 of Appendix 1 shows that, on the most likely forecast of 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.

Peak spreading

7. 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. A careful examination has been made of this problem by the Board of Trade and the Department of Economic Affairs, and though this is a subject about which there are necessarily a number of uncertainties, the conclusion is that, against the rate of traffic increase foreseen by the "most likely" forecasts in Table 1 of Appendix 1, enforced peak-spreading at Heathrow might postpone the need for new airport facilities by up to three years.

Transfers from Heathrow to Gatwick

8. With two runways Gatwick would, at most, have the potential to accept five years growth from Heathrow. How far this potential could in fact be realised cannot be precisely determined at present; it will hinge upon how far airlines, British and foreign, 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 transfers of traffic from Heathrow to Gatwick might put off the need for a third London airport by four years.
Timetable for third London airport

9. 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 1976 at the very latest. Thus 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 will be required for a substantial volume of traffic. Were any of the assumptions invalidated, the date could well come forward to the early 1970s.

III - THE CHOICE OF STANSTED

Estuarial sites

10. The main attraction of an estuarial site for London's third airport is that in such a site the noise problem caused by the new airport would tend to be less serious because some of the airport's operations could take place over the sea. However, even a site on the Thames Estuary, e.g., the Isle of Sheppey, would not permit both take-offs and landings to take place over the sea; consequently, there is still bound to be a noise problem, though it would indeed be rather less than at an inland site.

11. The possibility of siting London's third airport somewhere on the Thames Estuary was thoroughly considered by the Interdepartmental Committee on the Third London Airport in 1962-63, at the Stansted Public Enquiry, and within the last nine months by an Official Committee chaired by the Department of Economic Affairs (a copy of which is attached at Appendix 2). It is clear that a major airport for London could be sited at certain places on the Thames Estuary, notably Sheppey, without interfering unduly with traffic using Heathrow or Gatwick. However, surface access would have to be improved at great cost, and would even then be inferior to access to Stansted; airports in this area would lead to the closure or severe restriction of Southend Airport; they would entail the removal and replacement of the Ministry of Defence Firing Range at Shoeburyness; and the marshy nature of the soil would make airport construction considerably more expensive than at a dry inland site such as Stansted. Thus, the construction of a third London airport at Sheppey (which has been generally accepted as the best site in this area) would entail costs in the region of £130 million - nearly three times as much as Stansted. We could not advise our colleagues that additional costs of this order were in any way justified by the degree to which such a site would relieve the noise problem, use less valuable agricultural land or be less destructive of visual amenities. (In any case we intend to tackle the noise problem by reducing the noise of the aircraft themselves through the projected noise certification scheme and by appropriate planning of the development of the Stansted area).

12. Luton is not mentioned in the draft White Paper. It was considered but rejected in 1962-63 by the Interdepartmental Committee on the Third London Airport, and it was not mentioned at the Stansted Public Enquiry as a possible alternative site for the new airport. The fact is that the development of Luton as a major London airport could not be achieved without very seriously impeding the flow of traffic in and out of Heathrow, to the extent of cutting Heathrow's capacity by nearly a half. The hilly terrain on which Luton Airport is built would, moreover, prevent the construction of even one pair of runways of sufficient length for a major airport.
Inter-action between airports

13. At our discussion on 13th April it was suggested that, on the analogy of certain groups of airports in the United States, we could in this country successfully operate airports within a much smaller distance of each other than we have hitherto been willing to contemplate. It is true that certain United States airports are separated by as little as eight miles, but they are prisoners of history and are surviving only at a reduced capacity. Our American colleagues have urged us at all levels to avoid the unsatisfactory situation in which they now find themselves; and the Federal Aviation Agency, in its search for a site for a fourth airport for New York, is adopting distance criteria very similar to our own. The importance of adequate separation between the new third London airport and the existing London airports is that the new airport must be capable of development to its maximum size and capacity without interfering with existing airports so as to put off as long as possible the need for a fourth London airport, which is bound to be even more difficult to site than the third.

Stansted

14. Stansted has many solid advantages; but it admittedly also has a number of drawbacks – not least from a planning point of view; and these are set out and discussed candidly, along with the advantages, in Section VI of the draft White Paper. All the Departments concerned, including the Department of Economic Affairs and the Treasury, have, however, looked thoroughly into the question, and all have concurred in the conclusion that there is no reasonable alternative to the designation of Stansted as London’s third airport. The noise problem, the loss of agricultural land, and the other difficulties that Stansted presents are, we are convinced, significantly smaller than the difficulties and problems, particularly the greatly increased cost, presented by each of the many alternative sites that have been suggested and considered over the years. Silverstone (in Northamptonshire) is the nearest possibility: but it would cost up to £100 million to remove the adjacent military airfields; it entails a longer journey to London than Stansted; and it would not be a good site from the point of view of civil air traffic control.

IV - NEED FOR A DECISION

15. Approval for capital investment to begin on the third London airport is not required at this stage, and would only be given when the Board of Trade and the Treasury are satisfied that the right time had come. What is needed now is not a decision to build: but a decision that when we do build it shall be at Stansted. This decision is required now for the following reasons:

(i) It is over 14 months since the Stansted public enquiry closed and over 10 months since the Government received the Inspector’s report on the enquiry. The intervening time has been put to good purpose in carrying out a comprehensive and thorough review resulting in the proposed White Paper, which has been agreed between all the Departments concerned (Board of Trade, Ministry of Housing and Local Government, Department of Economic Affairs, Treasury, Ministry of Defence, Ministry of Transport, Ministry of Agriculture, Fisheries and Food). But Parliamentary and public pressure is growing for an early announcement; and, if this is not made soon, the Government will receive increasingly unfavourable publicity.
(ii) The Inspector who held the Stansted Public Enquiry pointed out that uncertainty about Stansted's future was causing hardship among local people wishing to sell their houses.

(iii) Although construction of the new airport will not begin till we are satisfied that it is necessary, we may not have much time before this is so. The British Airports Authority (who will be responsible for providing the new airport) as well as the local planning authorities and the airlines need a firm basis for their future planning as soon as possible. A clear decision is essential if planning by these bodies is to go ahead.

16. Failure to be ready with new airport facilities when they are needed would be bound to have serious repercussions on our trade, our international position; and our earnings of foreign exchange from civil aviation. The French are already going ahead with the construction of a new major airport for Paris, and will clearly seize any opportunity to increase the status of Paris as an international air traffic centre at the expense of London.

17. The detailed arguments on all these points, and the detailed examination of all the alternative sites, are included in the White Paper (C(67) 50) and the Report of the Official Working Party under DEA chairmanship (Appendix 2).

V ... CONCLUSION

18. We therefore invite our colleagues:--

(i) To agree that, on the best forecasts which can be made of traffic growth and capacity at the existing London airports, the need for a third London airport within the foreseeable future is inescapable.

(ii) In view of the thorough study given in recent months to the subject by all Departments concerned and by the Environmental Planning Committee, to agree to the announcement of a decision to designate Stansted as the third London airport and to the issue of the proposed White Paper (C(67) 50).

Dr F.T.J.
A.G.

Board of Trade, S.W.1,

5th May, 1967
APPENDIX 1

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>
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### FORECASTS

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<td>Terminal Passengers (Annual Totals) (000s)</td>
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**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>
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#### Forecasts

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<th>Air Transport Movements (Standard Busy Hour)</th>
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<td>1967</td>
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**Saturation**

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</table>

**Notes:**

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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 3

Terminal Passengers and Air Transport Movements at Gatwick in recent years

<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal Passengers (Annual Totals) (000's)</th>
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<th>Air Transport Movements (Standard Busy Hour)</th>
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<td>804</td>
<td>25.2</td>
<td>17</td>
</tr>
<tr>
<td>1962</td>
<td>1,042</td>
<td>26.1</td>
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<tr>
<td>1963</td>
<td>967</td>
<td>24.9</td>
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<td>1964</td>
<td>1,114</td>
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<td>15</td>
</tr>
<tr>
<td>1965</td>
<td>1,362</td>
<td>28.6</td>
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Note:— See note 4 on Table 2 for explanation of the Standard Busy Hour.
REPORT OF THE STANSTED INQUIRY
THIRD LONDON AIRPORT, WORKING GROUP
NOTE BY THE CHAIRMAN

1. The Minister of Housing and Local Government and the President of the Board of Trade asked that an inter-departmental Working Party should be set up to consider the Inspector's report of the Public Inquiry into local objections to the proposed development of land at Stansted, in Essex, as the third airport for London, and to prepare a report to be considered by Ministers.

2. The work of the Group, set out in detail in the attached report, has shown that:
   (a) a third airport within a reasonable distance of London will be required, and it is not practicable to avoid this need by the development of airports and air services in other parts of the country. (Section IV);
   (b) the third London airport should be developed to cater for short, medium and long haul traffic to every type of destination. (Section V);
   (c) the site should be capable of development to a very large size. (Section V);
   (d) taking every consideration into account, including all those the Inspector had in mind, Stansted is the best site. Consideration has been given to all the sites mentioned at the Inquiry together with other possibilities explored during the work of this Group. (Sections VII and IX).

3. As a result of coming to these conclusions the Working Party are agreed in advising Ministers that:
   (d) bearing in mind Stansted is the best site, that there is no likelihood of finding a reasonable alternative, the desirability of a speedy decision and the thorough investigation this matter has already received, the Inspector's recommendation to have a further review of the problem should be rejected;
   (b) if Ministers accept this advice a White Paper should be published, simultaneously with the announcement of the decision, explaining the Government's reasons.

4. The Working Party have interpreted the Inspector's recommendation for a further review as meaning a public hearing of some kind conducted by a Committee whose members would be made up mainly of experts drawn from outside the Civil Service. This is implied in the body of the Inspector's report but his recommendation is worded as follows:
"In my opinion the 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 should cover military, as well as civil aviation."

5. The review undertaken by the Working Party, has covered all these aspects of the problem. Members of the Group have included representatives of the Department of Economic Affairs, Board of Trade (Civil Aviation Department), Ministry of Housing and Local Government, Treasury, Ministry of Transport, Ministry of Agriculture, Fisheries and Food, and Ministry of Defence (Air Force and Army Departments). Professional advice has been available as and when required, on all the technical aspects of the work, including, for example, noise, air traffic control, and military flying. It can, therefore, be stated in the proposed White Paper that the Government's conclusion has been reached in the light of a comprehensive review of all the issues raised in the Inspector's report.

(Signed) A.W. PETERSON.

Department of Economic Affairs,
Storey's Gate,
LONDON, S.W.1.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. TERMS OF REFERENCE</td>
<td>1</td>
</tr>
<tr>
<td>II. BRIEF HISTORY OF THE STANSTED PROPOSAL</td>
<td>1</td>
</tr>
<tr>
<td>III. THE INSPECTOR'S REPORT</td>
<td>2</td>
</tr>
<tr>
<td>IV. THE NEED FOR A THIRD LONDON AIRPORT</td>
<td>3</td>
</tr>
<tr>
<td>V. THE ROLE OF THE THIRD LONDON AIRPORT</td>
<td>6</td>
</tr>
<tr>
<td>VI. STANSTED</td>
<td>8</td>
</tr>
<tr>
<td>VII. THE OTHER SITES TO BE CONSIDERED</td>
<td>9</td>
</tr>
<tr>
<td>VIII. GENERAL PROBLEMS OF AIR TRAFFIC CONTROL</td>
<td>11</td>
</tr>
<tr>
<td>IX. COMPARISON OF THE PRINCIPAL ALTERNATIVE SITES</td>
<td>13</td>
</tr>
<tr>
<td>X. THE ADVISABILITY OF HAVING A FURTHER INQUIRY</td>
<td>26</td>
</tr>
</tbody>
</table>

APPENDIX 1 - Summary of the Inspector's report and a detailed discussion of points made by the Inspector in relation to Stansted

APPENDIX 2 - Map of the Sites

APPENDIX 3 - Diagram of the effect of noise nuisance
REPORT OF THE STANSTED INQUIRY
THIRD LONDON AIRPORT, WORKING GROUP

I. TERMS OF REFERENCE

1. In the light of the Inspector's report on the proposal to develop Stansted as the third major airport for London to consider:

(a) the need for, and role of, a third London airport;
(b) the advantages and disadvantages in relation to Stansted of other feasible sites, especially as regards:
   (i) air traffic routing and control;
   (ii) surface access from London;
   (iii) noise nuisance;
   (iv) loss of amenity;
   (v) loss of agricultural land;
   (vi) cost;
   (vii) implications for regional planning.
(c) The effect of the relevant factors at (b) on the range at Shoeburyness and the cost and practicability of transferring it elsewhere;

and to report on these matters in sufficient detail to enable Ministers to decide on the action to be taken on the Inspector's report.

II. BRIEF HISTORY OF THE STANSTED PROPOSAL

2. At the end of the 1950s Stansted Airport was being kept in reserve by the Ministry of Aviation in case it was required, as and when the growth of London's air traffic demanded the provision of another major airport. At the time, however, it was proving expensive to keep this relatively little used airport open and, therefore, the Select Committee on Estimates, in their fifth report of the session 1960-61, recommended that the Ministry of Aviation should take steps to decide whether Stansted was, in fact, the most suitable site for a possible third London airport. As a result, at the end of 1961, an inter-departmental committee of officials - the Third London Airport Committee - was set up to carry out a study of the whole question of the desirability, and possible siting of a third airport for London. The Committee reported to the Minister of Aviation in 1963 that such an airport would be required in the early 1970s and that Stansted, though not ideal, was the best site for it. The then Government agreed with the Committee's recommendation and decided that those likely to be affected by the decision should be given the opportunity to consider and discuss the reasons for the choice of Stansted.
The report of the Committee was published, therefore, in 1964, and preparations were put in hand for a Public Inquiry to hear and report upon, local objections to the proposal.

3. The Inquiry opened on 6th December, 1965 and ended on 11th February this year. Its purpose was defined as:

"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 outline scheme of development or to propose alternative sites, but not to question the need to provide a third major airport to serve London."

4. The principal objectors had suggested to the then Minister of Aviation, Mr. Roy Jenkins, that the need for a third airport for London should be included within the scope of the Inquiry. The Minister ruled, however, that this was not an appropriate matter for examination by a local Public Inquiry of this character.

5. The Inspector submitted his report at the end of May this year. The President of the Board of Trade, to whom responsibility for civil aviation has now passed, and the Minister of Housing and Local Government after discussing the best way to proceed, agreed that in view of the importance and nature of the Inspector's report, an inter-departmental committee should be established, under the Chairmanship of the Department of Economic Affairs, to make recommendations to Ministers.

