

Report on Renegotiation (March 1975)

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2. THE RENEGOTIATED TERMS

7. This chapter describes the outcome of renegotiations on each of the seven objectives in the Labour Party Manifesto of February 1974.

FOOD AND AGRICULTURE

Renegotiation Objective

8. The February Manifesto undertook to secure:

" major changes in the common agricultural policy so that it ceases to be a threat to world trade in food products, and so that low cost producers outside Europe can continue to have access to the British food market ".

Outcome

9. To secure the supply of food at fair prices, Common Agricultural Policy (CAP) price levels have been held down in real terms; progress has been made towards relating them more closely to the needs of efficient producers, and towards securing a better balance between supply and demand.

10. Greater flexibility to meet special circumstances and an improved marketing system for beef have been secured. There has been an increased willingness to adjust the price structure to the varying needs of different parts of the Community, and in the use of direct subsidies to producers in place of higher end prices. For beef, member states have the option of maintaining returns to producers by means of deficiency payments, which allow consumers to obtain their supplies at lower prices when supplies are plentiful, instead of maintaining producer prices by stockpiling beef in cold stores.

11. Progress has been made in discouraging the creation of surplus stocks, and further measures to discourage surplus production of milk products and cereals will be considered in the stocktaking of the CAP which is being undertaken. The interests of consumers have been given priority both in the disposal of surpluses and in overcoming scarcities. Consumer subsidies have been given by the Community for pensioners' beef and have been increased for butter. British consumers have also benefited from import subsidies on a wide range of foodstuffs and from measures to keep Community prices below world prices. In particular the Community has subsidised the importation of sugar into the United Kingdom in the interests of consumers at a time of high world sugar prices.

12. Financial control of Community expenditure is being strengthened.

13. Access to the Community has been secured for sugar from the Commonwealth developing countries on favourable terms and for an indefinite period. Progress has also been made on improving the arrangements for continued access for New Zealand dairy products after 1977. Improvements in access for other foodstuffs have been secured in a number of general trade

negotiations. Further improvements in access, for example for hard wheat and lamb, will be pursued in current trade negotiations.

14. The stocktaking of the CAP which is currently in hand will provide the opportunity to secure further improvements.

15. As a result of changes in the world food situation and the progress achieved in renegotiation the Government believe that the CAP can be operated flexibly in the enlarged Community and in a way which meets the needs of consumers and producers. Further improvements in the CAP are foreshadowed and it should be possible to contain the net cost within reasonable limits. On balance food prices in the United Kingdom have recently been no higher than they would have been had we remained outside the Community. The future relationship between world prices and Community prices is uncertain; but they are likely to be much closer than in the past, and the Community, as a major food producer, offers greater stability of price levels and also greater security of supply in times of shortage.

Details

16. The United Kingdom as a major food importer traditionally sought to obtain its imported supplies at low prices from Commonwealth and other third countries. In this way consumers benefited from low market prices when world supplies were plentiful, while our producers received deficiency payments to bring their returns from the market up to the higher guaranteed level needed to sustain home production. We also protected our market by putting a floor in prices through quantitative restrictions, duties or levies on imports of some commodities such as cereals, butter, bacon, beef and lamb, or through domestic support-buying for potatoes.

17. The original Community was much more self-sufficient. The benefit from cheap imports would therefore have been much less than for the United Kingdom and the cost of relying principally on direct subsidies would have been much higher. Consequently the Six relied primarily on duties and levies on imports and on support buying of domestic supplies to maintain producers' returns. The price levels in the Community were high by comparison with the prices guaranteed to our producers and still more by comparison with world prices.

18. Because of these differences, United Kingdom agricultural policy and the CAP struck a different balance in assuring consumers of adequate supplies at reasonable prices and assuring producers of reasonable returns. The previous Administration sought to provide for the necessary adjustment to conditions in a more self sufficient Community by means of a five-year transitional period in the Treaty of Accession. The Labour Government took the view that this was inadequate without substantial changes in the CAP itself.

19. The Government's main objection to the CAP was that it maintained high prices to domestic producers at the expense of consumers and overseas suppliers. As it happened, British entry into the Community coincided with a marked increase in the general level of world food prices and a serious scarcity of some commodities. This was followed by accelerated world-wide inflation resulting from the oil crisis. United Kingdom import prices more than doubled, and in some cases world prices rose above Community prices. Agricultural prices will always fluctuate, but it seems likely that the general level of world food prices will remain higher relative to other prices than in the past. Producers in all countries have to bear higher costs; world demand for food is growing with rising populations

and living standards; and exporting countries have learned that they can insist on higher export earnings. There is increasing recognition of the need to foster food production in a hungry world.

Objectives

20. Against this background the Government formulated their detailed objectives in statements in the Council of Ministers on 4 and 18 June 1974. They accepted that the aim of the Community should be to produce as much of its food requirements as it could provide efficiently and economically, and that agricultural support should be maintained at realistic levels. They recognised that the CAP could provide assured supplies for consumers at known prices in a world where both price and availability could be unpredictable; and that world prices were likely to be more in line with Community prices than in the past. They concluded that the interests of Britain as a large consumer could be met within the principles of Community preference, free circulation of goods and Community financing, provided that some major changes were made in:

- (i) the general operation of the CAP and of its support systems for particular commodities, and
- (ii) arrangements for trade with third countries.

These changes, and the results obtained, are set out in paragraphs 21-32 below.

General operation of the CAP and of its support systems

21. The Government asked for the cost of the CAP to be restrained by fixing farm prices on the basis of objective criteria designed to meet the needs of efficient farms and to maintain a proper balance between supply and demand. In the determination of Community farm prices during the renegotiation period the Council has based its decisions on the Commission's proposals, which have taken increasing account of the needs of efficient farms and the balance of supply and demand for individual commodities. This benefits both consumers and taxpayers and reduces the risk of surplus production. It has reinforced the tendency of some years standing for Community prices to be reduced in real terms. Between 1968/9 and 1974/5, for instance, the Community price in real terms for soft wheat fell by 27 per cent; for maize the price fell by 24 per cent; for beef the price fell by 7 per cent; for butter the price fell by 34 per cent; and for sugar the price fell by 29 per cent. For all these commodities except beef the world market prices rose substantially in real terms over the same period.

22. The Government sought greater flexibility in the operation of the CAP. In particular they sought urgent changes in the beef regime. These have now been secured and represent an important step in the reform of the CAP. The Community had been buying up large quantities of surplus beef in order to maintain market prices for producers, and consumers were consequently being denied the opportunity of buying cheaper beef and increasing their consumption. An alternative system has now been agreed, initially for a year, under which member states are no longer obliged to maintain high prices by support buying. Instead they can allow consumers to buy beef at lower market prices while paying direct subsidies to producers to bring their returns from the market up to the required level. These subsidies are partly financed by the Community under this system, which is being applied in the United Kingdom, support buying is used only to prevent any collapse in the market. It gives producers the assurance of the adequate returns they need to maintain supplies without forcing consumers to pay unacceptably high prices; and it avoids excessive stockpiling of frozen beef.

