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CC(75) 13th
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

MONDAY 17 MARCH 1975

at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries
and Food

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The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury
(item 1)

The Rt Hon John Silkin MP
Minister for Planning and Local
Government

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 1 and 2)
Mr B C Cubbon (Items 1 and 2)
Mr E J G Smith (Items 1 and 2)

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EEC
RENEGOTIATION

Stocktaking

Previous
reference:
C(75) 12th
conclusions,
Minute 1

1. The Cabinet had before them a memorandum by the Foreign and Commonwealth Secretary (C(75) 33) on the results of the renegotiation of the terms of British accession to the European Economic Community (EEC).

THE PRIME MINISTER said that this meeting of the Cabinet was designed to elucidate the terms which had been renegotiated by the Government, considering them under the objectives for renegotiation set out in the Labour Party's Manifesto for the General Election in February 1974. Later in the day he would discuss the renegotiated terms with members of the Government not in the Cabinet and with the Parliamentary Labour Party. The Cabinet would resume its discussion on the following day when it should try to decide whether or not to recommend continuing membership. They would then have to form a judgment, not only on the revised terms that had been negotiated, but also on the present character of the Community. There was an important distinction between its practical working, which was now more political in approach, and its theoretical and legal basis. If any Minister could not support the Government recommendation, he would be free to say so: and in this context guidelines for the "agreement to differ" would be circulated which would have regard to the need to preserve a united Cabinet on all other issues. In particular personal attacks on or replies to colleagues must be avoided, although the media might try to promote their appearance.

General

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that renegotiation could not get seriously under way until the Government had been returned with a majority in October 1974, by which time there were new Heads of Government in West Germany and in France. In view of the referendum commitment the Government had nevertheless decided that it should plan to conclude renegotiation by the early spring of 1975. This had limited the period of effective renegotiation to about four months: and it had clearly not been possible to achieve all the Government's objectives within that period. Some would have to be pursued in continuing EEC business. He would however like to make some general observations as a result of twelve months' experience of the EEC. First, it was changing fast, under the pressure of world events as well as of British influence. The world food situation was radically different from that envisaged when we were considering applying for membership. In particular the balance between primary producers and industrialised countries had moved more in favour of the former, a development which a Labour Government could not oppose; and this would have to be taken into account in determining British food and agricultural policy whether we were members of the EEC or not. The previous plans for progress towards economic and monetary union had been set aside, as had federalist concepts. The

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EEC was now showing a much more open attitude to the rest of the world. Secondly, there were limits to the Commission's power: the real power resided in the Council of Ministers. Regular meetings of the Council, especially the newly introduced system of regular meetings of Community Heads of Government, were giving co-ordinated political leadership to the Community. The Commission remained the guardian of the treaties, and as such tended to be supported by the smaller members of the Community to protect themselves against undue dominance by West Germany, France and the United Kingdom. Thirdly, the Community was much more sensitive to, and readier to meet, national interests of member states than might have appeared.

In a short general discussion it was emphasised that any criticism of the renegotiated terms was not intended as a reflection on the skill and vigour of the Foreign and Commonwealth Secretary or of other Ministers involved in renegotiation, who had promoted British interests with ability. The Cabinet then considered the various topics covered in the Foreign and Commonwealth Secretary's memorandum.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto had called for "major changes in the Common Agricultural Policy (CAP), 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". We had not challenged the basic principles of the policy - the objectives of which were similar to those of the British agricultural policy, from the Agriculture Act 1947 onwards - but we had sought to change it from within. Moreover, in view of the changed world situation, an assured supply at relatively stable prices (which were falling in real terms), as provided by the CAP, would be in our national interest. The arrangements made for the import of sugar were advantageous; and the principles adopted for continuing import of New Zealand dairy products were also helpful. The Commission's review on which the stocktaking of the CAP would be conducted was on balance favourable to our policy approach. In view of the changes which had already occurred, and those which would be made - if we were in a position to keep up pressure for reform from within - he considered the position reached on the CAP to be acceptable.