II: THE INSPECTOR'S REPORT

6. The terms of reference of the Inspector appointed to conduct the Stansted Inquiry requested him to "hear and report on local objections." Objectors were allowed to suggest modifications to the development scheme or propose alternative sites, but not to question the need for a third London airport. 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. The alternative sites suggested with detailed evidence were Sheppey, Cliffe, Padworth, and Castle Donington. Other alternatives proposed, but with much less detailed evidence, were Foulness, Dengie Flats, Ferrybridge, Gunfleet Sands and Plumstead Marshes.

7. 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": this "had not been proved" at the Inquiry. In his view the proposal succeeded on air traffic grounds but there were strong local arguments against it. The Inspector's final recommendation was that a review of the whole problem should be undertaken by a committee equally interested in traffic in the air and on the ground, regional and national planning. It should cover military as well as civil aviation. A detailed summary is at Appendix 1.
8. In general the Inspector's report is not impressive. It (i) states conclusions without any convincing assessment of supporting arguments; (ii) contains little recognition of the disadvantages of the other sites mentioned at the Inquiry relative to Stansted; (iii) makes various prejudicial statements going outside the strict terms of reference of the Inquiry, the most important being the implication that a third London airport may not be necessary. The Inquiry was instructed specifically that this requirement should not be questioned and accordingly little evidence was offered by the proponents of Stansted on this point; (iv) includes a number of relatively minor, but collectively not unimportant, errors of interpretation of the evidence submitted on behalf of Stansted. It is, therefore, not difficult to produce convincing arguments against the report both in substance and in detail.

IV THE NEED FOR A THIRD "LONDON" AIRPORT

9. Although Ministers ruled explicitly before the Inquiry opened, that the need for a third London airport could not be examined it was discussed indirectly. Two of the alternative sites suggested in evidence - Castle Donington and Ferrybridge - were, clearly, only brought under discussion so as to enable objectors to cast doubt on the necessity for having the airport within reasonable distance of London. On other occasions some have wondered whether it would not be possible to expand Heathrow and Gatwick or have doubted the rate at which air traffic has been assumed to grow. It is essential to clear these points up at the outset as they are likely to form the basis of opposition, in one form or another, to any possible site for a new major international airport, anywhere near London.

10. It is often suggested - the Inspector hinted at the possibility in his report (paragraphs 16 and 17) - that a third London airport would not be needed, or at any rate the need could be indefinitely postponed, by the further, and possibly induced, development of regional aerodromes and, particularly, air services. Superficially, this is an attractive proposition from the point of view both of London and the main Provincial centres. It conflicts, however, with the weight of available evidence much of which might have been presented by the Ministry of Aviation at the Inquiry had this subject been within the Inspector's terms of reference.
Firstly, 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 some of the airports serving London, underutilised and uneconomic. It is not technical reasons that prevent the expansion of airport facilities in the provinces.

12. 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 services. However, the evidence is against this assumption. A survey conducted 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 60 per cent of London's international traffic is generated by the London conurbation and the south-eastern counties. This survey was not conducted on such a scale that its results can be accepted as absolutely conclusive, but the Committee has also received information from other sources which confirms that these findings are broadly correct.

13. If, then, say 20 per cent of London's international passengers are generated in regions outside the south-east of England this might amount to a demand for direct services between the regions and abroad of about one million one-way seats a year, or 3 million one-way seats a year by 1975. In fact, of course, a number 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 residue that represents 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 regions of the United Kingdom. Moreover, the potential demand at each regional airport is further fragmented because of the very many different destinations to which passengers wish to travel. Thus, most of the potential demand for new direct services between regional airports and overseas is split up into fragments so small as never, in the foreseeable future, to justify an economic air service. It is likely that, at most, a fifth of the total potential demand — say 200,000 one-way passengers now, rising to 600,000 in
4.975 - represents demand that it may be practicable, by one means or another, to divert from London to regional airports. Passenger figures of this order however, correspond to less than half of one year's growth of traffic through London.

15. In short, while there is no doubt that the number of services operating directly between regional airports and overseas will continue to increase, as in the past, the Committee is agreed that there is no possibility that this factor will make a significant difference to the need for a third London airport or the date by which it will be required.

16. Apart from the argument discussed and rejected above, 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 serve London.

17. The capacity of an airport, in terms of aircraft movements, depends, first, on the number of its runways (particularly parallel runways) and their dimensions; secondly on the air traffic control procedures in operation (which are governed in turn by the state of navigational technology and by considerations of safety); thirdly, on local factors, such as the existence of other active aerodromes nearby, the sensitivity of the surrounding area to noise, etc. Taken together, these considerations point to maximum sustainable capacities at the existing two London airports by the early years of the next decade of 64 aircraft movements (i.e. landings and take-offs) an hour at Heathrow and 45 aircraft movements an hour at Gatwick.

18. The figures of capacity given above, however, are based on the assumption that a number of projected developments will take place. They assume the lengthening of the Number 1 runway at Heathrow and the construction of a second runway at Gatwick, both of which will be subject to Public Inquiries before they can go ahead; they assume the successful operation of new air traffic control procedures, notably the scheme for the independent use of parallel runways at Heathrow, which have yet to be fully proved; and they assume only a certain degree of restriction on the capacity of both airports arising from noise regulations, though in view of the acuteness of the noise problem around Heathrow, it cannot be certain that still more stringent restrictions will not be necessary. Thus, although the figures given above represent what is regarded as the likely capacity of these airports in the next decade, it is by no means certain that this can be achieved.
19. The next step in assessing the need for the third London airport was to produce the most reliable forecasts of the growth of air traffic for London over the next 15 years. It was decided that a sub-group of this Committee, made up largely of statisticians and economists from the Board of Trade (Civil Aviation Department) and the Department of Economic Affairs, should re-examine this problem in detail.

20. They began by analysing the growth of United Kingdom air traffic in the past and went on to look at the growth of the total market in the United Kingdom for international travel and the share that air transport had occupied, and might in future occupy. On that basis they devised three possible forecasts of air passengers using the London airports - forecasts almost certain to be exceeded, forecasts unlikely to be exceeded, and most likely forecasts. The future size and average loading of aircraft was estimated, including the use of "jumbo jets", and the forecasts of passenger traffic converted on those assumptions to forecasts of aircraft movements. The likely distribution of traffic between Heathrow and Gatwick was then assessed together with the likely development of the pattern of traffic at each airport within the year, the week, and the day. The sub-group also took into account the possible effect of the Channel Tunnel on the demand for air travel.

21. All these considerations were elaborated in considerable detail, and the figuring set down, in the report of the sub-group. Here, it is sufficient to record that, after careful examination of this data, the Committee are in full agreement that, if the growth of civil air traffic is to be met there is no alternative sooner or later, to the provision of a new "London" airport. The point in time when it would be best to provide this airport and, consequently whether there is sufficient time available, putting aside all other considerations, for Ministers to accept the Inspector's final recommendation to have a further review of the problem, is touched upon in Section X.

V. THE ROLE OF THE THIRD LONDON AIRPORT

22. In his appendix to the report the Inspector's technical assessor suggested that little thought seemed to have been given to the possibility of using the projected airport for short haul traffic only. 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 (see the Inspector's report Appendix 1, paragraph 47). This opinion
contrasts strangely with another the technical assessor expressed: that the site for the third London airport must be capable of being enlarged (see paragraph 45 of Appendix 1 to the report). In fact much thought has been given to the role of the proposed airport.

2. 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 main runway 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 ominously suitable to cater for the numerous services of this type between London and western Europe.

2. The density of development around Heathrow and the noise problem arising from its particular situation, makes it virtually 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:-

(a) interlining facilities at Heathrow would be progressively reduced;

(b) the inevitable moves from Heathrow by airlines operating short-haul services to one of the other London airports would be even more unpopular than otherwise. 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 interline 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 ground congestion;

(f) all this would reduce London's attractiveness as an international air traffic centre and interchange point and would probably have long term adverse effects on our tourist trade.

These factors would have a particularly severe impact on B.E.A. as an exclusively short-and medium-haul airline. B.E.A. has a large capital investment in Heathrow, which it would be costly to reprovide elsewhere.

25. 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). 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.

26. Apart from these considerations, the great difficulties experienced in providing and agreeing a site for a third London airport make it imperative that this third airport should be capable of development to the largest feasible capacity that air traffic control safety margins and techniques will allow. If this is done then the possible problem of looking for a site for a fourth London airport will be postponed for a long time ahead.

27. The Committee are agreed, therefore, that the need is for an airport to take as wide a range of traffic as possible with as much capacity as is feasible. There is, accordingly, no point in looking for a site for a smaller airport than that proposed for Stansted i.e. capable of an ultimate development of three parallel runways. If at all possible the site chosen should be one where four parallel runways are practicable.

VI STANSTED

28. The case made by the Inspector against Stansted has been summarised in Appendix 1 and his most damaging objection, that the provision of a third "London" airport may not be a matter of national necessity, disposed of in Sections IV and V. Having agreed that a large, multi-purpose international airport must be established in the foreseeable future reasonably close to London, the
Committee considered, against the Inspector's detailed objections, whether Stansted could remain a strong candidate. From this examination it became clear, that Stansted must remain one of the principal candidates and its merits are compared with others that have a claim for consideration in Sections VII and IX. It is necessary, however, to counter the Inspector's detailed points and this is also done in Appendix 1. If, in the event, Ministers decide to reject the Inspector's recommendation and proceed with the development at Stansted without a further review, this material would form an important part of the public defence of the decision.

VII THE OTHER SITES TO BE CONSIDERED

29. 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 (East London)
- Padworth (about 8 miles South West of Reading)

As well as reconsidering these, the Committee have also examined the merits of a virgin site midway between London and Birmingham in the vicinity of Silverstone about 13 miles south west of Northampton, and Bedford (Thurleigh) aerodrome, 8 miles north of Bedford, neither of which was mentioned at the Inquiry. The relation of these sites to London can be seen on the map at Appendix 2.

30. The sites can be divided into two groups:

(a) Those which do not require detailed comment to show that they are inferior to Stansted.
(b) The few which require detailed comparative examination as serious possibilities. Stansted, Sheppey and Silverstone are the sites in this group.

Castle Donington and Ferrybridge

31. These two proposals were not put forward during the Inquiry as serious possibilities for a third "London" airport but to serve rather as pretexts for advancing the argument that the need for the third London airport should be avoided by building up the air services serving the main provincial cities. This argument is dismissed in Section IV above. It is clear, as the Inspector
recognised (paragraphs 26 and 77 of his Report), that both these locations are much too far from London to serve as "London" airports and, therefore, they must be rejected.

Gunfleet Sands
32. The Committee 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. It is also more than 60 miles from Central London and access would be difficult.

Dengie Flats, Foulness, Sheppey and Cliffe - (These sites can be grouped together conveniently as the "Thames Estuary" sites.)
33. The fact that 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 little value for alternative purposes, but on the other, that the construction of an airport would be more difficult and expensive than on a dry inland site. Dengie Flats is similar to Gunfleet Sands in that the proposed site is at present situated in the sea, and the same problems of cost and difficulty of construction would arise. Dengie Flats, Foulness, Cliffe, and Sheppey would entail the removal of the firing range at Shoeburyness. 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. Sheppey on the other hand could accommodate three or four parallel runways. 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. The Committee is satisfied that, of these Thames Estuary sites, Sheppey is the most promising and have therefore chosen it for more detailed consideration below.

Plumstead Marshes
34. Plumstead Marshes suffers from the same drawbacks as Cliffe, but to a much greater degree. It is also in the Committee's view, and 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
35. 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 the strength and direction of winds) operations on parallel runways would approach
or overlap with those of Heathrow to an extent incompatible with reasonable safety. 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 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, Padworth must be ruled out as a site for a third London airport.

Silverstone and Bedford

36. These sites were not discussed at the Inquiry, but we understand that Bedford may become available for civil use during the next decade and Silverstone is chosen as an illustrative example of a site on the London/Birmingham axis. Such a site would have advantages from the point of view of ground access northwards and westwards. Thus it would be situated in a central position to cater for the traffic not directly dependent upon London. It would also have other broad planning advantages discussed in detail below. It must be emphasised, however, that Silverstone is being used here merely as an illustration of a possible London/Birmingham site. Bedford, though it might cause somewhat less extensive interference with military flying than Silverstone, does not have, to the same degree, the planning advantages of Silverstone. Silverstone is chosen, therefore, for detailed consideration.

VIII GENERAL PROBLEMS OF AIR TRAFFIC CONTROL

37. The three sites which are practicable possibilities for a third London airport are, therefore, Stansted, Sheppey and Silverstone, using Silverstone as an illustration of a possible site on the London/Birmingham axis. Before going on to compare these three sites it is necessary to explain briefly the implications that air traffic control problems hold for the siting of a third London airport. The siting of an airport which eventually will 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.

38. The third London airport must 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.

39. 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. (Gatwick is 25 miles from Heathrow and is too close ever to become a high-capacity airport.) 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. 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. Outside the immediate 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. The inbound and outbound routes from a number of airports to the many destinations they serve must inevitably cross; and the crossings 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 be effectively exercised. The routing problem is complicated by the need to provide routes for through traffic and for traffic from the less important airports which are situated close to the main airports. Because of the needs of the military and other users of the airspace, the amount of controlled airspace has to be limited to much less than is desirable to provide the optimum organization of routes from the airline and A.T.C. point of view. This increases the problem of finding a satisfactory location for the third airport.

40. The military A.T.C. requirement varies considerably according to the type of aircraft and the operational role. 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. Common to all Operational Command 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 control.

41. The application of these general principles to the selection of a third London airport site, leads, on the basis of route requirements, to a site somewhere between the London/Birmingham and the London/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-Bishops Stortford-Chelmsford-Chatham-Polketstone. The effect of the third London airport on military operations will depend on how far the traffic patterns associated with it penetrate into the north-east quadrant.

IX. COMPARISON OF THE PRINCIPAL ALTERNATIVE SITES

42. The three sites which are serious possibilities are now compared in detail taking all the relevant factors into account.