23. The Government also asked that in fixing prices the Community should take more account of the differences in market circumstances in different parts of the Community; that separate provision should be made for assistance to the less viable farms; and that direct aids to producers should be used more readily. During the renegotiation provision on these lines has been secured in the following ways:

(a) There have been adjustments in monetary arrangements allowing different percentage price increases in different member states.

(b) Special encouragement to British sugar beet production has been given by means of an exceptional increase in the producer price and a greatly enlarged production quota.

(c) Provision has been made for direct aids in the United Kingdom and other countries partly financed by the Community. Arrangements have been made for Community assistance to less viable farms by the introduction of a system of special aids to less-favoured areas, including our own hill areas. In addition the Community has accepted the need on a number of occasions for member states to give national aids in various sectors including fisheries and horticulture, and in the United Kingdom in the pigmeat and beef sectors in particular.

24. The Government asked that measures should be taken to discourage surplus production; that greater priority should be given to the interests of consumers in the management of the Community market generally; and that consumers should be given greater priority in the disposal of any surpluses that did arise. During the renegotiation consumers have benefited from the downward pressure on real prices (paragraph 21 above); and where world prices have been higher than Community prices, Community preference has operated to keep down prices to consumers at the expense of producers. Moreover, in the following specific ways greater priority has been given to consumers' interests in the management of the Community market: -

(a) The technique of holding down support buying prices at times of surplus has been applied in the beef sector, where the need was most urgent. The Community has subsidised the sale of beef to pensioners and contributes to the premiums which allow beef to be sold for consumption instead of being bought into store by the Community.

(b) In the milk products sector - the principal area in which there is a structural surplus problem - the Commission has tabled suggestions for encouraging a better balance between production and consumption in time of surplus. The Government will also pursue similar improvements in the cereals sector. The Community has increased its contribution to the consumer subsidy on butter, which is now worth over £20 million a year.

(c) United Kingdom consumers benefit from subsidies on food imports paid by the Community to countries with depreciating currencies.

(d) The payment of national consumer subsidies in the United Kingdom has not been questioned.

(e) The Community has accepted the obligation to maintain supplies of sugar for Community consumers by buying supplies on the world market and selling them to consumers at the lower Community price. So far United Kingdom refiners and manufacturers have purchased

209,000 tons of sugar under these arrangements with the aid of Community subsidies totalling nearly £40 million.

25. The Government asked that financial control of Community expenditure on agriculture should be strengthened. Improved estimates of the costs and budgetary implications of new proposals are being provided and monitoring of actual expenditure has been tightened. Steps are also being taken to improve precautions against fraud. The Government also asked that more effective and economical support arrangements for production of olive oil and durum wheat should be introduced. The Community has not yet undertaken this revision but the matter will be considered again shortly. Meanwhile aids in these sectors have been restricted to their existing levels.

Trade with third countries

26. The Government asked that there should be improvements in access to the Community market for food imports from third countries. In particular they asked for adequate and continuing access for Commonwealth sugar linked to assurances of supply at prices fairly and realistically related to Community prices. The Community offered access for up to 1.4 million tons of sugar per annum from the Commonwealth developing countries for an indefinite period at prices which will be negotiated annually and will be related to the prices paid to Community producers (see paragraph 80 below). Access has now been guaranteed for the quantities which the Commonwealth countries concerned have undertaken to supply. These arrangements are at least as good for the Commonwealth producers as those of the Commonwealth Sugar Agreement, and they provide a valuable assurance of supplies for our consumers and cane refineries.

27. The Government also asked for satisfactory arrangements for continuing access for New Zealand dairy products after 1977. Protocol 18 of the Accession Treaty laid down arrangements for imports of New Zealand butter and cheese until the end of 1977. While not ruling out special arrangements for imports of butter thereafter, it made no satisfactory provision for a continuing relationship between New Zealand and the Community, and the price arrangements in the Protocol were inadequate. In the autumn of 1974, the Government secured an increase of 18 per cent in the prices paid to New Zealand to ensure continued supplies. In March 1975, the Heads of Government, meeting in Dublin, issued a Declaration of Principle which provides for the annual imports of butter for the next 3-year period 1978/1980 to remain close to deliveries in 1974 and 1975. It accepts the need for a periodic review and, as necessary, adjustment of the prices received by New Zealand. The Dublin meeting invited the Commission to produce as soon as practicable, a proposal for special import arrangements for butter to apply after 1977. It was agreed that the special problem relating to access after 1977 for cheese, which is not provided for in the Protocol, should be considered urgently. All this represents a significant improvement on the provisions in Protocol 18. The New Zealand Government has welcomed the progress made at the Dublin meeting.

28. The Government proposed various other improvements in access for third country foodstuffs, putting forward North American hard wheat, lard, palm oil and some processed foods, as examples of products which needed less protection. Improvements have been secured on lard; and, in various trade negotiations, on a number of other products (see paragraphs 82-83, 88-89 below). Nevertheless, further improvements are required. In particular the Government will seek improved access for certain other important foodstuffs

such as lamb, hard wheat and bread flour. For beef the Government will seek new and more stable arrangements in order to allow reasonable access for imports from third countries whilst adequately safeguarding the position of United Kingdom producers. The Government expect to obtain further improvements in access for third country foodstuffs in the course of current trade negotiations.

Community stocktaking of the CAP

29. During the period of renegotiation agreement was reached between member states that a full-scale re-appraisal of the CAP was required. This view was strongly supported by the Government and the Commission has now submitted a report on which decisions will be taken during the coming months. The report holds out prospects both of further progress on the lines already advocated by the Government and of other improvements which can be welcomed. In particular it confirms the importance of fixing prices related to the needs of modern farms and the balance of supply and demand. There is further recognition of the need for arrangements to discourage surplus production, and the need to control budgetary costs. The report also endorses the principle of priority for consumers at times of surplus production, and advocates greater use of consumer subsidies. The need to take more account of third country interests is recognised, particularly in relation to the GATT multilateral trade negotiations.

Conclusion

30. The Government's main objection to the CAP was that it maintained high market prices to Community producers at the expense of consumers and overseas suppliers, whereas market prices in this country had been kept down by obtaining imports as cheaply as possible from overseas suppliers and subsidising our producers. But we can no longer rely on cheap overseas supplies. World prices have risen sharply and food prices in the United Kingdom have recently been no higher on balance than they would have been if we had remained outside the Community. The future relationship between world prices and Community prices is uncertain. But they are likely to be much closer together than in the past and there are likely to be sharp fluctuations both in price and in the availability of supplies on world markets.

31. In these circumstances the Government have concentrated on seeking specific changes in the operation of the CAP system, and substantial progress has been made. Experience of negotiating within the framework of the CAP has shown that it can be made to operate flexibly, and to respond to changing conditions and the needs of both consumers and producers in the different parts of the enlarged Community. In addition substantial progress has been made in improving the terms of access to the Community market for overseas suppliers. These developments are in accordance with the aim of the Labour Party Manifesto of October 1974: "to make sure shoppers get secure supplies of food at fair prices".