In discussion it was argued that there had been no change in the fundamental structure of the CAP - Community preference, variable levies on imports, and support buying. The stocktaking would take place outside the renegotiation timetable; and, since the Commission and several of the other member states would defend the present arrangements strongly, we could not say how much success would be

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achieved. Even if we could not alter the principles of the CAP for the whole Community, we should have obtained a derogation from them for the United Kingdom; and this had not been achieved. The arrangement whereby we could operate deficiency payments for beef had been agreed for one year only and Mr Lardinois, the Commissioner concerned, had made plain his dislike of national aids. Improved access for third country foodstuffs, apart from sugar and New Zealand dairy products, had been left until the multilateral trade negotiations, which would take place outside the renegotiation period, where too it was uncertain what would be achieved. It was doubtful whether there had been a fundamental change in world food factors: events of the last two years might constitute only a temporary change. North America had ample resources for increased food production. Already grain prices had fallen sufficiently far for the EEC to reintroduce levies on imports. The EEC butter price was very high compared with the world price, and there was still a general ban on imports of beef. It could thus be argued that the CAP remained a threat to world food trade and constituted a system of taxes on food.

On the other hand, it was pointed out that CAP prices were now being determined in accordance with criteria which economically were more soundly based. As a result they were being brought down in real terms from their previous excessive levels, while world prices had risen. Membership of the EEC no longer caused the heavy increase in food prices that had been expected before our entry. On balance the extra costs were approximately balanced by the benefits of the CAP, leaving our total food bill at about the same level as it would have been if we were outside the Community. Although levies were now payable on cereal imports, they were more than offset by the EEC systems of compensatory amounts, and we were therefore still obtaining cereals more cheaply than if we were outside the EEC; and world cereal prices were now rising again. Dairy products remained the area where EEC prices were relatively high; but the only other major supplier was New Zealand, which had not been able to supply the quantities provided for over the past two years and could not give an assurance that she would do so in the coming years. In any case the New Zealand Government, who had welcomed the agreement reached in the EEC Heads of Government meeting in Dublin on 10/11 March on the principles to govern continued access for New Zealand dairy products, had made it plain that they would seek appreciably higher prices for their exports. Although future world food supplies and prices could not be forecast, we could not base our policy on the expectation of a return to cheap food. Specific approaches on this had been made during renegotiation to our traditional Commonwealth suppliers, who had made it plain that they did not wish to return to that system. If there were a return to heavy surpluses, we would in any case

wish to take action, for broad political reasons, to safeguard the interests of primary producers. It was more probable, however, that demand for food from developing countries would keep world supplies tight. We were likely to wish to expand our own agriculture for import-saving reasons, and the CAP could assist that. The stocktaking of the CAP would be an important forum in which to pursue our objectives; and it was unrealistic to expect us to have obtained a permanent change in the beef regime in advance of this. We should also pursue further improvements in access for third country foodstuffs of concern to us, such as hard wheat; but we had had success in reducing tariffs on a wide range of foodstuffs in a number of trade negotiations, and the overall impact of tariffs on foodstuffs was now small.

Community
Budget

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto had called for "new and fairer methods of financing the Community budget. Neither the taxes that formed the so-called 'own resources' system 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 what is received by other countries". The Government had decided not to seek to overturn the 'own resources' system as such, but to correct its unfair impact. Against strong opposition we had achieved considerable success. We had obtained a correcting mechanism which would bring our gross contribution more closely into line with our share of the Community's gross national product (GNP). This mechanism was subject to a number of qualifying conditions, only one of which was likely to bite; and there would be a ceiling on the potential refund available. But the end result would be a worthwhile reduction in our contribution to the Community budget. We must expect to continue to be net contributors since, among other reasons, some of the items of Community expenditure - eg aid for developing countries - were those we wished to see extended. The aim in the form set out in the Manifesto had not been met, but renegotiation had resulted in a new Community arrangement which would bring a considerable financial improvement to us; and he recommended the Cabinet to accept it.

In discussion the following points were made -

- i. The fact that in renegotiation we had not directly attacked the 'own resources' system did not mean that we accepted it. In this context it was relevant that since two of the three elements in 'own resources' were agricultural levies and import duties, the United Kingdom, as the major world trader in the Community, could not avoid being a heavy

contributor; and, since a high proportion of expenditure went on agricultural support, inevitably our receipts were relatively low.

ii. The limitations in the correcting mechanism meant that, in net terms, only about one-third of the gap between our contributory share of the budget and of the Community's GNP would be covered. We should seek to improve our position by, in accordance with general Government policy, pursuing policies designed to increase our GNP, and also by aiming to increase our receipts from the Community budget.

iii. Forecasts of net contributions in the future were very uncertain, as the considerable differences between forecasts and much lower out-turn for the past two years demonstrated.

iv. If we benefitted from the correcting mechanism for three years in succession the Community would review the position with us in order to consider what further action was required. If we were lagging behind the converging economies of the other members, this further action could be beneficial. The Community might say that our poor economic performance in these circumstances was due to our following the wrong policies, just as other international organisations in this field could and did; but conditions could not be imposed upon us which would affect our benefits from the correcting mechanism if we continued to qualify for a refund.