Air Traffic Control—Civil Flying

43. The Inspector acknowledged that the case for Stansted on air traffic control grounds was convincing. Stansted has the advantage that it is just far enough away from Heathrow to operate independently both of that airport and of Gatwick. It is also well placed to serve a wide variety of directions without hampering Heathrow from doing the same, and without involving the necessity of awkward crossings of air routes or circuitous “by-pass” routes. Sheppey has similar advantages, but it not quite so good because it is closer against the very busy air lanes south-east of London and it is also closer to the boundaries of our national air space. Sheppey would also have the disadvantage of severely restricting the use of Southend airport by regular passenger services most of which would have to be accommodated elsewhere (Southend is the country’s fourth busiest airport in terms of passenger movements). It would not, however, be good air traffic control planning to site a new major airport at Silverstone, although it would probably be possible to devise a workable system if other considerations were overwhelmingly in the site’s favour. The results of siting a third London airport at Silverstone would be to complicate and lengthen the air traffic routes between Heathrow and Gatwick and the north and, probably, to restrict the capacity of Birmingham Airport.
There are about 100 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. Whatever the site chosen for the new airport there is almost bound to be some impact on the pattern of military flying and the deployment of squadrons. This would not apply to a site in the south east corner of England, where military activity has been gradually moved out as a result of the growth of civil air traffic. Sheppey, for example, would not cause any significant interference with military flying.

It has been accepted, however, that the development of Stansted to its full planned capacity would in due course render unusable the neighbouring U.S.A.F. base at Wethersfield. If the base was still needed at this point, H.M. Government would be under an obligation to the Americans to re-provide the facilities elsewhere. But the implications of other sites could be much more serious. For example, the development of Silverstone, necessitating a wide extension of controlled airspace over Oxfordshire and East Anglia, would render eight important R.A.F. and U.S.A.F. airfields effectively unusable for military flying and would impose restrictions of varying severity on thirteen others. One of the eight is held for contingency purposes, but the rest are well-equipped airfields with a long-term future in defence plans. Among them is the Strategic Transport base at Brize Norton/Fairford which is being developed at a cost of some £16 million to play a central part in the strategy of the seventies. Brize Norton was chosen for this purpose because it is free from interference from civil traffic and lies close to the main Army concentrations in the Salisbury Plain area. It must be ready to receive the new generation of long-range transport now in production.

If, to avoid interference with this particular airfield, the airport site were moved north and east from Silverstone, the resulting extension of controlled airspace would impose still further upon the tightly-knit complex of R.A.F. and N.A.T.O. bases in East Anglia and Lincolnshire, thus shifting the pattern of closure and restriction into another important military area.

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. As they are
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well-found airfields on which substantial money has already been spent, and because of the virtual impossibility of finding suitable replacements for them, the Ministry of Defence consider that the eight airfields mentioned above will be required for flying use for the foreseeable future. On the hypothesis, however, that suitable alternatives could be found, and the consequential disruption to military plans accepted, the cost of replacement would be anything up to £100 million, with a loss of assets of about the same order.

8. In addition to the direct effect on airfields, almost any site on the London-Birmingham axis would mean the extension of controlled airspace across the Midlands and East Anglia which would seriously hamper military movement between the south and west of the country and the rest. This would create congestion and risk at crossing points, treble the requirement for air-traffic control equipment and staff, and produce an increase of about 50 per cent in military activity within the remainder of the airspace still uncontrolled.

9. The Stansted site was proposed as the best site for the reason, among others, that interference with military flying was limited. Since this proposal was provisionally accepted the Ministry of Defence has planned accordingly.

Terrain and Size

50. It is clear that the site chosen for the third London airport should be capable of development to a very large capacity. It was envisaged at the Public Inquiry that Stansted would have, initially, two parallel runways of approximately 12,000 ft. long, separated by 6,000 ft., which would provide the same capacity as it is hoped to achieve at Heathrow, i.e., a sustainable hourly capacity of 64 aircraft movements. Later a third parallel runway, another 6,000 ft. away, might be built to a shorter length, thus raising capacity to around 90 to 100 movements an hour. Recent studies by the Board of Trade (Civil Aviation Department) suggest that it would probably be practical to achieve even higher capacities of about 130 movements an hour. This would be done by providing two additional parallel runways one on each side of the first pair and separated from it by at least 1,000 ft., rather than an isolated third parallel. Three or four runway systems of these kinds can be provided at Sheppey and at Stansted, though at Sheppey the marshy and low-lying nature of the ground would make the work considerably more expensive than at Stansted. A similar system could possibly be provided at Silverstone but only by evacuating part or the whole of two or three villages.
There are two obstacles in assessing the degree of noise nuisance likely to be experienced in the area surrounding 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. It is assumed here, as it was at the Stansted 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. On this basis areas have been identified around Heathrow that are subject to noise levels classed by the Wilson Committee as unacceptable or nearly so. A corresponding area has been estimated for the sites under consideration for a time when they might be operating at near the full capacity of two parallel runways (i.e. not before the late 1980s). It has been assumed that the population in the area in question remains the same as at present. Thus it is estimated that at Stansted about 3,000 houses or 9,000 people lie within the area that will at that time be subject to a high degree of noise nuisance. Here it must be emphasised that the people who will be attracted by the employment offered by the airport, and any 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 which is subject to this degree of noise has the shape of an elongated oval with the points of the oval pointing in the direction of the take off and landing areas - see the diagrams at Appendix 3. Thus any new development associated with an airport can be so situated as to be largely free of noise. It is simplest to present the data for the various sites in the form of indices related to the population affected.

<table>
<thead>
<tr>
<th>Site</th>
<th>Relative Extent of Noise Nuisance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stansted</td>
<td>All jet traffic at a standard busy rate of 64 movements 1</td>
</tr>
<tr>
<td>Sheppey</td>
<td>an hour (not before the late 1980s apart from) 4</td>
</tr>
<tr>
<td>Silverstone</td>
<td>Heathrow when it will be some time after 1970) 9</td>
</tr>
<tr>
<td>Heathrow</td>
<td>about 20</td>
</tr>
</tbody>
</table>
Thus from the point of view of noise nuisance Sheppey and Silverstone are relatively better than Stansted, while Stansted would be 20 times better than Heathrow. For comparative purposes the figures for Heathrow and Gatwick at 1965 levels of traffic are about 7 and 1/12 respectively.

**Road Access**

32. It is impossible to be precise about journey times between central London and the alternative sites during all parts of the day in the mid-1970s because of uncertainties about the rate of road improvement and the growth of road traffic. In particular, it is difficult to foresee the amount and direction of the traffic that will be generated by the airport itself. And it is uncertain how much of the traffic generated including employees and visitors as well as passengers, will use the roads rather than rail and what proportion of road users will travel in private vehicles or public transport. However, the Ministry of Transport have provided tentative estimates of journey times between central London and the alternative sites. The route to Stansted would be via the M.11 (the section in question is likely to be completed by 1972) and the journey time would be about 70 minutes. A short link road would be necessary to connect the airport with the motorway. The journey to Sheppey would be via the M.2 and would take about 100 minutes. A rather longer link road would be required. The journey to Silverstone would be via the M.1, would require a link road and would take about 100 minutes. All these journey times are estimated on the basis of travel at off-peak periods. By the mid-1970s though there will probably be congestion on the M.11 it is likely to be considerably greater on the M.1 and M.2 unless a decision is taken in the meantime to provide new supplementary routes. However, some relief to the M.1 could be obtained by use of an improved A.5, and the Ministry of Transport are also considering the possibility of supplementing the M.1 for London/Birmingham traffic by building a new road along the line London/Aylesbury/Brackley. Silverstone would of course be directly accessible from the Midlands - it would lie close to the centre of the developed motorway system. Stansted, however, would be better from this point of view than Sheppey. In fact one of the major disadvantages of Sheppey is its relative isolation from the rest of the country, apart from South East London and Kent.
Rail Access

53. In view of the large volume of traffic likely to be generated by a third London airport, to which must be added normal traffic growth wherever an airport is sited it must, in the Committee's view, be provided with a direct rail connection to London in addition to good road access. Rail journey times given in this paragraph are applicable to journeys terminating at a notional air terminal at Victoria. On this basis Stansted could be brought within an hour's journey by train from Victoria by the provision of a spur between the airport site and the present main line at Bishops Stortford. It would be costly to provide rail access to Sheppey because of the length of the spur required and the need to eliminate the bottlenecks in the present main line system in that sector. For these reasons it would only be possible to provide a journey time of 70-75 minutes to Sheppey at a cost of some £160 million. Silverstone could probably be brought within 75 minutes rail journey of Victoria by a spur from the site to the London Midland Region's electrified main line. If it were not thought necessary to have a common terminal for all three airports, then Stansted would be accessible to Kings Cross in less than an hour and Silverstone to Euston in an hour. As with road access Silverstone would also have the advantage that passengers from the West Midlands and North West could travel by electrified line direct to the airport without going first to London.

Agricultural Land

54. A major international airport requires a large area of open land, and within an acceptable radius of London virtually all sites of this character are in some kind of agricultural use. It is inevitable, therefore, that wherever the airport is sited a substantial acreage of land will have to go out of agricultural production. The only exception to this would be one of the very marshy sites situated on the Thames Estuary or coast, and these have already been rejected because of other considerations. Of the airport sites under discussion here, Stansted has the highest agricultural value, while Silverstone is in an area where much of the agricultural land is about the national average in quality. Sheppey has the lowest quality agricultural land of the three sites. The more important loss of agricultural land, however, comes with the development of housing and other services associated with the airport. It is estimated that to meet these requirements upwards of 100,000 people will need to be established in the vicinity of the new airport.
over the course of time and, of course, this scale of development will cause much more loss of agricultural acreage than the airport itself. On the basis of an overall urban density of some 12 people to the acre a development of this size would involve the loss of some 0.4 thousand acres of land. This figure could be somewhat reduced, perhaps, if it proved both possible and desirable to attach part of this development to one or more existing towns. Here Silverstone shows up to advantage. The big development at North Bucks and the planned expansion at Northampton are to be established some 10 to 15 miles from the site. Some of the employment generated directly and indirectly by the airport could be accommodated at these planned expansions and, therefore, the loss of agricultural land would be minimised. At Sheppey, though the land on the island is not of high quality, it seems doubtful whether a large planned development could be built with the airport on the island itself, and it would have to spill over into the North Kent mainland. Here the quality of the land is exceptionally high and the cost to agriculture would be correspondingly more serious. Stansted is surrounded by high quality agricultural land and any associated development would add to the loss of that land as no planned expansion is envisaged at present for the area. Thus from the point of view of the total loss to agricultural land arising from the airport site together with the planned expansion, in both quantity and quality, Silverstone is well ahead. Against this, if lower (such as Sheppey) rather than higher quality land is used some loss of agricultural production must still occur. Secondly, and more important, the national advantages likely to be obtained from building a major international airport on the best site can fairly be regarded as out-weighting the possible agricultural loss from any land concerned.

Amenity

55. This is one of the more complex factors to discuss sensibly as it is not easily subject to any form of quantitative evaluation. Furthermore, it is notoriously difficult to arrive at an objective view about the worth of a particular piece of landscape or the architectural merit of different villages and towns. However for the purposes of this discussion it is clear that no matter what the intrinsic worth of a particular green area may be, it becomes more valuable the closer it is to a large urban area. This indeed is the true amenity value of the green belt. Against this background it can be seen that Sheppey scores as it does not possess great merit as a piece of landscape. Silverstone is an ordinary English
Midland agricultural landscape, but is well away from the very large urban areas. Stansted airport, on the other hand, is near to the urban mass of London (the nearest site of all, which from the point of view of access is its major advantage). It is situated just beyond the proposed extensions of the London green belt (not yet confirmed by the Minister). The evidence at the Inquiry, which was not seriously contested, was that the area had a considerable degree of natural beauty and the villages and towns nearby had much architectural merit. These intrinsic merits are enhanced by the area's proximity to London. On the other hand, it could be argued that any damage caused to this landscape by the airport and its associated development, could be minimised by careful planning. The best of the landscape, villages and small towns could be preserved, and in any event, places as near as this to London must expect to find, over the course of time as the population increases, that their rural character is altered. It may well be better for the area, from the amenity point of view, that growth should be concentrated in one place rather than allowed to spread more widely in response to inevitable pressures. Summing up, it is clear that Silverstone and Sheppey are better sites on grounds of amenity than Stansted, although Stansted need not necessarily suffer grievously if the development were carefully planned.

Implications for Regional Planning

56. Here the sites must be viewed against the general planning strategy for the South East. One of the basic aims of the strategy for the planned distribution of population and industry discussed first in the South East Study, and reinforced in the review of that Study undertaken by the present Administration, was that further development in the ring of post-war new towns some 30-40 miles round London should be limited. There were two main reasons behind this thinking. First, the Outer Metropolitan Region, in which these new towns are situated (Bishops Stortford is in the O.M.R. and Stansted on the edge), is growing and is expected to continue to grow at the fastest rate of any region in the country in terms of both population and employment. It seemed better to avoid adding, if possible, to that growth by further planned expansions. Second, further schemes for planned expansions by adding to the growth of the Outer Metropolitan Region might make it more difficult to find industry to go to the very large new towns proposed elsewhere around the edge of the South East region and for the industrial regeneration of the development areas. The Government has a very large programme of such planned expansions, much larger than at any
other time in our history, and success in catering for the growth in population and London overspill depends on their attracting industry. It is by no means certain that there is sufficient mobile industry to serve the needs of both the planned expansion schemes and the development areas over the next decade or so and there are advantages therefore in locating large employment generators of the magnitude of this airport near to either an existing planned expansion or a place where a new expansion would fit in with general planning strategy. It was decided therefore that the further large planned expansion schemes needed should be situated well outside the Outer Metropolitan Region. As a result there are proposals and feasibility studies in hand for very large expansions at such places as Ipswich, Northampton, Peterborough, North Bucks., Swindon, Southampton/Portsmouth and Ashford in a ring some 70 to 100 miles from London. The test that should be applied to a site for this particular project is whether or not it fits in with this general strategy, not because of the size of the airport itself or the land it will occupy, but primarily because of its importance as an employment generator, traffic focus and basis for a large planned expansion scheme. Applying these principles to the sites the result is:

(a) Stansted lies in roughly the same relationship to London as the early post-war new towns. A planned expansion scheme nearby would add therefore to the very fast growth of population and employment in the Outer Metropolitan Region. It would also cut into a valuable rural landscape barrier between London and the major expansions taking place in East Anglia. The area would not be considered for planned expansion if the airport had not been mooted.

(b) Sheppey has not been selected for one of the very large expansions as a result of the work done on the Review of the South East Study. It does not therefore have positive planning advantages at the moment. On the other hand it is a possibility for a planned expansion scheme designed to take about 30,000 Londoners. There must be considerable doubt, however, whether the island could accommodate both a major airport and the population growth it is likely to generate.
Silverstone has potential economic and physical planning advantages. It would fit in with the general sweep of regional planning for the region, if a site could be found near enough to the planned expansions in the North Bucks. and Northampton area for the employment generated by the airport to be geared to these expansions. They are of such a size that they would not be wholly dependent upon the airport for employment opportunities. At the same time a large number of jobs would be provided which should help to make this group of expansions a success. The airport would also encourage the growth of other industries which like to be situated near a large airport and its existence would help to attract industry out of the London conurbation. To the extent that the airport gave rise to new employment it would leave more of the pool of mobile industry available for deployment elsewhere. The investment required for roads would fit in well with the general regional strategy, and would help to serve other national economic purposes. For example, although it might be necessary to bring forward the construction of a new road along the London-Aylesbury-Brackley-Birmingham line this would have the additional virtue of improving communications between London and the industrial areas of the Midlands.