32. The CAP still has some unsatisfactory features, but the stocktaking that is being undertaken offers the prospect of further improvements of the kind the Government want to see. Because our agricultural industry is relatively small we are likely to remain net contributors to the cost of the CAP, but we should now be able to contain the cost within reasonable limits. And there will be benefits, notably greater stability of price and security of supply for our consumers and stability of support for our producers, on whom we rely for the major part of our supplies.

THE COMMUNITY BUDGET

Renegotiation Objective

33. The February Manifesto stated that one object of the renegotiation would be " new and fairer methods " of financing the Community budget. It said: " Neither the taxes that form the so-called ` own resources' of the Communities, nor the purposes, mainly agricultural support, on which the funds are mainly to be spent, are acceptable to us. We would be ready to contribute to Community finances only such sums as were fair in relation to what is paid and received by other countries ".

Outcome

34. (a) At the meeting of Community Heads of Government in Dublin on 10-11 March, the Government secured agreement on a budget correcting mechanism which will provide a refund to the United Kingdom if in any year our contribution to the Community budget goes significantly beyond what is fair in relation to our share of Community GNP.

(b) Much has already been achieved, and further progress can be expected, in containing Community expenditure on agricultural support and in the development of expenditure policies more beneficial to the United Kingdom.

Details

35. The EEC Treaty envisaged the establishment in due course of a system under which the Community would control its own financial resources. This " own resources " system was adopted by the Council on 21 April 1970. It provided for the Community to draw a progressively greater proportion of finance directly from the revenue of customs duties and of levies on agricultural imports. The original six member states already pay these resources in full to the Community. If the amounts are not sufficient to meet the Community's revenue requirements, it is entitled to call upon a proportion (equivalent to a rate of up to 1 per cent) of the proceeds of a Value Added Tax, levied on a uniform basis. However, pending agreement on a uniform VAT assessment base, the shortfall is made up by member states' contributions, determined according to their respective shares of the Gross National Product of the whole Community. The " own resources " system was approved by the Parliaments of the member states. No further taxes can be transferred to the Community without a further formal agreement between the member states which would require Parliamentary approval.

36. The Conservative Government accepted these arrangements when they negotiated for membership, subject to the transitional arrangements set out in the 1971 White Paper.¹ Under these terms, the United Kingdom contributed to the Community budget in accordance with a fixed percentage key starting at 8.78 per cent in 1973 and rising to 19.24 per cent in 1977. This, it was held, was " broadly comparable to our proportion of the Gross National Product of the enlarged Community ". Thereafter, for two further years, the growth of the United Kingdom contribution would be limited by correctives. That is to say, in 1978 our contribution would not increase above that for 1977 by more than 2/5ths of any difference between what we would have paid in 1977 under the full system of " own resources " and our actual contribution in that year. In 1979 the increase over 1978 would be similarly limited. The White Paper estimated that these arrangements would result in a net United Kingdom contribution of £200 million in 1977, at 1971 prices. After that date, however, the White

Paper concluded that reliable forecasts were not possible because of a large number of unpredictable factors.

37. The Labour Party consistently took the view that application of the system to the United Kingdom would result in a growing drain on our balance of payments which the country could not afford. This would happen because customs duties and agricultural levies are chargeable on imports from third countries; and they would inevitably fall most heavily on those countries with a continuing high level of trade with the rest of the world, such as the United Kingdom. Nor could the United Kingdom expect to receive back receipts commensurate with our contribution because of the high proportion of Community expenditure devoted to agriculture. The agricultural sector in the United Kingdom is significantly smaller than in other member states of the Community. The Labour Party saw no justification for the high degree of reliance which the Conservative Government placed on an early and extensive diversification of Community expenditure towards technological, industrial and regional policies from which, unlike agriculture, Britain could expect to receive money back commensurate with her contribution to the budget.

38. On 1 April 1974 the Foreign and Commonwealth Secretary made clear to other member governments in the Council of Ministers that " fundamental changes are required. Britain's income per head and her rate of growth is lower than in many of your countries. I take it you would agree that the outturn of the Community budget should not in all justice result in massive subsidies across the exchanges from my country to yours. This is not acceptable ".2

The new budgetary arrangements

39. The Government therefore sought an arrangement to ensure that the United Kingdom would not have to pay a disproportionate contribution to the Community budget. At the meeting of Community Heads of Government in Dublin on 10/11 March agreement was reached on arrangements which, though complex, will result in a refund to the United Kingdom if in any year our contribution goes significantly beyond what is fair in relation to our share of total Community GNP. The arrangements will apply to any member state that qualifies under the following criteria:

- (i) having Gross National Product per head less than 85 per cent of the Community average;
- (ii) having a real rate of growth less than 120 per cent of the Community average;
- (iii) having to contribute " own resources " amounting in total to a share of the Community budget greater than 110 per cent of the member state's share of Community GNP;
- (iv) having a " net potential foreign exchange liability " (i.e. an excess of contributions over direct receipts) as a result of the operation of the Community budget.

The first two of these criteria will be calculated on the basis of a three-year moving average.

40. When these qualifications are met, reimbursement will be calculated according to a sliding scale, under which there will be no reimbursement in respect of any excess contributions between 100 and 105 per cent of the member state's GNP share, but thereafter an increasing proportion will be refunded, reaching 100 per cent for an excess contribution of over 130 per

cent of GNP share. The total reimbursement under the mechanism will be limited by the lowest of three alternative ceilings -

(a) 250 million units of account (approximately £125 million at current market rates), or;

(b) the " net potential foreign exchange liability " of the member state as a result of its contributions to the budget, or;

(c) the size of the member state's VAT contribution (or GNP-related financial contribution).

The limitation at (a) will be adjusted upwards if the total budget expenditure rises above 8,000 million units of account, being fixed at an amount representing 3 per cent of total budget expenditure. There is a further limitation in that if, on a basis of a 3-year moving average, the balance on current account of the member state in question is in surplus, the correction will be related only to the difference between the share of VAT payments (or financial contribution) and the member state's share of Community GNP.

41. There are two provisions for review:

(a) if a member state receives a refund for three successive years, the Community will consider what more needs to be done; and

(b) the working of the arrangements will be reviewed after an initial trial period of 7 years.

42. The United Kingdom is expected to qualify under the criteria outlined in paragraph 39 above in 1977 or 1978 and in subsequent years; and can therefore expect a refund on its contributions of up to a total figure of about £125 million a year. The precise amounts are impossible to predict because they depend on a wide range of unknown factors. But the assurance of a refund if our contribution goes significantly beyond our GNP share represents, in the Government's view, a major improvement in the terms of our membership of the Community.

Receipts

43. Membership of the Community involves receipts from its budget as well as payments. The following table shows the United Kingdom's contributions, receipts and net contributions to the Community budget in 1973, 1974 and 1975 as compared with the forward estimates made of our net contribution in 1971.

£ millions

	Gross Contributions		Receipts	Net Contributions	1971 Estimates Of
Net Contributions					
1973	181	77	104	145	
1974	179	148	31	165	
1975 (estimated)	305	230-240	65-75		205

Receipts almost doubled between 1973 and 1974, mainly through an increase in United Kingdom receipts under the Community's agricultural arrangements. For this reason, and

because of some special factors on the contribution side, net contributions were reduced from over £100 million to only £31 million.