Economic and
Monetary Union

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto commitment read: "We would reject any kind of international agreement which compelled us to accept increased unemployment for the sake of maintaining a fixed parity We believe that the monetary problems of the European countries can be resolved only within a world-wide framework". There had however been a major change in the attitude of other Member Governments to the practicability of achieving economic and monetary union (EMU) by 1980. The programme for advancing to EMU by stages had been tacitly abandoned. EMU remained a long-term Community goal, but we should be able to ensure that our interests were fully protected by the veto if and when any proposals were made in that direction. There was no prospect of our coming under pressure to agree to an arrangement which would threaten the level of unemployment in this country. The "world-wide framework" referred to in the Manifesto had been used by the Community in recent months, at the instigation of the Chancellor of the Exchequer, to consider monetary problems.

In discussion it was argued that the communique of the Paris Summit in December 1974 had affirmed that the Community's will to make progress towards EMU had not weakened and that this communique could be used in the future to push us in an unacceptable direction. On the other hand it was pointed out that EMU was a long-term goal of the same character as general and complete disarmament; desirable in principle but unattainable in practice. The reality was different from the visionary concept of communiqes. There was increasing emphasis on co-operation between Member Governments of a kind which would make it less important to achieve the linked exchange rates which had been prominent in previous thinking. Progress along these lines was in our interests. The Government's White Paper on the outcome of renegotiation might make clear that the stages, adopted in 1971 and 1972 for progress towards EMU, were tacitly discarded in the Paris Communique of December 1974.

Regional
Policy

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto objective was "the retention by Parliament of those powers over the British economy needed to pursue effective regional, industrial and fiscal policies". The regional aspect had been considered by the Cabinet on 27 February, when a majority concluded that, subject to the overall judgment on the outcome of renegotiation, the Communication from the Commission met our requirements. That Communication established a hierarchy of assisted areas which conformed with our own. No forms of national aids were ruled out in principle, and there was no interference with our existing regional aids. The Commission had acknowledged that national Governments were the best judges of what was required in their own country and that urgent action by Governments should not be held up by Treaty procedures. A derogation was being obtained for the assistance given by the Highlands and Islands Development Board. Parliament retained the power to vote money for regional assistance and to allocate this money in a way which was required to promote effective regional policies. The Commission's powers were derived from the EEC Treaty, which laid emphasis on the need to avoid assistance which gave unfair advantage to one Member State over another and he would circulate some reassuring supplementary correspondence with the Commission on the matter.

In discussion it was argued that the Manifesto commitment had not been met since the legal power to grant regional assistance in this country remained fettered by the Treaty and the powers of the Commission. The Commission's Communication laid down principles which were valid for only three years and provided no safeguards for future changes in our aids. It was argued, on the other hand, that the Communication, and our experience of the operation of the Treaty's provisions, demonstrated that we should

encounter difficulty in the Community only if we used a regional aid to give an unfair competitive advantage to our industry over that of another member state, or to outbid another member state by making special regional grants to secure an investment project which would have otherwise gone elsewhere in the Community. The assisted areas in the United Kingdom could be assured that their position had been completely safeguarded. If we withdrew from the Community, any free trade arrangement we were able to negotiate would be bound to include competition provisions similar to the rules in the EEC Treaty. We should also still be bound by other international agreements of this kind.

Industrial
Policy

THE FOREIGN AND COMMONWEALTH SECRETARY said that we had not met with any serious difficulties from the EEC in the conduct of industrial policy during the past year, and it was incorrect to suggest that the Treaties and the Commission stood in the way of the policies to which the Government were committed. If we withdrew from the Community, the competition rules attached to any free trade agreement would extend to industrial arrangements, as well as to regional assistance. The proposals in the Industry Bill for the National Enterprise Board and for planning agreements were in no way incompatible with the EEC Treaty, provided that powers were not exercised in a way which damaged the interests of other member states. The EEC Treaty specifically permitted nationalisation. The provision in the Industry Bill for stopping foreign takeovers would of course have to be exercised in a way which did not discriminate against EEC firms: but that limitation would have to be weighed in the overall assessment of the outcome of renegotiation.