Shoeburyness Firing Range

57. Shoebury alone of the three sites now being considered, is affected by the existence of the Ministry of Defence Firing Range at Shoeburyness and its associated danger area. The situation of the range is such that aircraft using an airport at Shoebury must necessarily fly close to it when landing and taking-off. Though measures could be taken which would enable higher-altitude firings to be concentrated within a smaller area which would reduce substantially the effective extent of the danger area, the presence of the range would inevitably limit the capacity of the airport in some degree whether it was provided with two or four parallel runways. A major airport at Shoebury operating to full capacity would involve, at best, restricting the range danger area to a height of 1,000 ft. in the outer areas and 5,000 ft. in the inner area, and would mean that 75 per cent of the present work at the Range could no longer be carried out. It would almost
Certainly be uneconomic to continue to use the remaining facilities and it is probable therefore that the entire range facilities would have to be reprovided elsewhere. The capital cost of doing so would be of the order of £25 million.

Costs

58. An assessment has been attempted of the cost of providing a two-runway airport at each of the three sites. The results are given in the following table:
## THIRD LONDON AIRPORT

### Comparison of Estimates of Different Sites

<table>
<thead>
<tr>
<th></th>
<th>Stansted</th>
<th>Sheppey</th>
<th>Silverstone</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of basic terminal (including cost of land, terminal buildings, runways, taxiways and aprons)</strong></td>
<td>£45.0</td>
<td>£45.0</td>
<td>£45.0</td>
<td>Land requirements, areas of taxiways and aprons, and terminal buildings are based on present day Heathrow dimensions. One runway 12,500 ft. long might well cost £6m. Thus Stansted's existing runway - 10,000 ft. long - is estimated to be worth £4m.</td>
</tr>
<tr>
<td><strong>Use of existing facilities:</strong> Saving in cost</td>
<td>-£4.0</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total cost of construction costs over and above Stansted</strong></td>
<td>£41.0</td>
<td>£45.0</td>
<td>£45.0</td>
<td>In the absence of a detailed study it has been assumed that construction costs at Silverstone would not be greater than at Stansted.</td>
</tr>
<tr>
<td><strong>Access by:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road</td>
<td>1.0</td>
<td>2.0</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Rail</td>
<td>4.0</td>
<td>40.0</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td><strong>Relocation of M.O.D. facilities at Shoeburyness</strong></td>
<td>-</td>
<td>£25.0</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of interference of nearby facilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wethersfield</td>
<td>0.0 to 6.0</td>
<td>5.0</td>
<td>-</td>
<td>It may not prove necessary to re-provide the facilities at Wethersfield for the U.S. Air Force which is why the figure ranges from nil to a maximum of £8m.</td>
</tr>
<tr>
<td>Southend Airport</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other R.A.F. Airfields</td>
<td>50 to 100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>£46.0 to 54.0</td>
<td>132.0</td>
<td>105 to 155</td>
<td></td>
</tr>
</tbody>
</table>

**[Note:** The basic figure of £45m. for a new major two-runway airport does not claim to be a careful estimate. It is rather an indication of the order of costs to the British Airports Authority that might be involved in building an airport of this type up to the capacity ultimately to be provided at Heathrow. This expenditure would be spread in practice probably over a period of 15 years or so. It also excludes expenditure by the Government - on navigation services - and by the airlines - e.g., on maintenance facilities. The purpose of including a tentative figure is simply to put the other costs entailed by each site into perspective.]**
Stansted, therefore, would be the cheapest of the sites to develop, Sheppey and Silverstone costing probably more than twice as much. Silverstone's extra cost arises very largely from the disruption any airport along the London/Birmingham axis would cause R.A.F. deployments. If this factor is ignored Stansted is still the cheapest site. It should also be noted that, whereas the bulk of the expenditure on Stansted would be incurred by the British Airports Authority, who, with their statutory duty to pay their way, could be expected to earn from the users a reasonable return on the investment, the extra expenditure entailed by the choice of Sheppey or Silverstone would largely fall directly on the Exchequer. To the extent, that this additional cost fell on nationalised industries (e.g. B.A.A., British Rail), these industries would doubtless insist that because the decision to select the more expensive site was the Government's, the Government should pay any extra costs.

Summary of the Comparative Merits of the Three Alternative Sites

59. The discussion above points towards the following conclusions:

(a) Sheppey is good or reasonably so from a number of angles (military air traffic control, area of land available, noise, loss to agriculture and to amenity). It has some negative advantages from the point of view of regional planning. But the cost of providing both road and rail access would be very large: even then access would be poor in terms of journey times. The probable closure of Shoeburyness range and the virtual closure of Southend airport would add to the costs of an already expensive site.

(b) Silverstone's advantage is on grounds of regional planning and it has positive virtues from the point of view of direct access from other regions. It is also better than Stansted for loss of amenity and agricultural land and rather better for noise. On the other hand access from London is rather less good than for Stansted, it is not good from the point of view of civil air traffic control and very bad in its effect on military flying. This latter factor would make Silverstone a very expensive site to develop overall. It must also be remembered that the suitability of the Silverstone site for a full capacity four runway airport is still doubtful in the absence of a full study.

(c) Stansted scores best for civil air traffic control and road and rail access from London. It is also acceptable in its effect on military flying, for suitability of terrain, and for the noise problem. It is clearly ahead on overall cost. Its least satisfactory features are loss of amenity and agricultural land and its shortcomings in respect of the objectives of regional planning.
60. The Committee agree that Sheppey's grave defects of accessibility and high real costs rule it out, at this stage, for a third London airport. The Committee also agree that the regional planning and other advantages of Silverstone cannot justify the selection of this site in view of its grave drawbacks, notably the effects its selection must have on military flying and the very large extra costs this would necessarily entail. Thus after a thorough examination of all the evidence the Committee are satisfied that Stansted is the best site available.

THE ADVISABILITY OF HAVING A FURTHER INQUIRY

61. The Minister of Housing and Local Government has already announced in reply to a Parliamentary Question that the Report of the Stansted Inquiry will be published. In view of its contents there can be no doubt that if Ministers do not accept the Inspector's recommendation that there should be a further detailed review of possible sites for a third London airport, they must expect criticism both in Parliament and outside.

62. The Committee are satisfied that there is no likelihood that a further review would lead to the discovery of a better site than Stansted. The London/Birmingham axis is the only area which offers any possibility of finding a site with some of the advantages that Stansted lacks. But it is equally clear that this broad area, and any sites it may contain, has severe disadvantages from the point of view of military flying which could only be surmounted, if at all, at great cost.

63. The Committee have also considered whether there would be presentational advantages in having a further review, on the assumption that this would inevitably lead to the conclusion that Stansted is the best available site. They cannot, however, recommend this course, for the following reasons.

64. The most important consideration is that the implications for military flying of any site along the London/Birmingham axis could not be discussed in full detail in public for reasons of security. An independent review body, not being in a position to evaluate the military difficulties, might well recommend a site similar to Silverstone, along this axis, which the Government would have to reject. In that event, in two or three years time a controversy even more violent would be provoked and nothing would have been gained.

65. A further argument against having another review is that it must inevitably take up a good deal of time. While this Committee has not been asked to decide when the third London airport ought to be ready to receive a substantial volume of traffic, it has discussed in detail the growth of traffic in relation to capacity at Heathrow and Gatwick (see Section IV). Further work is required
to determine more accurately when the new airport should be constructed in order to earn the best return on investment. However, from the Committee's preliminary examination of this problem, it is apparent that if a further review of the siting of the airport were held there is a risk (some would say a considerable risk) that it would curtail unacceptably the time available for providing the third London airport.

66. Again, one of the original reasons for choosing the Stansted site was that interference with military flying was limited. Ministry of Defence planning has since taken this possibility into account and work on military deployments must for the most part go ahead regardless of a final decision on the airport site. But some money could be spent more prudently if an early decision were taken.

67. Finally, a quick decision is also desirable in the interests of those who live near Stansted. Even if Ministers accepted the Inspector's recommendation they would clearly feel bound to retain Stansted as a possible site, thus further prolonging the period of uncertainty.

68. To sum up, bearing in mind the lack of any real alternative to Stansted; the difficulties of expounding the full case in public against a site on the London/Birmingham axis; the dangers that the timetable for the third London airport may be jeopardised; and the general desirability of a speedy decision, the Committee are agreed in advising that Ministers should reject the recommendation to have a further independent review.

69. If Ministers accept this advice the Committee consider, that in order to make the Government's case as clear and persuasive as possible, a White Paper should be published at the same time as a decision letter is sent to the objectors, in which the case for rejecting the Inspector's report is explained as fully as possible.
I. SUMMARY OF THE INSPECTOR'S ARGUMENTS

(This section merely states the Inspector's views and in no way comments on them. The Inspector's scattered remarks are arranged into a logical pattern, and in the process his views may have been somewhat sharpened.)

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 routing 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.
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 6,250 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 better 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 for 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.

II. APPRAISAL OF THE INSPECTOR’S CASE AGAINST STANSTED

1. After careful consideration of the Inspector’s arguments the Committee are agreed that:

(a) a third London airport is a national necessity,

(b) there is no reason to regard the development of a third London airport at Stansted as impracticable, and

(c) though the Inspector’s findings confirm the Government’s view that Stansted is not a wholly ideal site for the new airport, his report, nevertheless, contains nothing to suggest that after further study a better site would be likely to emerge.

5. A detailed discussion follows of the Inspector’s arguments against Stansted, taken in the same order as they are arranged in the summary in Section I above.

(a) Air Traffic Control

6. Although the Inspector accepted that the case for Stansted on air traffic control grounds was proved, paragraph 46(1) of the report contains the implication that the Ministry of Aviation witnesses have 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 it 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

7. In the Ministry of Transport's view, the Inspector was right to be concerned about the problem of surface access to the Third London Airport. The problem is, of course, just 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, one possibility that must be seriously considered is to provide for mass transit 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.

8. Thus the Ministry of Transport acknowledge the problems associated with surface access to the third airport - any third airport. But they emphasise strongly 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.

9. The Ministry of Transport also have a number of detailed comments on particular paragraphs of the Inspector's report.

Amount of road traffic generated by a third London airport - Paragraph 14

10. 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 only relevant 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.
11. 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 suburban land 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.

12. 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 even exactly what volume 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.

13. Use of the word "saturated" is 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 which is the capacity at which no vehicle travelling on the road impeded any other. "Saturation" implies the inability to carry additional traffic; this condition would not set in until flows substantially exceeded design capacity.

14. As the Ministry suggests earlier, 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 M11 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 are reasonably near the terminal.

15. 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 fare. 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 14 and 15

16. 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.

Collection and Distribution of passengers at the new airport — Paragraph 17

17. The opinion expressed by the Inspector that steps should be taken to prevent passengers travelling to Central London if they do not need to does not appear relevant to the choice of Stansted or of any other particular location as the third airport.

(a) Noise

General

18. 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 faulty. 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. From the evidence before him the Inspector was well able to form a view on how much noise nuisance from a third London airport, wherever placed, would be inescapable. As he did not form such a view there is, therefore, no means of assessing from his report the strength of the arguments against Stansted on noise grounds. Secondly, it seems from the report that the Inspector did not really consider the Ministry of Aviation's evidence as a whole, with the result that his presentation of it is distorted and open to misinterpretation. For these two principal reasons the Inspector's rejection of Stansted on noise grounds is unjustified. These criticisms of the Inspector's case are illustrated in detail in the following paragraphs.

Restrictions on night operations at Stansted — Paragraph 48(3) and (5)

19. One of the Inspector's criteria for a major airport is "a situation as regards noise which does not inhibit operations" (paragraph 48(3); and it is implied in paragraph 48(5) that the principal restriction he has in mind is one on night flying. Further, the Inspector recognises at the end of this paragraph that "the ideal is no doubt unattainable". Elsewhere — paragraph 23(2)(c) — the Inspector expresses the opinion that at Stansted "restrictions would have to be imposed which would materially restrict capacity operation". (He presumably means restrictions on night flying; and if so, this is an opinion
with which one cannot quarrel - at any rate until quieter aircraft come into service.) However, he also says in paragraph 29 that "severe nuisance from noise is unavoidable at any location which could be considered a London Airport". What the Inspector completely fails to assess is whether noise would or would not "materially restrict capacity operation" at sites other than Stansted; and this omission makes it virtually impossible for him to reach an objective opinion of Stansted's relative merits on noise grounds.

Criterion for measuring noise nuisance - Paragraph 12

20. The Inspector did not find the Noise and Number Index very helpful in assessing noise nuisance. In paragraph 13 he prefers to give "some indication of the nuisance to which houses, shops and other buildings would be subject" by quoting from the evidence of Mr. Sawyer (Head of A.O.R.B., 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 in class-rooms rather than on more generalised feelings of annoyance. It is therefore illogical for the Inspector to argue as he does in paragraph 13 of the report, that the effects of siting a major airport at Stansted on schools and hospitals in the vicinity in evidence of its effects on houses, shops and other buildings.

21. Despite his difficulties with the Noise and Number Index, which are understandable, the Inspector records in Appendix 2 to the report (paragraph 78) that all four noise witnesses adopted this technique of the Wilson Committee. He also makes incidental use himself of a criterion of $13\text{NNI}$ 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 $13\text{NNI}$ contour.

Noise disturbance to homes around Stansted - Paragraph 13

22. Even the statement just mentioned about the number of houses that would be "subject to grave nuisance by noise at Stansted" results 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 $13\text{NNI}$ 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 $13\text{NNI}$ 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 NNIs greater than $13\text{NNI}$ 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

23. Despite the Inspector's play with the numbers of schools that would be affected by noise in paragraph 13, there was in fact a conflict of evidence on the levels of noise that would cause trouble in schools - a conflict which the Inspector himself recognised (see paragraph 55-56 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 other schools would have to be examined individually to see if remedial measures were possible. The Inspector has misinterpreted the evidence here - the Ministry of Aviation's submission was 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. These points were brought out quite clearly during cross-examination of the Ministry's witness, as well as in their Counsel's closing speech. At no time did the Ministry state that the majority of the schools in question would inevitably have to close.