44. The question of the purposes on which the Community budget is spent has to be considered against this background, and in the light of the agreement that contributions should be adjusted by reference to GNP shares. It nonetheless remains important to contain the cost to the United Kingdom of Community expenditure on agricultural support within acceptable limits. Much has already been achieved in this area (see paragraphs 21-25 above) and further progress can be expected. Equally, should British membership of the Community be confirmed, the Government will continue to work for Community expenditure policies from which this country could expect to benefit - for example, the arrangements for subsidising British imports of sugar which were negotiated in 1975. The agreement on the Regional Development Fund represents another useful step in this direction.

45. In dealing with the impact of the budgetary system the Government have concentrated on its practical effects on the United Kingdom and have not insisted on changes in the type of contributions collected from member countries. From the outset of the renegotiation the Government considered that the form of the original contributions would be much less important once an effective mechanism was superimposed on them to ensure that refunds would be available if Britain's contribution went significantly beyond what was fair in relation to our share of Community GNP. This is what has been achieved.

ECONOMIC AND MONETARY UNION

Renegotiation Objective

46. The February Manifesto said: " We would reject any kind of international agreement which compelled us to accept increased unemployment for the sake of maintaining a fixed parity, as is required by current proposals for a European Economic and Monetary Union (EMU). We believe that the monetary problems of the European countries can be resolved only in a world-wide framework ".

Outcome

47. (a) Events have shown that the programme for movement towards full EMU by 1980, which was laid down in 1972 at the Community Heads of Government meeting in Paris, was over-ambitious and unattainable. In practice other members of the Community accept this.

(b) Closer co-operation between Community countries in the economic and monetary fields is valuable and presents no threat to employment in the United Kingdom.

Details

48. Before the accession of the United Kingdom to the Community, the six original member states had paid much attention to the possibility of moving towards EMU. In resolutions adopted in March 1971 and March 1972 they approved an ambitious plan to achieve such a Union by 1980. This programme was endorsed by the Summit Meeting in Paris in October 1972 attended by Mr. Heath as Prime Minister.

49. In his statement to the Council of Ministers on 1 April 1974,³ the Foreign and Commonwealth Secretary expressed deep concern about the content of the resolutions of March 1971 and 1972. He pointed out that they seemed to lay down a rigid programme under which EMU, including permanently fixed parities between the exchange rate of member states' currencies, would be achieved by 1980. He stated that this seemed to be dangerously over-ambitious: over-ambitious because the chances of achieving by 1980 the requisite degree of convergence in the rates of growth of productivity and wage rates, of investment and savings, seemed to the Government to be very small: dangerous because of the impossibility in any country, particularly a country with a relatively low growth rate, to manage its own economy efficiently and provide for full employment if it accepted permanently fixed parities without such convergence having been achieved. The Foreign Secretary referred to the new thinking which was going on in the Community on the subject of EMU and noted that the proposals under consideration for a second stage of EMU did not provide for automatic movement towards permanently fixed parities. He indicated that the Government's objections would be very much lessened if all could agree that there could be no question of trying to force the pace, of compelling member countries to accept permanently fixed parities if this meant accepting massive unemployment or before their economies were ready.

50. Events, both in Europe and in the world as a whole, have clearly shown the unreality of the programme adopted in 1971 and 1972 for progress by stages to full EMU by 1980. One of the key elements in the programme was that there should be a limited margin of fluctuation between currencies of member states (the arrangement known as the "snake"). Several member countries of the Community have withdrawn from this arrangement in the last two years. Moreover, the resolution covering the second stage of EMU, which was due to have begun in January 1974, has never been formally adopted. The goal of EMU is still regarded in the Community as a valid, though distant, objective, and was endorsed by the Paris Heads of Government meeting in December 1974; but there is growing awareness that the original blueprint for attaining EMU by 1980 is impracticable, and Heads of Government in 1974 tacitly discarded the stages of progress towards EMU which were endorsed by the Paris Summit in 1972.

51. The Government acknowledge the importance and value of close consultation and co-operation with other member states on economic and monetary questions. Such consultation has provided a good foundation for joint action by the member states on these questions in wider international groupings. This is fully in accordance with the Manifesto objective of seeking to deal with monetary problems in a world-wide framework, without excluding co-operation among the members of the Community. Any further discussions which may be held on progress towards closer economic and monetary unity in the Community will take place in a changed situation now that the over-ambitious 1971 and 1972 proposals are no longer being put into effect. The Government will be ready to consider any new proposals on their merits. They do not accept any commitment to maintain a fixed parity other than in circumstances of their choosing. Against this background, the Government consider that the Manifesto objectives have been met.

REGIONAL, INDUSTRIAL AND FISCAL POLICIES

Renegotiation Objective

52. The Government's objective, as set out in the February 1974 Manifesto, was to ensure the " retention by Parliament of those powers over the British economy needed to pursue effective regional, industrial and fiscal policies " .

Outcome

53. (a) Regional policy. New principles for the co-ordination of regional aids within the Community will allow the United Kingdom to continue to pursue effective regional policies adjusted to the particular needs of individual areas of the country. The Communication setting out these principles acknowledges that national governments are the best judges of what is required in their own countries, and that changes in national aid systems will not be regarded as incompatible with the common market when they are justified by problems of unemployment, migration or other valid requirements, subject to the condition that a member state's actions do not damage the interests of other member states.

(b) Industrial policy. The Government are satisfied that their policies for aid to industry generally, their nationalisation proposals, and the establishment of the National Enterprise Board and of Planning Agreements will not be hampered by Treaty obligations.

(c) Steel. In the particular case of steel, it has been established that neither the Commission nor the United Kingdom now has powers to control private sector investment. The Government consider that this situation is unsatisfactory, but the necessary study of means to secure control of private sector investment cannot be completed within the renegotiation timetable. They have informed the other member countries that if the United Kingdom remains a member of the Community, they will pursue this question in order to satisfy their practical need for control in this field.

(d) Fiscal policy. The Government are satisfied that membership of the Community does not limit their powers to pursue effective fiscal policies.

(e) The Government are satisfied that subject to the question of steel, which cannot be resolved yet, their renegotiation requirements have been met.

Details

Regional and industrial policies

54. The Government have been especially concerned about Articles 92-94 of the EEC Treaty, which contain provisions about the admissibility of state assistance to industry.

55. Under Article 92 " any aid . . . which distorts . . . competition by favouring certain undertakings or the production of certain goods shall insofar as it affects trade between Member States be incompatible with the common market ". However, the Article goes on to declare that certain forms of aid are compatible with the common market, for example, aid of a social character (including consumer subsidies) and aid to make good damage caused by natural disasters. There are also four forms of aid which may be considered to be compatible:

(a) " aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment ",

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

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

(d) " such other categories of aid as may be specified by the Council ".