Noise disturbance to Herts. and Essex Hospital at Bishop's Stortford - Paragraph 13

24. 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. What the report does not record is the evidence of the Senior Consultant Pathologist at the Hospital, which was referred to in Counsel's closing speech, that there were long-term plans for rebuilding the entire Hospital (which at the moment consists largely of temporary buildings). This testimony is, in fact, confirmed by the Ministry of Health's latest circular on the hospital building programme (Cmd. 3000).

Comparison of Stansted and Padworth - Paragraph 13

25. In paragraph 31 of the report the Inspector records the relative numbers of people affected at Stansted and Padworth incorrectly. Evidence was given on numbers of houses and of people within the 50 and 45 NNI contours, as drawn by the Ministry of Aviation, at both sites, and on the 35 and 25 NNI contours drawn by the witness for the North West Essex and East Herts. Preservation Association (Professor Richards). The figures were 50 NNI - Padworth 4,010; Stansted 2,950; 45 NNI - Padworth 7,411; Stansted 6,960; 35 NNI - Padworth 32,000; Stansted 38,000; 25 NNI - Padworth 69,000; Stansted 48,000. Thus, only within the 35 NNI contour was the number of people greater for Stansted than for Padworth. These figures were in fact accepted by the opposition to the proposal.

(e) Agricultural Land

26. It must be accepted that there will be a considerable loss of good agricultural land if the airport and its associated development is situated at Stansted. However, this will be the case, to some degree, wherever the development takes place. The question is therefore, whether any reasonable alternative site is available which would minimise the loss of good agricultural land. All the alternative sites have however been examined in some detail in this report and it is evident that each of them suffers from defects such as to outweigh whatever purely agricultural advantages it may possess. No one would suggest that the loss to agriculture, caused by siting the airport at Stansted, would call into question in itself the requirement for a third London airport.
27. The Inspector accepted the evidence that the value of "houses near an airport, in the lower price bracket, 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. It is noteworthy, however, that his final recommendation for another study on the siting of the third London airport (paragraph 47) would, if implemented, prevent the reaching of a speedy decision on Stansted.

28. Here again the Inspector's conclusions are arbitrary, and he fails to make a balanced judgment of how far objections on grounds of planning and local amenity apply with greater force to Stansted than to the practicable alternative sites.

29. The Inspector considered that it would be bad planning to site a major airport at Stansted since the wedge of open country between the trunk roads to Cambridge and Colchester should be preserved as a natural and valuable lung for London. He accepted that Stansted did not lie along a line of natural growth from London and that the straggle of development up the Lee Valley was contrary to principles of correct spacing for large and medium sized towns.

30. There can be no doubt that it would be desirable to maintain this open stretch of attractive countryside, but its value must be assessed in relation to the needs with which we are faced. A third international airport must, as we have shown, 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 around 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. In other words, there is no doubt about the desirability of maintaining this stretch of country, but the argument cannot be decisive since it applies in varying degree to all the potential sites.

31. Furthermore, there is doubt whether the existing character of the Stansted area can in any case be maintained in perpetuity. There is increasing pressure of population moving from London and the Outer Metropolitan region. Whilst this can be contained and channelled to some extent, it is already having an effect on the Stansted area.
As stated in the evidence at the Inquiry, the population of Bishops Stortford Urban District itself is expected to increase by about 50 per cent (20,000 to 30,000) up to 1973, most of whom will probably be commuters. Pressures are also developing in other market towns and villages in the area, and a broad band of development arising from the planned movement of London population is taking place in an arc to the north and east. The picture is not, therefore, one of an entirely static, unspoilt area which can and must be maintained as such. While it is accepted that because of its position and character, the area is not one that would otherwise have been selected as a major growth point, forces of change are already at work and in the circumstances limited major development, over and above the development already taking place, is tolerable on planning grounds.

32. What such major development is likely to amount to is difficult to foretell. The ultimate population requirements of a new airport and associated enterprises cannot be determined at this stage, but it seems likely that most of the population increase could suitably be contained in a single new town. Much of the countryside could consequently retain its character unimpaired. The presence of the airport would, of course, affect nearby settlements, but changes in those settlements are already taking place and would merely be hastened. The existing pattern of settlements will be changed, but there are adequate powers to control the relationship between new and old so as to provide a sensible pattern taking account both of economic needs and preservation of the amenities.

33. The Inspector has laid considerable weight on the local opposition to the proposal since he agrees that such an intrusion would change the whole character of the area. This argument, which would apply to any site selected, is reinforced in the case of Stansted by the fact that the area is predominantly rural and contains towns and villages of beauty and historic associations. The essential point here is the plea for the retention of the status quo. However, as pointed out above, the pressure of development in South East England is such that the static nature of settlements can no longer be maintained in perpetuity. Changes will take place whether an airport is introduced or not, although the pace will be hastened if that does occur. An active policy of development control can, however, limit the effects of such changes, by preserving what is best and steering new development to areas where it will do least harm to existing amenities. On the other side of the picture, additional activity in the area will stimulate the provision of services, e.g. roads, schools, hospitals and cultural facilities, which will be of benefit to the people already living there as well as to the new arrivals.

(h) National Planning

34. 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 the main body of our report (Section IV).
POSSIBILITY OF CONSTRUCTING A SUPER AIRPORT
AT SHEPPEY TO REPLACE HEATHROW AND OBViate
THE NEED FOR FURTHER LONDON AIRPORTS

Memorandum by the President of the Board of Trade

5th May, 1967

CABINET

The Minister of Housing and Local Government and I are circulating jointly a memorandum (C(67) 75) on the Third London Airport. I think that it will be helpful to my colleagues if I supplement this memorandum in the light of the publicity which has lately been given to the idea of constructing a super airport that would both replace Heathrow and eliminate the need for additional London airports. I do not regard the closure of Heathrow as a remotely practicable proposal: but it is perhaps worth setting out the reasons in detail why Sheppey cannot be a substitute for it. The site now suggested for the super airport is the Isle of Sheppey which, in the main memorandum, is considered (and rejected) as a site for the third London airport. The reasons for rejecting the idea of a super airport on the Isle of Sheppey are as follows:

Size of the airport

2. In the 1980's, it is expected that there will be a demand for accommodation for some 500,000 aircraft movements annually at London's airports and this total is likely to increase. Accordingly, if Heathrow is closed and no other airport is built, the super airport at Sheppey - which would also have to accommodate Southend's traffic - would require at least three pairs of parallel runways (six runways in all) or more than six if the runways are not parallel. Such an airport would have to be at least 4 miles in width in order to ensure safe separation in the air for three parallel traffic streams and, to avoid congestion on the ground, would probably have to be some 7 miles in length. The Isle of Sheppey could not provide a usable area of this size. The airport would, therefore, have to be extended over the River Swale which in itself might prove to be an insuperable obstacle, and into the North Kent mainland; at best, an inordinate additional cost would be entailed. In addition, assuming the closure of Heathrow, provision would have to be made for an increase in population of at least 250,000 and it is hard to see how a major encroachment into agricultural land of the highest quality could be avoided.
Access to Sheppey

3. Sheppey is difficult of access from all parts of the country except South East London and Kent. From Central London the journey by road to Sheppey in the mid-1970’s - the latest date by which the super airport must be operational - would take about 100 minutes (more in peak periods), even assuming that a link with the M.2 were constructed. Substantial improvements to the rail services would be required and even so would provide a journey time of at least 70-75 minutes. The provision of a monorail link with Central London as suggested by the sponsors of this scheme would, if feasible, be extremely costly.

Cost

4. Among other difficulties, the siting of an airport at Sheppey would mean the closure and re-provision elsewhere (assuming a suitable site could be found which the Ministry of Defence consider extremely doubtful) of the firing range at Sheoburyness which is estimated to cost some £25 million. The Draft White Paper estimates (paragraph 49) that the provision of even a two runway airport at Sheppey would cost £132 million including £40 million for rail improvements and £2 million for the link with the M 2. The cost of a super airport would, of course, be substantially greater.

5. The sponsors of the super airport plan claim that this cost would be offset by the sale of the land at Heathrow which, according to a "Times" report, the estimate would produce £240 million (elsewhere they estimate the cost at £120 million). Since Heathrow airport comprises about 2,700 acres, the sale of this land would, in fact, be unlikely to produce more than £40-50 million. The estimates of the sponsors of the scheme must, therefore, be considered as greatly exaggerated.

Other major difficulties

6. It is doubtful whether all the work necessary for the super airport, including a new Public Inquiry, could be concluded by time Heathrow and Gatwick are saturated - in the mid-1970’s at the latest.

7. The replacement of Heathrow by Sheppey would mean the re-provision of all the airport facilities at Heathrow in which there has been a public investment of the order of £40 million (written down value) and which still have a long life before them. Moreover, substantial losses would fall on BOAC, BEA and other airlines who have invested over £40 million at Heathrow and who would also have to re-provide these facilities at Sheppey.

8. The super airport plan is strongly opposed by the British Airports Authority - who would have to run it - and who are convinced that it is the wrong solution to London’s air traffic problems.
Need for fourth London airport

9. The supporters of the scheme claim that the super airport would both replace Heathrow and eliminate the need for a fourth London airport whereas if Stansted were developed, a further London airport would be needed in the not too distant future. As indicated in paragraph 2, however, nothing less than a six runway airport would be necessary to replace Heathrow and cater for London's traffic in the 1960's. To go further and cater for traffic growth for as far ahead as can be contemplated, the super airport would have to run to eight runways. And even ignoring the fact that the techniques of controlling the air traffic of an airport of this size remain uncharted, there would be a further and disproportionate increase in the land required and in the ground handling problems. This would press the concept of a super airport to the point of absurdity. In fact, as argued above, it is impossible for cost and other reasons to envisage an airport at Sheppey with more than four runways. This would mean that Heathrow would remain and that Southend would be closed, resulting in an effective gain of significantly less than the capacity of four runways. It is, in fact, technically possible to accommodate four parallel runways at Stansted even though at the Public Inquiry, and in respect of the same site area, only two runways and a shorter third were considered; and the development of Stansted does not interfere with Southend. Thus Stansted would postpone the need for a fourth London airport for longer than would any practicable development at Sheppey - probably until the 1990's. And by the 1990's it may be that technological improvements will have wrought a marked change in our ideas about the eventual need for a fourth airport. Thus improved air traffic control techniques or the development of aircraft much larger than those at present in contemplation would effectively increase the capacity of existing airports while the introduction of aircraft with short take-off and landing characteristics would revolutionise thinking on the areas needed for major airports and, hence, on their siting.

Conclusions

10. The super airport at Sheppey is very unlikely to be practicable, would, if practicable, be extremely expensive and would probably not be ready in time to deal with the overflow from Heathrow and Gatwick; while a more conventional airport would accelerate the need for an additional London airport. It would involve the totally unnecessary expense of closing Southend, of closing and re-providing the firing range at Shoeburyness (on the hypothesis that re-provision is possible) and would at best provide an airport extremely difficult of access for a large proportion of its users. I cannot, therefore, recommend to my colleagues that this idea should be entertained.
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9. The supporters of the scheme claim that the super airport would both replace Heathrow and eliminate the need for a fourth London airport whereas if Stansted were developed, a further London airport would be needed in the not too distant future. As indicated in paragraph 2, however, nothing less than a six runway airport would be necessary to replace Heathrow and cater for London's traffic in the 1980's. To go further and cater for traffic growth for as far ahead as can be contemplated, the super airport would have to run to eight runways. And even ignoring the fact that the techniques of controlling the air traffic of an airport of this size remain uncharted, there would be a further and disproportionate increase in the land required and in the ground handling problems. This would press the concept of a super airport to the point of absurdity. In fact, as argued above, it is impossible for cost and other reasons to envisage an airport at Sheppey with more than four runways. This would mean that Heathrow would remain and that Southend would be closed, resulting in an effective gain of significantly less than the capacity of four runways. It is, in fact, technically possible to accommodate four parallel runways at Stansted even though at the Public Inquiry, and in respect of the same site area, only two runways and a shorter third were considered; and the development of Stansted does not interfere with Southend. Thus Stansted would postpone the need for a fourth London airport for longer than would any practicable development at Sheppey - probably until the 1990's. And by the 1990's it may be that technological improvements will have wrought a marked change in our ideas about the eventual need for a fourth airport. Thus improved air traffic control techniques or the development of aircraft much larger than those at present in contemplation would effectively increase the capacity of existing airports while the introduction of aircraft with short take-off and landing characteristics would revolutionise thinking on the areas needed for major airports and, hence, on their siting.

Conclusions

10. The super airport at Sheppey is very unlikely to be practicable, would, if practicable, be extremely expensive and would probably not be ready in time to deal with the overflow from Heathrow and Gatwick; while a more conventional airport would accelerate the need for an additional London airport. It would involve the totally unnecessary expense of closing Southend, of closing and re-providing the firing range at Shoeburyness (on the hypothesis that re-provision is possible) and would at best provide an airport extremely difficult of access for a large proportion of its users. I cannot, therefore, recommend to my colleagues that this idea should be entertained.

D. P. T. J.

Board of Trade, S. W. 1.

5th May, 1967
5th May, 1967

CABINET

PUBLIC PURCHASING AND INDUSTRIAL EFFICIENCY:
DRAFT WHITE PAPER

Note by the Chairman of the Ministerial Committee on
Economic Policy

A thorough review has been made of ways in which the Government's purchasing power can be more effectively used to promote efficiency in the supplying industries. The outcome is set forth in the attached draft White Paper.

A memorandum, substantially in the form of this draft, was considered by the National Economic Development Council at its meeting on 1st March and there have been subsequent talks with the Confederation of British Industry (CBI). These consultations have not led to any changes of substance in our proposals, but editorial changes have been made to the draft White Paper in order to meet suggestions made by the Council, the CBI and the British National Export Council (BNEC).

Work is already well in hand on action to implement the proposals in the attached draft and a combination of circumstances—notably, a conference of the BNEC on public purchasing and exports and the National Productivity Conference, both to be held early in June—make publication of the White Paper by the end of May highly desirable. I therefore circulate it now for consideration at Cabinet on 9th May when I shall report the views of the Ministerial Committee on Economic Policy which is to discuss the draft White Paper the previous day.

M. S.

Department of Economic Affairs, S.W.1.

5th May, 1967
DRAFT WHITE PAPER

PUBLIC PURCHASING AND INDUSTRIAL EFFICIENCY

PURCHASING BY THE CENTRAL GOVERNMENT

It is the Government's policy to help to make British industry more efficient and competitive. Public purchasing can be used to promote this, and the Government intend, in consultation with industry, to see that purchasing by Government Departments does so.

2. The Central Government buys about 5 per cent of the total output of all manufacturing and construction industries, although the percentage varies considerably industry by industry. It has been long recognised that the Government has special influence and responsibility in relation to the efficiency and progress of its supplying industries and their export performance. At the same time, the influence the Government can exert, as a purchaser, on any particular industry must depend to a significant extent on the proportion of the total output of the industry which it takes, or at least on the proportion relative to any other major purchasers. This influence has been exercised, as with the aircraft industry, in promoting the re-organisation of the supplying industry. In the field of management, purchasing authorities encourage contractors to use, where appropriate, techniques conducive to efficiency such as budgetary control, critical path analysis, value engineering and quality control. Regional development is assisted by arrangements which give some measure of preference in Government purchasing to suppliers in Development Areas.

3. These are particular applications of the Government's purchasing power in the pursuit of national industrial objectives. They will continue, for example, there will be consultation between the Industrial Re-organisation Corporation and Departments on ways in which Government purchasing might help promote and assist schemes for structural re-organisation in supplying industries. The Government will also follow up ideas emerging from the Economic Development Committees, as those in the reports on "Efficiency in Road Construction" by a Working Party of the Economic Development Committee for Civil Engineering.

4. The primary objective of Government purchasing is to obtain what is needed, at the right time and in such a way as to secure the best value for money spent. But there is much that can be done to ensure that public purchasing provides positive encouragement to British industry to make
itself efficient and competitive both at home and in markets overseas. For example, the appointment from industry of a Head of Defence Sales in the Ministry of Defence recognised the need to pay regard, at all stages of defence procurement, to the scope for promoting exports.

5. As another illustration, the Department of Education and Science, the Ministry of Health, the Ministry of Housing and Local Government and the Ministry of Public Building and Works are co-operating in promoting dimensional co-ordination in building, the development and standardisation of building components and industrialised methods of building, which should lead to all-round economy and a market which goes far wider than Government needs. This particular effort is being linked to the changeover to the metric system by the construction industry, so that the unique opportunity which exists for the change not only to metric measurement but also to dimensionally co-ordinated sizes will not be missed. The British Standards Institution published with the approval of the industry a detailed programme for the change on 21st February this year. Full Government support for it was announced at the same time and public procurement will give effect to that support.

6. The relationship between Government and supplier in fact goes well beyond a simple and short-term buyer and seller nexus, particularly where the purchasing is a continuing activity and it is necessary to look ahead and plan for value for money tomorrow as well as today. In developing its purchasing policies the Government will continue to take every opportunity of using Government orders to improve the performance of its supplying industries, whether in productivity or in technological innovation, which will help exports and import saving. There are several ways in which it is intended to do this.

Encouragement of initiative and economy in production

7. Technological innovation will be stimulated if, in specifying their requirements and in evaluating tenders, purchasing authorities allow scope wherever possible for initiative by tenderers in meeting the need by new products or by advanced production techniques. If, in other cases they encourage the tenderer to propose alternative ways of meeting the requirements, this will make it possible for him to use existing products, materials, components or production facilities and methods. This will help to reduce manufacturing costs and often assist in keeping down export prices.
8. Specifications which stipulate purposes and performance required, rather than the detailed specification of a product, are advantageous for these purposes, and Government Departments will extend their use whenever possible. In other suitable cases manufacturers will be encouraged to suggest modifications to Government design specifications which might without loss of efficiency secure some industrial or commercial advantage, including the promotion of exports. Departments will be continually on the lookout for opportunities of encouraging high and competitive standards of industrial design.

Variety control

9. Reduction in the number of similar varieties of products purchased is a powerful method of promoting efficiency in production. Both the buyer and the manufacturer benefit. The buyer gets cheaper supplies and lower administrative costs. The manufacturer gains from larger orders and consequent longer production runs, which enable him to invest in improved methods of production and to spread the cost of research and development and other overheads more thinly; he is able to release technical staff from work on modifications to undertake progressive development.

10. All the major purchasing Departments have officers responsible for variety control, standardisation and rationalisation of purchasing in general, and hence for attaining these objectives. The recent establishment in the unified Ministry of Defence of a Directorate of Supply Co-ordination should advance this process in an important area of Government purchasing: its tasks include the achievement, through standardisation of equipment and stores, of reduction in variety and greater operational and logistic efficiency.

11. An example of variety control within the Ministry of Defence is "Systematic Machinery and Equipment Evaluation and Selection" (SYMES). Under this system standard ranges of machinery and equipment are adopted for use as appropriate in all types of ships built within a specified period: maximum use is made of commercial design. In the Ministry of Public Building and Works, the variety of furniture and furnishings has been reduced, not only in civil Departments but also, with the co-operation of the Ministry of Defence, in the Defence Services. Wherever possible, special requirements are being replaced by standard issues. The Health Departments and hospital authorities are collaborating in a number of variety control exercises and hospitals are being encouraged, for example, to use Ministry of Public Building and Works' standard issues for office use.
12. The Government is devoting considerable effort to studies of the further scope for variety control both within and between Departments. Departments already try to use trade products whenever appropriate, and to co-operate to avoid the proliferation of slightly different specifications to meet needs which might all be met by one product, but they will re-assess those cases where non-standard products appear to be required. In seeking greater reduction in variety, they will consider specifying those products for which there is an existing or potential demand in home and particularly in export markets. This should encourage large scale manufacture, and reductions in production costs, so as to improve the export prospects of the products concerned.

Standards

13. As Departments proceed with the elimination of unnecessary variety in the products purchased, they will continue in all suitable cases to buy those types which conform to British Standards. This will give a lead towards the general acceptance of these Standards in both the home and overseas markets. Departments already work very closely with the British Standard Institution (BSI) and its Councils, Committees and Panels. When assisting in the formulation of British Standards they will bear in mind the needs of all domestic users, and that it is necessary to align them with international standards as far as possible, or, where these do not exist, to see that they are, wherever practicable, acceptable in overseas markets.

14. Departments will also, when they find it necessary to draft their own standard specifications, try to base them on British Standards and will co-operate with BSI at an early stage in order to facilitate the maximum reconciliation between their needs and those of non-Government consumers, especially where this will improve the prospects for exports. In order further to assist exports, purchasing Departments will help the BSI as much as they can in the formulation and adoption of a series of metric standards.

Quality Assurance Schemes

15. Standardisation is indispensable to schemes which objectively measure product quality including performance, safety, and reliability. Such schemes can be extended to provide quality control, which ensures that the whole production of a particular article conforms to minimum requirements, and so removes the need for further inspection and testing by the purchaser. Schemes of this kind enlarge the market for good products, and so tend to reduce their unit cost.
16. The Kitemark Scheme operated by BSI is an example. Another is the Burghard Scheme, which is being implemented by the Ministry of Technology in co-operation with other Departments, which applies standards in the assessment of electronic components. The Government will support the improvement and greater use of such schemes, and their extension to appropriate new fields.

Evaluation techniques and facilities
17. Particularly where no standards exist or are not appropriate for his purpose, the purchaser ought to know the relative merits of different products on offer. This not only enables him to make the most efficient use of his resources but also stimulates industrial progress by favouring products of good design and quality. To meet this need in the case of computers the Ministry of Technology have set up the Computer Advisory Service to assist the whole of the public sector. Methods of product evaluation, and of evaluating tenders, will be kept under review so as to improve Government purchasing techniques in the light of the best practice in the public and private sectors.

18. There are in addition advanced technical assessment schemes the results of which are available in suitable cases also to the private sector. One example is provided by "YARD" (a joint organisation of Yarrow and Company, Shipbuilders, and the Admiralty Research Department), which among other functions carries out assessments, on behalf of Government Departments and of private concerns, of ships, propulsion units, and engineering products. Another is the Agrement Board established in 1965 by the Ministry of Public Building and Works to assess and certify new construction materials and methods.

19. These arrangements have the common purpose of assessing the performance of products and providing objective test reports on which to base purchasing decisions. They should result in a reduction of the time and effort spent by the customer in comparing one product with another. The assessment of performance and reliability provided should often simplify the preparation of new British Standards. The Government will establish other schemes of this kind where needed, and will try to negotiate reciprocal arrangements with other countries for the mutual acceptance of approved products.
Co-ordination of purchasing

20. Centralised purchasing of common Government requirements is already carried out to a considerable extent. For example, the Ministry of Public Building and Works undertakes construction work for civil Departments and for the Defence Services, and buys many of their requirements of furniture and supplies. The Stationery Office is responsible for meeting all Government requirements for stationery, printing and office machinery. The Ministry of Health buys drugs, dressings, and certain medical and surgical equipment for other Government Departments, and for the Defence Services. The Ministry of Defence buys most motor vehicles for Government services, and petrol, oil and lubricants for a number of civil Departments.

21. In these cases centralisation has advantages arising from buying in bulk, including economy, variety control and standardisation. Central co-ordination of purchases is also being used to encourage the more effective use in the public sector of particular types of advanced product - for example, computers - and so to encourage technological advance both amongst manufacturers and users of such products.

22. Purchasing in bulk will not always be advantageous. As with the reduction in the variety of products purchased there is an optimum level dependent on industrial capacity, on the economies to both supplier and user of short haul deliveries and on the need to maintain competition and the stimulus to innovation in the supplying industry. None the less, the Government believe that there is considerable scope for the development of its purchasing in the ways described above to the benefit of the economy as a whole.

Assisting suppliers to improve their efficiency

23. The Government will continue to look for other ways of assisting its suppliers to increase their productivity and competitive power, and to examine critically, in collaboration with British industry, any purchasing practices which seem to impede unnecessarily their efficiency or technological progress. A number of specialist technological services to industry are being developed by the Ministry of Technology; the National Computing Centre and the Production Engineering Advisory Service are examples. The latter will devote part of its effort to assisting Government suppliers. There is a range of Government-owned or subsidised research establishments available to help industry, and of Government testing and research facilities which are used by industry. Government purchasing Departments will encourage their suppliers - sub-contractors as well as main contractors - to use these facilities.
24. The encouragement of advance in industry through measures of public purchasing should not be one-sided. It is normal practice for purchasing Departments to seek advice from industry, and they will adopt appropriate purchasing practices proved in industry to be beneficial both to purchasers and to their suppliers. As part of this process Marks and Spencer are making available to the Government their experience in this field, and providing an opportunity for representatives of a number of purchasing Departments to assess the relevance to public procurement of the techniques developed by the company.

25. The Government will also continue to try to help industry by making known its purchasing requirements as far ahead as possible so that research and development can be started in good time, and the most advantageous production plans laid. Purchasing Departments will continue to limit as far as possible changes in specification after contract work has begun, particularly by thorough definition of development projects and of the types of equipment to be produced for defence needs. In appropriate cases, Departments will explore with contractors arrangements which should be of mutual benefit by providing incentives for overall economy and efficiency, in particular through improved control of development, production and maintenance costs.

Consultation with industry

26. Fruitful co-operation between purchaser and supplier depends upon mutual regard for the interests of the other. Government and industry have already established numerous channels for communication about purchasing matters. They serve all levels, and regular use is made of them. It may be that even more can be done to reduce divergencies of interest between Government and industry in purchasing matters, and to facilitate the development of the Government's purchasing policies to improve the efficiency of British industry.

27. The Government will accordingly discuss with the Confederation of British Industry the adequacy of the existing channels of communication to ensure co-operation between Government and industry in the measures outlined in this paper.
28. The review of public purchasing so far made has been concerned with purchasing by the Central Government. The total value of purchases by the rest of the public sector is substantially greater than that of purchases by the Central Government. The Government propose therefore to invite the co-operation of local authorities, the nationalised industries and other public bodies in a review of the ways in which the Government's objectives in the field of public purchasing can best be attained in the rest of the public sector.
CABINET

SOUTH ARABIA

Memorandum by the Secretary of State for Foreign Affairs

Introduction

My colleagues agreed on 16th March (CC(67) 13th Conclusions, Minute 3) that Her Majesty's Government should put proposals for South Arabian independence by 1968 to the Federal Government. The essentials were:

(a) The Federal Government should be told that we wished to arrange independence on 1st November, 1967.

(b) They should also be told that we could not (as they had asked) surrender sovereignty in Aden Colony, or the control of internal security there, before independence. We recognised, however, that the Government of independent South Arabia would face very difficult problems if it secured control of Aden and full independence on the same day, at the time of subversive attack on them supported from the Yemen, where major Egyptian forces would remain. We would be ready to meet their most acute apprehensions on this by:

(c) stationing a composite naval force off South Arabia for up to six months after independence on 1st November. This would be to deter external aggression and to counter attack of organised foreign military aggression nevertheless occurred. We were not however prepared to play any role over internal security after independence or to station forces on-shore.

2. The following developments, in chronological order, have taken place since:

(a) On 17th and 18th March, Mr. Thomson put the proposals to the Federal Supreme Council. The spirit of the offer was welcomed, but its content was not. The Federation did not think a purely naval deterrent would be credible; clearly doubted whether we would in the event commit it against actual aggression; and considered that a six months commitment would in any case only postpone the evil day by too short a time to solve their problem. Mr. Thomson pressed the Federal Government to think hard about an offer which constituted, for us, a difficult modification of our defence review decision that there should be no defence commitment of any kind after independence. The Federal Government eventually agreed to think it over for one month.
(b) The United Nations Mission went to Aden on 2nd April. The terrorist organizations demonstrated their ability to dictate a complete strike, to mount a maximum effort of violence, and to ensure that their boycott of the Mission was widely observed. The Mission, as my colleagues know, achieved nothing and left after less than five days. In subsequent discussion at Dorneywood it emerged that the Mission expected us to stay in South Arabia for as long as required to ensure that the United Nations resolutions were made effective. This could easily mean years rather than months. We must continue to keep the United Nations in play, but this particular Mission will not in fact help much.

(c) We have made repeated efforts, at Ministerial as well as official level, to get the "Front for the Liberation of Occupied South Yemen" (FLOSY), particularly Al Asnag, first to give at least minimum co-operation to the United Nations Mission, and secondly to talk with us about the future.

(d) For reasons and in circumstances the Cabinet know, Lord Shackleton went to Aden. He reinforced our efforts over FLOSY and eventually made approaches to both Makkawee and Asnag. The only response to these (after an initial expression of willingness on Asnag's part but not Makkawee's) has been a blank refusal to talk on any basis short of recognition of FLOSY as the sole organ representative of South Arabia. This is neither true nor possible to pretend. The United Arab Republic (UAR) Government have professed to regret FLOSY's extreme attitude. This is probably true where FLOSY's boycott of the United Nations is concerned, but there is no sign that the UAR is trying to call off violence; on the contrary, it continues to support FLOSY and to supply the terrorists. There are current indications that the more extreme FLOSY leaders like Basendwah stand highest in Egyptian favour.