56. Member governments decide how they will give assistance to their industries and regions having regard to their Treaty obligations. Article 93 of the Treaty places on the Commission the duty, in co-operation with member states, to keep systems of aid under review, and the responsibility for deciding whether any particular forms of aid are compatible with the common market having regard to the provisions of the Treaty. In order to enable it to do this, member states have agreed in the Treaty to inform the Commission in advance of their plans to grant or alter aid. Decisions by the Commission may, at the instance of the member state concerned, be overruled by the Council of Ministers acting unanimously and are also subject to review by the European Court of Justice.

57. In his statement on 1 April 1974 to the Council of Ministers⁴, the Foreign and Commonwealth Secretary said that the co-ordination of regional aids within the Community can usefully prevent overbidding for internationally available funds. The Government have no difficulty in accepting the need for Community rules about the admissibility of state aids. Such rules are a feature of international agreements for customs unions and free trade areas: for example, the European Free Trade Area Convention and the free trade agreements between the EFTA countries and the Community. Customs unions or free trade areas exist to enable goods to move freely between the member states in fair competition. This competition could be distorted if each member state was free to give unlimited aids to its own firms, and there would be a risk of a competitive bidding-up of aids between member states which would be contrary to the general interest. Common rules can thus give a fairer deal to the less well off regions in the member states by preventing the more prosperous countries from attracting projects to themselves by offering higher aids, at the expense of the less prosperous.

58. The Government also recognise the need for central administrative arrangements as described above to apply these rules. The use of the Commission as a regulatory agency reflects the need for a central administrative body in an economic grouping of the size of the Community, in which there are many forms of state aid. The powers entrusted to the Commission derive from and are to be exercised in accordance with the Treaty, which lays down the general rules. The Government are satisfied that in operating these arrangements the institutions of the Community are responsive to the essential needs of member states; indeed they must be so if the Community is to work effectively.

Regional policy

59. In the case of regional aids the formal position does not rest simply on the provisions of the Treaty. Since 1957 there has been a fundamental evolution in Community thinking about the role which state regional assistance should play in each country. It is now widely accepted that regional aids are a highly effective means of carrying out the objective of the Treaty of " reducing the differences existing between the various regions and the backwardness of the

less favoured regions ". Over the years, and following consultations between the Commission and the member governments, the impact of the Treaty has been refined and clarified.

60. In 1971, the Commission, in consultation with the member states, drew up principles setting out the way it proposed to apply the relevant provisions of the Treaty. The member states passed a resolution in the Council of Ministers approving the Communication in which these principles were set out. The principles laid down the maximum amount of aid which might be granted to any project in the most prosperous areas of the Community and also defined what forms of aid were admissible in those areas. They were extended to the United Kingdom and the other new member countries under Article 154 of the Treaty of Accession, and in June 1973, it was agreed that the Commission should prepare revised principles for the whole of the enlarged Community.

61. In his statement to the Council of Ministers on 4 June 1974, the Foreign and Commonwealth Secretary confirmed to the Community that the United Kingdom would play a full part in the work of the working party which had been set up to study the new principles. At the end of February 1975, following extensive consultations both in the working party and bilaterally with the member governments, the Commission published a new Communication which, like that of 1971, set out the way in which the Commission proposes for the next three years to apply the general provision of Article 92 of the EEC Treaty, that particular forms of regional aid may be considered compatible with the common market. As in 1971, the Commission has invited the member governments to record their agreement to the principles set out in the Communication by passing a Resolution in the Council of Ministers.

62. The principal features of the new Communication are as follows:

(a) The territory of the Community is divided into five categories, to each of which different detailed principles apply. The aim is that the least favoured areas of the Community should be eligible for the most help, and that they should be further protected by restricting the aid which governments may give in the most prosperous areas. The hierarchy of assisted areas set out in the Communication takes in the United Kingdom's assisted areas without change. All present forms of United Kingdom regional aid are accepted under the Communication; a derogation is being sought in respect of assistance given by the Highlands and Islands Development Board. No forms of national aid are ruled out in principle, and the Commission has given assurances that it will be ready where necessary, to authorise aids in excess of the general rules to deal with especially serious local problems.

(b) The Commission acknowledges that national governments are the best judges of what is required in their own countries and that changes in national aid systems will not be regarded as incompatible with the common market when they are not against the general interest and are justified by problems of unemployment, migration, or by other valid requirements of regional development policy which constitute essential national problems.

(c) The Commission further acknowledges that these regional problems may call for urgent action by Governments and that the Treaty procedures will not hold this up.

Industrial policy

63. The Foreign and Commonwealth Secretary explained to the Council of Ministers on 4 June 1974, that the Government would be seeking from the Community assurances to set at

rest fears that their plans for British industry, including the steel industry, might be hampered by unduly restrictive interpretations of the Treaties.

64. Since that statement was made the Government have formulated in detail their plans for industry and these have now been published in the Industry Bill and in certain proposals for nationalisation. Article 222 of the EEC Treaty permits nationalisation; and the Government have established that Government participation in the equity of a firm does not in itself raise problems under the Treaty. The proposals for the National Enterprise Board and for Planning Agreements, which have much in common with arrangements in other member states, are in no way incompatible with the Treaty provided that the Government's powers are not exercised so as to damage the competitive position of undertakings in other member states. This accords with the Government's policy: the Foreign and Commonwealth Secretary specifically recognised, in his statement on 4 June 1974, the importance of having Community rules to ensure that none of the member states, in trying to solve its own problems, creates problems for any of the others. The Government have discussed with the Commission our methods of offering financial assistance to individual firms and industries, having regard to the requirement emphasised by the Foreign and Commonwealth Secretary in his statement on 1 April 1974 that in particular cases the Government must be able to give aid quickly and effectively where there is a need to sustain and develop valuable industrial capacity. The Government have reported significant cases of aid under the Industry Act 1972. Experience over the last year has shown that no difficulty need arise from emergency action in such cases. The Government would in any event have in mind, in rescue cases, a plan for restoring firms to viability; they would discuss such plans with the Commission within the framework of the rules described above.

Steel industry

65. The coal and steel industries are covered by the European Coal and Steel Community Treaty signed at Paris in 1951, and not the EEC Treaty of 1957. The ECSC Treaty places on the Commission the task of acting as the custodian of its provisions, and provides it with powers to regulate the operation of the coal and steel industries within the Community in a number of major respects.

66. During the negotiations for the accession of the United Kingdom to the European Communities, the Conservative Government accepted the view that the provisions of the ECSC Treaty were not compatible with the power which the Labour Government took under the Iron and Steel Act 1967 to control investment in the private steel-making sector in the United Kingdom. Accordingly, Section 15 of the Act was repealed in the European Communities Act 1972. The ECSC Treaty does not, however, contain any provisions for the Community to control private investment, and the present position is therefore that neither the Government nor the Commission has the power to ban a project for private steel investment which does not accord with general policy. Nothing in the ECSC Treaty, however, stands in the way of the requirement under the Iron and Steel Act that the British Steel Corporation, that is the public sector part of the industry, must obtain the approval of the Government for its investment plans. Equally Article 83 of the ECSC Treaty allows for public ownership in the coal and steel industries.