(e) On 27th April the Federal Government replied in writing to our proposals at 2(a) above. They reject independence on 1st November, 1967. They now say that their ground forces will not be ready for their full assumption of internal security responsibility until 1st March, 1968, and (accurately) that their naval and air arms will be ready only months after that. They say that they will accept independence on 1st September, 1968, but provided that:-

(i) we turn over internal security in Aden State fully to them on 1st March, 1968;

(ii) British forces remain in support in Aden State until 1st September, 1968;

(iii) we extend them a Defence Guarantee for up to three years after 1st September, 1968;

(iv) we can get a new constitution in force well before 1st September, 1968.

This package is unacceptable to me and, I imagine, to my colleagues.
3. Lord Shackleton returned here to report on 27th April. I should like at this point to pay tribute to the energy and resource which Lord Shackleton and his officials have shown in achieving so much in the very few weeks in which they have been in South Arabia. Apart from the efforts over FLOSY mentioned above, they have been in touch with the Federal Government and other political groups and with extremist elements other than FLOSY. In all this they have of course had the full support of the High Commissioner.

Problem

4. Lord Shackleton's report confirms the impressions I had formed from other reports from Aden. The pressures on the Federal Government are such that its chances of survival after our departure are very shaky unless it can somehow attract effective support from outside its ranks. The public estimate of its chances is a major factor in getting such support, and the degree of foreign backing it is thought to have in turn affects that estimate. More than two years of intensive intimidation have, as we knew, paralysed political life in Aden. In the last lap towards independence, the contrast between our impending departure and the continued Egyptian presence in the Yemen is further sapping confidence and resolution. The success of the strike and disorders over the United Nations Mission has made matters worse, despite the marked achievement of our forces in controlling them with the minimum loss of life on either side. The fact that the terrorist groups are now assassinating one another does not restore the confidence of Arab politicians and officials who risk being shot by either side. There is deepening demoralisation in the Arab and even the British public service, and senior Arab officials have shown an increasing tendency to go on indefinite leave or resign. The starkest alternatives would be either to cut our losses and get out as quickly as possible whatever the consequences; or to undertake to stay until the Egyptians leave the Yemen. Our decisions over the Defence Review rule out the latter alternative. The former, and its consequences locally, would bring such discredit upon us that I am reluctant to contemplate it. We must therefore make further efforts to improve matters. Lord Shackleton entirely agrees.

5. In practical terms, this means further efforts towards the two objectives we decided in December. The first is to ensure that there is an effective government in the territory while we complete our military withdrawal. From this point of view Lord Shackleton argues that on his return to Aden it would be difficult to tell the Federal Government that they must take or leave our offer in March as it stands. We have admittedly warned them that if we cannot agree with them on the date of independence we have, and must exercise, the power to declare one. But to face them with 1st November, 1967, despite their radical dissent might take much of the remaining heart out of them. They might disintegrate or at best fall into passive sullen resentment. Their forces might then deteriorate if not turn hostile. Our withdrawal would be impeded if that happened and, of course, the ensuing situation after independence would be disorderly, to our discredit. There is, therefore, a case for going back to the date of January, 1968, on which my colleagues decided in December, or even a little later (the High Commissioner has mentioned 1st February as a date which would both give the transformed Federal forces a little more time to shake down, and a little more time for any constitutional processes we may be able to promote).
6. It can be argued that deterioration has gone so far that a short extension of this kind would not be of any real advantage to the Federal Government. But, in the main for no fault of theirs, over two months have gone by without progress since my colleagues last considered the matter. Our forces would also find it a little easier to get out in good order if they had two additional months to complete the process. And if there is any chance that short extension will help over the political prospects we should not lose it. On this basis I recommend that we should revert to an independence date for South Arabia of January, 1968, which for practical purposes would mean a date between 1st January and 15th January; and that we should inform the Federal Government that we shall be prepared to use our legal powers to impose this if they cannot agree to it.

7. I understand that the composite naval force which we offered for six months from 1st November could, though with greater difficulty, be available and fully effective for six months from the beginning of January. For the same first reason of trying to hold things together until we go, I recommend that it should be offered accordingly to the Federal Government, on the same conditions as before (paragraph 1(c) above).

8. The Secretary of State for Defence and I are considering whether we could also offer a strike capability by bomber aircraft based on Masirah and Sharjah, perhaps for a rather longer period. This offer might serve to clinch the deal if the Federal Government were already disposed to accept it, and it will be examined further.

9. Neither Lord Shackleton nor I think that these measures could at best achieve more than the first object of holding things together while we get out. Our second objective, which is to give the new State a chance of survival after our departure, requires more. The essential here is political improvement. The possible courses seem to me to be:

(a) A real broadening of the Federal Government into an all-embracing caretaker government including FLOSY, the National Liberation Front (NLF), the South Arabian League and the Eastern Aden Protectorate (EAP) States. I am seeking to arrange round table discussions in a final effort to achieve this and are trying to get the United Nations to help and participate, and even better, take an initiative themselves. I must however warn my colleagues that the chances are slim in the extreme. FLOSY seems to be obdurate against it. The UAR have no obvious interest in promoting it. The other political parties are afraid of anything which will bring terrorist attention to them. The United Nations Mission spoke unrealistically of "dissolving" the Federal Government before any central caretaker government could be formed; we have no legal power to do this. The Mission also suggested that if we failed to bring the EAP States into the caretaker government they could not look at any less comprehensive solution, however good in itself. This is equally unrealistic; the best must not be the enemy of the good, and the EAP states seem likely to remain on the fence for much the same reason as the political parties. Yet such United Nations views could again inhibit the rapprochement the situation requires.
(b) **Rapprochement** between the Federal Government and FLOSY. The Federal Government have said they would play: FLOSY have said they would not, but bilateral talks, which I am continuing to pursue, might still bring them round. As within course (a), we should be dealing with a future power reality, inasmuch as FLOSY has Egyptian backing which is going to remain a powerful factor. FLOSY support is however mainly Adeni, and largely Yemeni in Aden at that; it cannot carry the whole territory. Resistance to FLOSY after independence might involve civil conflict.

(c) **Rapprochement** of all concerned except FLOSY. This would give us a wider based government especially if it could include representatives of the EAP states, but would carry the disadvantage (unless the Egyptians changed their course) that Egyptian-supported terrorism would still operate from its base in the Yemen.

(d) **Rapprochement** between leading elements in the Federal Government and FLOSY's rival terrorist organisation, the National Liberation Front. The NLF has few well known leaders and none of international stature. But in the internecine struggle recently it has shown signs of getting the upper hand over FLOSY in Aden. It is opposed to Egyptian domination, which in political terms, like Yemeni association, is a handicap to FLOSY within South Arabia. There is some evidence that elements of the Federal forces and the NLF see common ground. We have had clear indications from some Federal Ministers that they are in touch with the NLF, and the latter have also spoken of these contacts. This is not a development we should promote, but it may come about naturally, and then win wider support. If it does come about, and if the other courses above have failed, we could live with it as helping to keep a semblance of authority together until our withdrawal is complete. Just conceivably, evolution of this kind could go so far as to offer a chance that the new State could survive after independence. Given the unpromising prospects of the other courses, I recommend that we should do nothing to impede this evolution and should where possible and desirable facilitate it if it develops by itself; for example by some relaxation of emergency measures after the Services' families have left.

(e) **To continue backing** the Federal Government. This we are inevitably doing till something better emerges. But neither the population nor the Federal Government themselves find it credible enough for the future to be decisive. And our declarations in favour of broader government have made the Federal Government seem provisional only.
10. Lord Shackleton has argued that, if we are to hold a government together till independence, and if we are to give South Arabia a real chance of independent survival thereafter, we should be prepared to go further. He thinks that there would be a case, if internal security could first be improved, for land-based RAF fighter aircraft rotating to Khormaksar (Aden) airfield after independence, because of their great psychological effect on the morale of the South Arabian Government; and for surrendering control of internal security in Aden itself a few months before independence, because of the chance it would give the South Arabian Government to tackle its own problems. But in his view both these proposals must be contingent on the establishment of a much broader-based government which in our judgment was likely to survive and so be able to maintain effective control. I do not however recommend these courses. We are accountable internationally for our declared intention to remove the base on independence, and to Parliament for internal security in Aden Colony until independence. Moreover, Lord Shackleton would attach less importance to this proposal if it proved possible to make the offer of land-based bomber aircraft from Sharjah and Masirah.

11. I should add that Lord Caradon came over on 5th May to talk to me and to Lord Shackleton about the problem from the United Nations point of view, and that he concurs in my reasoning about the United Nations aspects.

12. I have also had to consider, and have now taken, a difficult decision over personalities. The High Commissioner, Sir Richard Turnbull, has held his post for over two years. He has had a very difficult time. He has brought imagination, hard work and a wealth of administrative experience to his task. None of it has been to much avail against the background of terrorism and that of our impending departure. He is now a tired man, yet the months ahead are likely to be the most difficult yet, when different qualities of international experience and flexibility also seem required. I have had this in mind since the end of February but there could be no question of a change on the eve of the United Nations Mission, whose arrival was then expected at any time. Since then Lord Shackleton’s report less confirmed my feeling that a change is needed. I have therefore recalled Turnbull and arranged for Sir Humphrey Trevelyan to take his place. Trevelyan, as my colleagues will know, has the ability for the job and experience varying from the Indian Civil Service to being H.M. Ambassador in Moscow, Baghdad, and far from least - Cairo at the time of Suez. I shall inform Parliament after our meeting on Thursday but am trying to keep the change secret until then.

13. In summary, I should like my colleagues:

(a) to agree to the suggested change in our plan since March: independence in January, 1968 instead of 1st November, 1967. This would have the consequence that the naval deterrent force would be offered for six months from January, not November;

(b) to agree that the Federal Government must be told that this is our firm decision;
(c) to note that the courses before us are those at paragraph 9 above and that the first we must try is the convening of a round-table conference, if possible with United Nations help, in a final effort to secure the co-operation of all political elements in the territory;

(d) to note that I propose to introduce an Independence Bill in June, for enactment before the Summer Recess; and that we must be ready to announce our policy fully in the debate on the Second Reading of that Bill, probably in the second half of June.

G. B.

Foreign Office, S. W. 1.

9th May, 1967
CABINET

GREECE

Memorandum by the Secretary of State for Foreign Affairs

In Cabinet on 11th May (CC(67) 30th Conclusions, Minute 2), I promised to circulate a note to my colleagues.

2. The aims of our policy towards the new Government in Greece are:

   (a) To be able to do business with it to protect British interests (whether specific, e.g., the release of Mrs. Ambatielos, or general, e.g., the avoidance of trouble in Cyprus).

   (b) To influence it towards a return to parliamentary and democratic procedures and a restoration of civil liberties in Greece.

3. Some days after the coup it became clear that the present leaders had full military backing and effective control of the country. Meanwhile the King remained Head of State and diplomatic relations between ourselves and Greece continued to exist. The choice facing us was this. We could enter into working relations with the new regime and pursue the objectives explained above. Or we could condemn them publicly, refuse to have working relations with them, and possibly even break off diplomatic relations, in the hope that our own interests would not suffer unduly and that our attitude would help bring about their overthrow or at least make them uncomfortable.

4. The second course would have fitted the sense of shock and repugnance which we felt and still feel at what happened in Greece. But it would have left us with no direct means of speaking our minds to the new leaders. And I do not think that they would have been affected in the way we wanted by a policy of standing back and condemning them.

5. We chose the first course. I believe that it was right then and that it remains right now. Most of our friends and allies take the same view. The Danes, with some sympathy from the Norwegians, do not. But their efforts to lead public and official criticism of the Greek regime have not shaken the regime, although they have caused some trouble in NATO.
6. I think that we are having more influence in Athens, in the right direction, than we would have if we took the Danish line. We have a tough and experienced Ambassador, who is well able to judge what is likely to influence the men in power and what is likely to antagonise them and strengthen the forces of extremism. He knows very clearly what our objectives are. I have told him myself. And I am satisfied that he is saying the right things to the right people.

7. Meanwhile we are doing nothing which would imply approval of the regime's policies or close co-operation with them (e.g. Ministerial visits, or arms supplies). All we are approving are statements of good intent on their part about a return to constitutional government, etc. And we shall watch carefully to see whether these statements are translated into action. If they are not, it will be a matter of fine judgment how long we should keep up our present attitude. There may come a point, if no progress is made in the right direction, when we will decide that we could work for our objectives better if we changed our policy.

8. But the regime is still in a formative stage. Conflicting pressures are at work within and upon it. We have more chance at present of helping to remould it as we wish by our present policy than by making public pronouncements of disapproval. These may ventilate feelings here but they will not make the men who hold power in Greece more susceptible to our influence.

G. B.

Foreign Office, S. W. 1.

16th May, 1967
CABINET

NATIONALISATION OF THE PORTS

Memorandum by the Minister of Transport

The proposals for nationalisation of the ports which are summarised in the Annex to this memorandum have been agreed by the Ministerial Committee on the Reorganisation of the Docks.

2. Without extensive and detailed discussions with the many interests concerned, however, it is not possible to make further progress. I am therefore anxious to open consultations with these interests and I accordingly seek my colleagues' agreement to my doing so now on the basis of these proposals.

3. When the consultations have been completed I will put specific recommendations to my colleagues.

E.A.C.

Ministry of Transport, S.E.1.

22nd May, 1967
Nationalisation of the Ports

1. A National Ports Authority (NPA) and Regional Port Authorities (RPAs) should be established. The NPA would have overall control and ultimate responsibility for the nationally-owned port transport industry on all matters. The NPA's functions would comprise:

(a) Provision of efficient and economical port transport facilities and services in Great Britain, with such control as may be necessary over independent port facilities and services in their ports and in cooperation with bodies providing inland and sea transport facilities.

(b) (i) Preparation of a comprehensive development plan for the nationalised port transport industry, and responsibility for relating port transport planning and investment to overall transport and economic planning (and consultation with persons directly concerned, including, in particular, the regional economic planning councils).

(b) (ii) Keeping under review port transport facilities and services not in national ownership, with power to submit recommendations as and where appropriate to the Minister for the transfer of any of these into national ownership.

(c) A financial duty so to exercise control over the RPAs as to secure that the revenues of the nationalised port transport industry are not less than sufficient to meet combined charges to revenue taking one year with another. (Financial objectives would be agreed between the Minister and the NPA).

(d) Establishment, jointly with the appropriate unions, of national machinery, and ensuring the establishment of regional and local machinery for consultation and for negotiation of terms and conditions of employment and for the promotion and encouragement of the safety, health and welfare of employees; and the arrangements for workers' participation in management.

(e) Preparation and presentation to the Minister of an annual report on the exercise and performance by them of their functions during the year and on their policy and programme. (This would embrace the accounts of the NPA and of the individual RPAs).
2. Whilst the NPA must be in effective control of policy on such matters as finance, planning, investment, revenue targets, pricing, research, training and key appointments, the RPAs must have a wide measure of autonomy. Their functions would be to manage their affairs efficiently in accordance with the broad policy of the NPA. They would make proposals for development and investment to the NPA.

3. Under the NPA, the RPAs would accordingly be vested with the property, assets, rights and liabilities of the undertakings included in the scheme of nationalisation; and they would be the employers of people in the industry within their regions. The RPA's functions would comprise:

(a) The efficient and economical management, maintenance and operation of their facilities and services and exercising control over independent facilities and services in their ports;

(b) (i) Preparation of and submission to the NPA of proposals for the development and improvement of their ports (after consultation in particular with regional economic planning councils).

(ii) Keeping under review ports and port facilities not in national ownership and submitting recommendations as and where appropriate to the NPA for the transfer of any of these into national ownership.

(c) Establishment, jointly with the appropriate unions, of regional and local machinery for consultation and negotiation, safety, health, welfare; and workers' participation.

(d) The preparation of annual reports and accounts and submission to the NPA.

4. In discharging these functions the RPAs would be accountable to the NPA and be required to comply with directions, general or specific, given from time to time by the NPA. The Minister of Transport, after consultation with or on the representation of the NPA, would have power to confer additional or different functions on the RPAs.

5. In order adequately to exercise their functions the NPA and RPAs would be vested with appropriate powers.

6. Each RPA would decide how best to organise its ports. Each would have to keep its separate accounts and make annual reports.

Number of RPAs

7. There is no perfect solution to the question of the number and the boundaries of the RPAs. It is important, so far as possible, given the inevitable predominance of London and Liverpool, to achieve a balance so that the smaller regions will not be overshadowed by the larger. The RPAs must also be of sufficient size and financial strength to be able to manage their affairs effectively, adopt modern management techniques and provide adequate scope for investment and development. It is considered that the following arrangement of RPAs meets these requirements reasonably well:

/1.
1. Scotland;
2. North-East (includes the Tyne, Wear, and Tees; and covers the coast from the Scottish Border to the southern boundary of the North Riding);
3. Humber (from the boundary of the North Riding to Gibraltar Point, just south of the mouth of the Humber);
4. East Anglia (Gibraltar Point to Foulness Point);
5. Thames & Medway (Foulness Point to North Foreland);
6. South (North Foreland to Devon/Somerset border);
7. Wales and Severnside (Devon/Somerset border to Bardsey Island);
8. North West (Bardsey Island to the Scottish Border).

These 8 regions are shown on the attached map.

Constitution of NPA

8. Appointments would be made by the Minister of Transport on a non-representational basis. The NPA would consist of 8 to 12 members, of whom the majority would be full-time, appointed from among persons who have had wide experience of and shown capacity in transport, industrial, commercial or financial matters, in administration, applied science or the organisation of workers. Particular members of the NPA would take a special interest in such topics as finance, commercial policy, and personnel matters. The Chairmen of the RPAs would not sit on the NPA.

Constitution of RPAs

9. Appointments to the RPAs would be made by the Minister after consultation with the Chairman of the NPA. Members would be drawn from the same fields of experience as the NPA members. There would be 6 to 10 members, according to the size and character of the RPA; and a majority would be full-time members. Specific responsibilities could be assumed by individual members.

Note: The question of direct dock union representation on the NPA and RPAs is referred to in paragraph 18 below.

The Ports

10. Only the larger and more significant ports would be included in the initial nationalisation scheme. There would be brought into national ownership on a date prescribed under the legislation the undertakings of statutory harbour authorities:

(a) where the foreign trade exceeds 100,000 tons a year or
(b) at which 25 or more workers registered under the National Dock Labour Scheme (N.D.L.S.) are employed. In addition, any other harbours vested in the British Transport Docks Board (B.T.D.B.) would be transferred. These undertakings are listed in the Appendix 1 and shown on the attached Map.
11. "Single-user" ports (i.e. any port the use of which is wholly or predominantly confined to goods used in, or manufactured or produced in, the industrial processes of the owner of the port) would not be included in the nationalisation scheme, either initially or subsequently. Fishery harbours, and marine works in Scotland,* would similarly be excluded. Harbours owned by the British Railways Board or by the British Waterways Board will also be excluded where, as is mostly the case, the harbour is an integral element in the railways or waterways system.

Non-Statutory Undertakings

12. Within the harbours to be included in the nationalisation scheme are a large number of undertakings, not in the ownership of the harbour authorities, either owning wharves, quay and jetties or carrying out harbour operations, chiefly cargo handling; and some do both. Until comprehensive information has been obtained, as part of the consultation process, about these undertakings it is not possible to make specific proposals (except as to lighterage and towage, see paragraph 13 below). Care must be taken, for example, not to impose unnecessary liabilities on the RPAs by transferring to them undertakings they do not require to perform their functions. The consultations and the review of the undertakings would proceed on the basis that the object would be to include in nationalisation those assets and operations that serve the generality of shipowners and shippers.

Lighterage and Towage

13. A considerable part of lighterage and towage work is either not directly connected with port operations serving the generality of shippers and shipowners or is concerned with inland waterway transport or seagoing and salvage operations. Lighterage and towage undertakings, other than those already owned by the harbour authorities, would, therefore, not be included in the initial nationalisation scheme. But the RPAs would be charged with the duty of reviewing lighterage and towage arrangements and requirements and be empowered to propose the take-over of lighterage and towage assets so far as required for the efficiency of their ports.

Further powers of take-over

14. It is proposed that each RPA would have a duty to review non-nationalised ports or port facilities in its region. RPAs would be able to submit schemes through the NPA to the Minister of Transport for taking over such ports and facilities with a view to securing the improvement, maintenance or management of a port, or of the region's ports, in an efficient and economical manner. Persons affected would have a right to object to the proposals; and a statutory procedure for consideration of the objections, including provision for a public inquiry, would be prescribed.

* Note:— "Fishery harbours" and "marine works" are defined in Appendix 2.
15. The RPAs would have power to acquire any such port or port facility by agreement without specific Ministerial consent.

16. These proposals would have the added advantage of enabling the RPAs to propose the take-over of any particular port which falls outside the defined classes which will have to be set out in the Bill if the procedure for hybrid Bills is to be avoided.

**Worker participation**

17. The NPA and RPA would be required to consult with the unions with the view to establishing and maintaining machinery for negotiation and regular consultation and discussion at all levels. But in addition - and we are committed to this by our Election Manifesto - we must make provision for joint participation. The development of thinking on the subject of worker participation generally underlines the view that this is essentially a matter for an industry to work out itself. The ports nationalisation legislation should, therefore, give sufficient flexibility - and encouragement - for management and unions at all appropriate levels to get together and agree on what arrangements should be made. Between now and the nationalisation vesting date in 1970 there will be continuing debate on the subject and increasing experiment and experience of methods of worker participation. The legislation should, therefore, be drafted so as to permit the industry to apply the lessons learned.

18. In the consultations about the nationalisation scheme it is proposed to indicate (without commitment) the following possibilities, which are not, of course, mutually exclusive:

(i) There should be an obligation to include in the machinery for joint consultation arrangements agreed with the unions for associating workers representatives with the management of day-to-day operations at dock level, the workers' representatives to have regular access to routine management information (except on matters within the scope of collective bargaining) and the opportunity of offering advice at the formative stages of more important management decisions. Matters within the scope of collective bargaining to be dealt with through separate machinery or negotiation. The agreed arrangements for associating workers with management to be subject to Ministerial approval and, in the event of failure to agree or to obtain Ministerial approval, provision to be made for suitable arrangements to be established by Ministerial direction.

(ii) Really effective consultative committees, such committees having direct access to the NPA and RPAs.

(iii) Committees consisting of NPA and union representatives which would exercise joint control broadly on the lines of that exercised in the past in relation to matters previously dealt with under the Dock Labour Scheme; and a similar arrangement at RPA level.

(iv) The inclusion of a trade union element on the NPA and/or RPAs on a non-representational basis and not necessarily from the port workers unions.

(v) Some form of representation of port workers on the NPA and/or RPAs.

- 5 -

/The
The Future of Dock Labour Boards

19. After decasualisation has been introduced under the revised Dock Labour Scheme the Dock Labour Boards (DLBs) will have responsibilities for temporary transfers of registered dock workers from one employer to another, the control of the Register (recruitment, retirement, redundancy), discipline, provision of training, and welfare and amenities. The arrangements for the carrying out of these functions after nationalisation will depend on the arrangements for workers participation within the nationalised sector and the relative size of the residual private sector. As explained in paragraph 12 above, until our consultations have been completed we cannot be sure that the initial take over will not leave a substantial segment of the industry (employing registered dock workers) in private hands.

The non-nationalised ports

20. So long as a port remains outside the nationalised sector the present arrangements for control of such matters as major investment by the Minister of Transport should continue. The NPA, who would be in competition with these ports, would not advise the minister on such matters.

Prices

21. Users at present have a right to object to the National Ports Council about port dues, and to the courts about other charges by port authorities (such other charges have to be "reasonable"). The Government's general policies on justification and examination of prices should provide adequate protection for users. Moreover, the proposed user consultative machinery (see following paragraph) could be made into an adequate forum for considering complaints on prices in the nationalised sector.

Machinery for User Consultation.

22. User consultative machinery would be set up on the lines of that in other nationalisation statutes. This machinery would be of particular importance in that it would have to replace the present representation that users have on many port authorities as well as provide protection on dues and charges.

Pilotage

23. Consultations are in hand with the parties concerned about improvements to the present pilotage arrangements. Specific recommendations will be made when these consultations have been completed.

Compensation for Undertakings Nationalised

24. Work is in progress on this subject. Officials will at the appropriate time be making a separate report to the First Secretary of State, the Chancellor of the Exchequer and the Minister of Transport.
Appendix 1

Provisional List of Statutory Harbour Authorities to be Taken Over Initially

The statutory harbour authorities listed below (and shown on the attached map) are those at whose undertakings the foreign trade exceeded 100,000 tons in 1965 or there are more than 25 Registered Dock Workers employed. All the BTDB ports are included in the list.

1. Scottish Port Authority.
   Ayr (BTDB)
   Troon (BTDB)
   Ardrossan Harbour Company
   Clyde Port Authority
   Aberdeen Harbour Board
   Dundee Harbour Trust
   Methil (BTDB)
   Kirkcaldy (Kirkcaldy Corporation)
   Burntisland (BTDB)
   Grangemouth (BTDB)
   Granton Harbour Co.
   Leith Harbour and Dock Commissioners
   Alloa (BTDB) (Closed for Traffic)
   Bo'ness (BTDB) (Closed for Traffic)

   Being grouped under
   a new Forth Ports Authority

2. North-East Port Authority.
   Blyth Harbour Commission
   Tyne Improvement Commission
   Newcastle (Newcastle upon Tyne Corporation)
   Gateshead (Gateshead Corporation)
   Sunderland (River Wear Commissioners)
   Seaham Harbour Dock Co.
   Tees and Hartlepoles Port Authority

*Note:* "Statutory" means that the authority has powers or duties vested in it under an Act, instrument or order, to improve, maintain or manage a harbour.
3. Humber Port Authority.
Hull (BTDB)
Goole (BTDB)
Immingham (BTDB)
Grimsby (BTDB)
Humber Conservancy Board

4. East Anglia Port Authority.
Port of Boston Authority (Boston Corporation)
Wisbech (Wisbech Borough Council)
King's Lynn (King's Lynn Conservancy Board and BTDB)
Great Yarmouth Port and Haven Commissioners
Lowestoft (BTDB)

Felixstowe Dock and Railway Company
Ipswich Dock Commission

Harwich Harbour Conservancy Board

Colchester (Colchester Corporation)

5. Thames and Medway Port Authority.
Port of London Authority

Medway Conservancy Board
Gillingham (Gillingham Corporation)
Whitstable (Whitstable U.D.C.)

6. Southern Port Authority.
Dover Harbour Board

Shoreham Harbour Trustees
Portsmouth (Portsmouth Corporation)
Southampton (Harbour Board and BTDB)

Poole Harbour Commissioners

Weymouth (Weymouth Corporation)

Teignmouth Harbour Commissioners
Teignmouth Quay Company

Fistoway Docks (BTDB)

Cattewater Harbour Commissioners
7. Wales and Severnside Port Authority.
Port of Bristol Authority (Bristol Corporation)
Gloucester Harbour Trustees
Lydney (BTDB)
Newport Harbour Commissioners
Newport (BTDB)
Cardiff (BTDB)
Penarth (BTDB) (Closed for Traffic)
Barry (BTDB)
Port Talbot (BTDB)
Swansea (BTDB)
Burry Port (BTDB) (Closed for Traffic)
Milford Haven Conservancy Board

8. North-West Port Authority.
Bromborough Dock (Unilever Merseyside Ltd.)
Mersey Docks and Harbour Board
Manchester Ship Canal Co.
Garston (BTDB)
Port of Preston Authority (Preston Corporation)
Fleetwood (BTDB)
Barrow (BTDB)
Whitehaven Harbour Commissioners
Workington Harbour and Dock Co. Ltd. (subsidiary of National Steel Corporation)
Silloth (BTDB)
Appendix 2

Statutory Definitions of Fishery Harbours and Marine Works

"Fishery harbour" means a small harbour which in the opinion of the Minister of Transport and the Minister of Agriculture and Fisheries is principally used by the fishing industry.

(Section 21(7) of the Sea Fish Industry Act 1951)

"Marine Work" means a harbour, ferry or boatslip in Scotland (other than a harbour, ferry or boatslip vested in any of the Boards or specified in Schedule 3 to the Harbours, Piers and Ferries (Scotland) Act 1937) -

(a) which, in the opinion of the Secretary of State and the Minister, is principally used or required for the fishing industry, or

(b) which, being situated in one of the following counties, namely, Argyll, Caithness, Inverness, Orkney, Ross and Cromarty, Sutherland and Zetland, is, in the opinion of the Secretary of State and the Minister, principally used or required for the fishing or agricultural industries or the maintenance of communications between any place in these counties and any other place in Scotland.

(Section 57(1) of the Harbours Act 1964).
REORGANISATION OF PORTS
THE 8 PROPOSED REGIONAL PORT AUTHORITIES
(showing the statutory Harbour Authorities to be taken over)
REORGANISATION OF PORTS
THE 8 PROPOSED REGIONAL PORT AUTHORITIES
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