67. The Government regard a situation in which there is no control of private sector investment in steel as unsatisfactory. The Prime Minister informed the Heads of Government of the Community at their meeting in Dublin on 10-11 March that the Government intended to

study how best to reassume the necessary powers over private investment, taking account of the methods used by the other member governments. The Government would prefer to find some way of dealing with this problem in conformity with the Treaty, but it was of vital importance to the United Kingdom that the problem should be solved. The Prime Minister confirmed that the Government were not making this an issue to be settled within renegotiation or before the referendum: provided the problem was understood and acknowledged the Government were prepared to leave its solution to the future work of the Community, if after the referendum the United Kingdom remained a member.

Fiscal policy

68. The Community's work on Value Added Tax is described in paragraphs 92-95 below. Work is also proceeding within the Community to establish, on a basis of unanimous agreement, harmonised structures of other forms of indirect taxation, e.g. the taxes on alcoholic drinks. No proposals have been made for harmonising rates of indirect taxes. The Government are satisfied that membership of the Community in no way impairs the retention by Parliament of the powers needed to pursue effective fiscal policies.

CAPITAL MOVEMENTS

Renegotiation Objective

69. The February Manifesto said: " We need an agreement on capital movements which protects our balance of payments and full employment policies ".

Outcome

70. Experience, including the experience of other member states, confirms that in practice the Government can act to control capital movements when necessary. This has already been done, under the terms of the Treaties, without any special agreement.

Details

71. Article 104 of the EEC Treaty provides for member states to pursue the economic policy necessary to safeguard their balance of payments while taking care to ensure a high level of employment. Provision is made in Articles 108 and 109 of the Treaty for member states to take special measures on account of balance of payments difficulties. Article 109 permits member states faced with sudden crises in their balance of payments to take the necessary protective measures themselves. Article 108 provides more generally for action to deal with balance of payments difficulties.

72. These are flexible provisions, and the question which the Government had to consider was whether they operated satisfactorily in practice.

73. In his Budget of March 1974, the Chancellor of the Exchequer took action to protect the balance of payments by withdrawing an earlier relaxation of the controls over direct outward investment in other Community countries; and, in December 1974, Parliament was informed that the balance of payments safeguards of the Treaty of Accession were being invoked so that existing exchange controls could continue in full force beyond the end of 1974, when

under the Treaty direct outward investment in other Community countries was due to be liberalised. The Commission and the other member states were duly informed under the relevant provisions of the Treaty.

74. Derogations in respect of capital movements have been allowed on similar grounds for individual member states on a number of occasions.

75. It is clear that action to control capital movements in order to protect the balance of payments can be taken when necessary and that there is no question of the Community attempting to impose rules which would force this country to remove controls over capital movements when this would damage our balance of payments or employment policies. The renegotiation objective can be secured under the existing terms of the EEC Treaty without any special agreement.

THE COMMONWEALTH AND THE DEVELOPING COUNTRIES: TRADE AND AID

Renegotiation Objective

76. The February Manifesto said: "The economic interests of the Commonwealth and the developing countries must be better safeguarded. This involves securing continued access to the British market and, more generally, the adoption by an enlarged Community of trade and aid policies designed to benefit not just `associated overseas territories' in Africa, but developing countries throughout the world".

Outcome

77. Substantial changes have been secured in Community policies on a number of fronts:

(a) Continued access on fair terms has been secured for sugar from the developing countries of the Caribbean and elsewhere and improvements have been obtained in the arrangements for dairy products from New Zealand.

(b) Reductions in Community tariffs have been secured on a range of items of particular interest to Commonwealth countries, in the GATT Article XXIV: 6 negotiations following the enlargement of the Community; agreement has also been secured on some important reductions in Community tariffs on foodstuffs imported from the Mediterranean countries with which the Community is negotiating agreements. The detailed mandate for the multilateral trade negotiations agreed by the Community in February 1975 provides for the negotiation of further reductions in agricultural tariffs as well as for wide ranging negotiations on agricultural products in general; for substantial reductions in industrial tariffs; and for particular attention to be paid to the needs of the developing countries.

(c) In relation to the developing countries a major step forward was taken with the conclusion of the Lomé Convention between the enlarged Community and forty-six developing countries including twenty-two Commonwealth countries in Africa, the Caribbean and the Pacific. Under the Convention the developing countries are guaranteed free entry into the Community for their industrial exports, almost completely free entry for their agricultural exports, and also substantial aid.

(d) In addition major improvements, which will benefit the trade of other developing countries, particularly the Commonwealth countries of Asia, have been secured in the Community's Scheme of Generalised Preferences for 1975. The Community has agreed to continue to improve this Scheme in future years with the needs of the poorest developing countries-notably those of the Indian sub-continent-particularly in mind. A start has also been made in ending discrimination against Hong Kong under the Scheme. Following the Community's commitment under the Treaty of Accession to extend and strengthen its trade relations with the independent developing Commonwealth countries of Asia, commercial co-operation agreements are being negotiated with Pakistan, Bangladesh and Sri Lanka after the signature of a similar agreement with India which came into effect in April 1974.

(e) A start has been made in securing a more balanced distribution of Community aid; in particular the principle has been accepted of providing financial and technical aid for developing countries without special relationships with the Community.

78. These changes represent major improvements in the Community's approach to its relations with the outside world. Much remains to be done. But renegotiation has established that the Government's essential objectives can be secured, and they are satisfied of our ability as members of the Community to ensure that the momentum of future change is maintained.

Details

79. Britain's economic and political interests are world-wide. It is of major importance to us that the Community should adopt an outward-looking approach in its relations with other countries and in particular with the Commonwealth and the developing countries. In the past the Community's policies of trade and aid have been less liberal than the Government would wish. Support for Community food production was provided through high levels of protection against imports from abroad. Commercial concessions to the developing countries, and programmes of development assistance, were directed primarily towards a narrow group of "associated" states consisting mainly of former dependent territories of France and of the other original member states of the Community.

Access for imports from third countries

80. The first of the changes in Community policies listed in paragraph 77 above concerned sugar. For over twenty years Commonwealth cane sugar, imported in guaranteed quantities and at guaranteed prices under the Commonwealth Sugar Agreement, has supplied two-thirds of our total domestic sugar requirements. When we joined the Community, no firm and precise arrangements were negotiated for continuing imports of Commonwealth sugar in the British market: and the Commonwealth Sugar Agreement was due to expire at the end of 1974. So it was a major and urgent aim in the renegotiation-an aim which had to be pursued against the background of an increasingly difficult short-term supply position-to secure satisfactory access into the enlarged Community, at a fair price, for up to 1.4 million tons of sugar from the developing Commonwealth countries of the Caribbean and elsewhere (including India)-the same quantity as they supplied under the Commonwealth Sugar Agreement. This was achieved in February 1975 as part of the Lomé Convention. Guaranteed access was offered indefinitely for quantities of sugar up to 1.4 million tons from the developing Commonwealth suppliers at a price related to the Community's beet sugar prices for its domestic producers, which in the past have normally been higher than the cane sugar

price. Access has now been guaranteed on this basis for the quantities which the Commonwealth countries concerned have undertaken to supply. From the standpoint of the Commonwealth countries the new arrangements as a whole are at least as favourable as those previously available under the Commonwealth Sugar Agreement; and for United Kingdom consumers and for our sugar refining industry there is now an assurance of continuing supplies of cane sugar at reasonable prices.

81. Similarly, in the case of dairy products imported from New Zealand the Treaty of Accession, while it provided for a review in 1975 of arrangements after 1977, offered no certainty about quantities or price after that date. Satisfactory improvements (described in paragraph 27 above) have now been secured on these points.

82. Improved access to Community markets for products imported from third countries has also been secured by means of reductions in Community tariffs. Following the enlargement of the Community in 1971, negotiations were necessary under Article XXIV:6 of the General Agreement on Tariffs and Trade, in order to compensate certain of the Community's trading partners for changes brought about by the alignment of the new member states to its tariff arrangements and to the Common Agricultural Policy. These negotiations, which were wide ranging, complex and difficult, have been successfully concluded and have led to a range of concessions of particular interest to Commonwealth producers including tariff reductions on Community imports of wood and paper products, canned pineapple, fresh and canned salmon and coffee, as well as improved access for frozen beef and Canadian cheddar cheese. The United Kingdom took a prominent part within the Community in securing the success of these negotiations, without which the multilateral trade negotiations, now effectively in train, could not have started.

83. Some useful reductions in Community tariffs are also in prospect on imports from certain Mediterranean countries. One of the provisions of the Accession Treaty was that the United Kingdom should join, with necessary adjustments, the agreements which the Community had concluded with these countries, including in particular Spain and Israel which are major suppliers to the British food market and provide important and growing markets for our industrial goods. The Government have successfully insisted in these negotiations that our most important food imports from the Mediterranean must be allowed continuing access to our market on significantly better terms than are available under the Community's existing tariff regime. The Community has now offered substantial reductions in certain of its present tariffs on imports from the countries concerned—for example, on orange juice, canned fruit salad and tomatoes. An agreement has been initialled with Israel and negotiations with Spain and several other countries are in progress. When the Community's agreements with Israel and Spain are concluded, we will benefit both from improved access to certain of their food exports and from preferential access to their markets for our industrial goods. (Our exports to Israel and Spain, for example, in 1974 totalled £479 million.)

84. Further improvements in access to Community markets should also result from the GATT multilateral trade negotiations formally launched in Tokyo in September 1973. In February 1975 the Council of Ministers agreed on a negotiating directive which represents a considerable advance on the "global approach" adopted by the Community in June 1973. The Community has now agreed to negotiate a substantial reduction in industrial tariffs. On agriculture a detailed and comprehensive mandate has been agreed providing in particular that for the bulk of world agricultural trade not covered by commodity agreements discussions

should be entered into between importers and exporters with a view to agreeing on conditions for orderly marketing. The mandate also provides for negotiated reductions in tariffs on agricultural products. The Government have made it clear to the rest of the Community that some of these tariffs-for example on canned fruit and canned fish-are higher than is desirable and it will be one of the Government's objectives in the multilateral trade negotiations to negotiate reductions on a reciprocal basis with our trading partners. In the case of New Zealand lamb the Government have given notice to other member states that they intend at the earliest appropriate time to seek the elimination or reduction of the Community tariff, at least for imports into the United Kingdom.

85. The mandate also attaches particular importance to dealing with the problems of the developing countries.

86. Following the Community's adoption of a new negotiating mandate, the multilateral trade negotiations have got off to an effective start in Geneva. And although the negotiations will inevitably be long and complex, the firm commitment to a liberal approach which has been secured from the Community augurs well for their success.

The developing countries

87. In so far as developing countries are concerned the Government wanted to go further than improved trading arrangements. At the outset of the renegotiation the Government made it clear that the Community needed to adopt a better balanced and more broadly based approach to its relations with the developing world. A major step in this direction is represented by the Lomé Convention signed on 28 February 1975. Under this twenty-two developing Commonwealth countries in Africa, the Caribbean and the Pacific together with twenty-four other developing countries have entered into a special relationship with the Community. The agreement has rightly been described as historic and the developing countries concerned have greeted it as a "new model" for relations between the developed and developing worlds.

88. The Convention provides for the free entry into the Community market for industrial products and almost completely free entry for agricultural products from the developing countries concerned. Of the latter, sugar is the most important; the details of those arrangements are set out in paragraph 80 above. Other important new elements in the Convention are:

(a) The Community has ceased to require the developing countries to offer reciprocal concessions in respect of its exports to them -"reverse preferences", which were built into its previous arrangements with the "associated" states. Instead a major step has been taken towards the pattern of trade relations for which the United Nations Conference on Trade and Development has called. The new Convention contains no requirement for reciprocity; it simply ensures that Community exports to the markets of the developing countries concerned will be no worse treated than those of other developed countries.

(b) A substantial new aid fund-the European Development Fund-has been set up for the developing countries which are parties to the Lomé Convention. Some £1,600 million will be provided over the next few years, a three-fold increase over the Community's earlier aid arrangements for the "associated" states; a substantial part of this will be available to the developing Commonwealth countries. The new Fund will assist a major part of the developing world including nearly all the developing countries of Africa, and represents a

significant move towards a more balanced distribution of the Community's aid programme as a whole.

(c) A further important innovation is a new scheme which will help to stabilise the commodity export earnings of the developing countries. It will cover such products as cocoa, coffee, cotton and copra and one mineral, iron ore. The scheme is one to which the developing countries attach very great importance.

(d) The term of "association" which described the Community's previous relationship with certain developing countries under the Yaoundé Convention has been dropped. The new Convention is known as the ACP/EEC Convention of Lomé. To some extent this is a symbolic change, but it reflects a new relationship which places the member states of the Community and the developing countries concerned on a basis of free and equal co-operation.

89. In parallel with the negotiations leading up to the Lomé Convention, the Government have pressed the Community to recognise its obligations to other developing countries including the Commonwealth countries of Asia. In the trade field, the most important element is the Community's Scheme of Generalised Preferences, which allows most of the manufactured exports and many of the processed agricultural exports of the developing countries to enter the Community market duty free or at preferential duty rates. This Scheme has been unsatisfactory in several important respects. In the renegotiation the Government have called for the progressive elimination over several years of its restrictive features and for an extension of its scope, particularly in respect of processed agricultural products. Major improvements have been achieved in both these areas in 1975, many of which will benefit the independent Asian Commonwealth countries. The main improvement is a marked reduction—from 51 to 16—in the list of sensitive products (other than textiles) where there are pre-set limits to preferential access into the member states. Agreement has also been secured on a significant extension of the coverage of the Scheme in respect of processed agricultural products. Asian Commonwealth countries stand to gain particularly from the enlargement of tariff quotas for tobacco and plywood, zero United Kingdom duties for jute and coir products from India and Bangladesh, and agreement to include later this year a range of tropical oils of interest to South-East Asian developing countries. Discrimination against Hong Kong in the Scheme has been reduced through the extension to her of preferences on non-leather footwear, her major footwear export interest. The Community has undertaken to review Hong Kong's exclusion from preferences on textiles when the Scheme for 1976 is considered.

90. On 3 March 1975 the Community reached agreement in principle on the long-term improvement of the Scheme. In particular it was agreed that the poorest developing countries—notably those of the Indian sub-continent—will be kept specially in mind in future improvements; and that the Scheme will be extended after 1980. This was the first public declaration by any of the developed countries of an intention to extend generalised preferences beyond that date.

91. A start has also been made in securing a more balanced distribution of Community aid. The new European Development Fund has already been mentioned (paragraph 88 above). Some of the poorest developing countries, like India and Bangladesh, are unable to call on this Fund. The Community is making substantial quantities of food aid available to them; but they require financial and technical help as well, and their share of the Community's total aid effort should more adequately reflect their development needs. The Government urged Community to participate in the United Nations Emergency Measures for the developing

countries hardest hit by the rise in oil and other commodity prices; and-in addition to \$42 million of extra food aid-it is providing \$250 million of financial aid. Additionally, in July 1974 the Government secured Community agreement for the first time to the principle of providing financial and technical aid for developing countries that were neither "associated" with the Community nor covered by the offer of a special relationship with it. The Government are pressing for early implementation of this commitment, in the context of a planning framework which has been drawn up, at their request, for the Community's development programme as a whole. The Commission has now made some useful proposals for a five-year programme of financial and technical aid, starting in 1976, to be concentrated on the largest and poorest developing countries. These proposals are currently under study by the member states.

VALUE ADDED TAX (VAT)

Renegotiation objective

92. The February Manifesto said that there should be "no harmonisation of Value Added Tax which would require us to tax necessities".

Outcome

93. The Government have established that they can resist any proposals for such harmonisation which are unacceptable.

Details

94. No existing Community rules set the rates of VAT. The Government can prevent the adoption of any proposal which would run counter to their stipulation that there should be no harmonisation of VAT which would require the taxation of necessities.

95. Under the "own resources" system the budgetary resources of the Community will include sums corresponding to the yield of Value Added Tax charged at a rate of up to 1 per cent on a uniform base. Discussion is continuing in the Community on the Commission's proposals which seek to establish this uniform base. The proposals are not concerned with the rates at which the tax is levied and provide for the continuation of zero-rating. The Government have made it clear that any agreement on harmonisation of the tax base must include a provision for zero-rating.

[...]

5. WIDER CONSIDERATIONS

142. The issue of Community membership is of fundamental importance for Britain's place and role in the world. In his Parliamentary Statement on 2 May 1967 (see paragraph 2 above) the Prime Minister said :

"We do not see European unity as something narrow or inward-looking. Britain has her own vital links through the Commonwealth, and in other ways, with other continents. So have other European countries. Together we can ensure that Europe plays in world affairs the part which the Europe of today is not at present playing. For a Europe that fails to put forward its full economic strength will never have the political influence which I believe it could and should exert within the United Nations, within the Western Alliance, and as a means for effecting a lasting détente between East and West; and equally contributing in ever fuller measure to the solution of the world's North-South problem, to the needs of the developing world."

143. This remains the Government's approach. The last year has shown that European Community policies towards the outside world can be decisively modified to take account of our views.

144. A cohesive Europe is an essential pillar of the Atlantic partnership, and a more co-operative relationship has now been established between the Nine and the United States. There is now a more liberal Community attitude towards the forthcoming multilateral trade negotiations. Better balanced policies of trade and aid are being developed towards the developing world as a whole, so that the countries of Asia benefit as well as the African countries. This will help to avoid confrontation between the developed and developing countries particularly on commodity matters and raw materials. Commonwealth Governments have made clear their view that they wish Britain to remain in the Community.

145. The member states of the Community have closely related and interdependent economies, and what any of them decides in the field of economic policy can affect other member states. Last year the Government were able, from within the Community, to argue the need for reflationary action by member states with substantial balance of payments surpluses. Economic co-operation between member governments within the Community takes place in an interdependent world in which the role of regional groupings has grown steadily in recent years. Increasingly the nine governments are taking common positions in international trade and monetary discussions. Other countries look to the Community for a European view. The United Kingdom is more dependent on international trade than most countries, and the Government have been able to ensure that positions taken by the Community, which are of great importance for our trading and financial interests, reflect United Kingdom views.

146. In the Government's view the consequences of Britain's withdrawal from the Community would be adverse-and would result in uncertainty. This uncertainty could be protracted and would itself be damaging.

147. There could be a significant effect on confidence, affecting both investment in the United Kingdom and our ability to finance our balance of payments deficit. There would be a risk of a deterioration, for a time at least, both in the level of employment and in the rate of inflation.

148. The United Kingdom would have to engage in the negotiation of a new trading relationship with the Community and with the rest of the world; this would be bound to be difficult. If it were not possible to secure special trading arrangements with the Community, British exports would face a high Community tariff on such products as chemicals, commercial vehicles and textiles. Even if an acceptable free trade arrangement could be negotiated, this would be accompanied by conditions which would be likely to limit the Government's freedom to give assistance to British industry.

149. The United Kingdom would no longer participate in the Community's institutions, or in the political co-operation machinery. The Community and its member states would still be our closest neighbour and our largest market, and Community policies would remain of direct concern to us. But there would be the difficulties of pursuing British interests, and of applying British influence, from outside rather than inside the Community. Our withdrawal would limit the potential benefits of interdependence. It would be a serious set-back to the development of closer and more co-operative relations within the Community, and between the Community and the wider world. It would threaten the political stability of Western Europe.

150. The Government have always believed that, provided the terms of membership were right and fair, it is in the interests of Britain and of Europe that we should be a member of the Community. The wider considerations set out in this Chapter confirm the Government's judgement that continued membership of the Community is in Britain's interest on the basis of the renegotiated terms.

151. Through membership of the Community we are better able to advance and protect our national interests-this is the essence of sovereignty. We are only at the start of our relationship with the Community: we can now begin to play a full part in its construction and development. The Community has shown that it is a flexible organisation, which is ready to adapt to the changing circumstances of the world and to respond to the differing needs of member states.

152. As the Prime Minister summed up in his Parliamentary statement on 18 March:

"A fundamental change not in the treaty, but in the practice, has been brought about by the new system of Heads of Government summits started with that convened by President Giscard d'Estaing in Paris last September and continued by the December meeting and now the Dublin meeting.

"This system has already de facto reasserted a degree of political power at the top level, not only for the month by month decisions, but over the general method of operation of the Market. This does not mean it has become a Europe des patries. It is a Community. But, as compared with even a year ago, vital interests of individual nations are now getting much more of a fair hearing, and the political power in asserting those interests has certainly increased more than appeared possible in the battles of 1971, 1972 and 1973."

6. THE DECISION

153. If our membership of the Community is confirmed, the Government will be ready to play a full part in developing a new and wider Europe. The decision is now for the British people. The Government will accept their verdict.

1 Cmnd 4715: July 1971, paragraphs 91-96.

2 Cmnd 5593, April 1974: paragraph 11.

3 Cmnd 5593, April 1974: paragraphs 6-7.

4 Cmnd 5593, April 1974: paragraph 10.

5 Cmnd 5593, April 1974: paragraph 10.

6 Treaty establishing The European Coal and Steel Community (Cmnd 4863: January 1972).