In discussion it was argued that the experience of the past year was, in the special circumstances, an inadequate safeguard for the future, since power still resided with the Community institutions, rather than with Parliament. The Manifesto commitment had not therefore been met. On the other hand, our own system of planning agreements was partly based on the practice in France and other EEC countries where it had not run into difficulties with the Treaty or the Commission. This illustrated how the Cabinet's overall judgment would need to be based on how far the EEC, now and in the future, would operate in the pragmatic way which our experience had shown was to be expected, instead of juridically and with an over-strict regard for the letter of the Treaties.

Steel

THE PRIME MINISTER said that he had himself raised the question of steel with the other Heads of Community Governments at their recent meeting in Dublin. He had reminded them that neither the Treaty establishing the European Coal and Steel Community, nor any rules and practices developed under the Treaty, derogated in any

way from the right of Britain or of any other member country to extend the boundaries of public ownership or to take the whole steel industry into public ownership. When Britain joined the EEC the Conservative Government had repealed the statutory powers which gave the Government certain controls over private investment. This had meant that the Government could not deal adequately with the problem of the mini-mills. This position had to be put right, if necessary by amendment to the Treaty. He had however told the other Heads of Government that he would be glad to learn from their experience in solving similar problems, to see whether ours could be resolved in a way compatible with the Treaty. He had assured them that we should much prefer to avoid a Treaty amendment, but that it was of vital importance to us that the problem should be solved. It was not practicable to make progress on it before the end of renegotiation and it would fall to be dealt with in the future work of the Community if we remained members after the referendum.

In discussion it was pointed out that difficulties had also arisen in relation to the acquisition of a private steel firm. There were grounds for supposing, however, that the Commission's reaction to the original proposal may have been due to a failure to understand clearly what the Government's intentions were.

Fiscal
Policies

THE FOREIGN AND COMMONWEALTH SECRETARY said that no problems had arisen in relation to fiscal policies. Certain measures had been proposed to harmonise the structure of some indirect taxes. We should be able to block any proposals which we considered unacceptable.

Value-Added
Tax

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto commitment was to prevent "harmonisation of value-added tax (VAT) which would require us to tax necessities". The proposals now being discussed in the Community were concerned with agreeing a uniform assessment base for VAT. They provided for our system of zero rating. We should be ready to resist any proposals in this field which were unacceptable to us.

In discussion it was pointed out that the need for a uniform assessment base for VAT arose because the budgetary resources of the Community under the 'own resources' system would include sums corresponding to the yield of VAT charged at a rate of up to 1 per cent on a uniform base. Our system of zero rating was provided for in the uniform base which had been proposed. All member states would find it difficult to agree on harmonisation of the actual rates of VAT.

Capital
Movements

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto read: "We need an agreement on capital movements which protects our balance of payments and full employment policies". Last year the Government had been able, by using provisions in the EEC Treaty about member states in balance of payments difficulties, to revert to what was broadly the same exchange control regime as applied before accession. Action could continue to be taken under these provisions to protect our balance of payments.

In discussion it was suggested that the Cabinet should have further information about the terms of the derogations we had been granted in respect of capital movements; these would be provided by the Chancellor of the Exchequer. The Treaty provisions under which we had acted provided for an investigation by the Commission of the position of the member state which invoked them, but the Commission's consequential recommendations would need to go before the Council of Ministers, where we should not agree to measures which were unacceptable to us. The International Monetary Fund regulations contained similar provision for an investigation in appropriate circumstances.

Commonwealth
and
Developing
Countries:
Trade and Aid

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto read: "The economic interests of the Commonwealth and the developing countries must be 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". Our membership of the EEC had brought considerable benefits to the Commonwealth both in opening up the Community market to them and in aid. He had had conversations in the past few months with representatives of many developed and developing members of the Commonwealth. In all cases they had thought that their interests were better safeguarded by our being inside the EEC rather than out. In addition to what had been achieved in respect of sugar and New Zealand dairy products, there had been the important achievement of the Lome Convention between the EEC and 46 developing countries, 22 of them in the Commonwealth, from Africa, the Caribbean and the Pacific. This convention had been hailed internationally as a major new development, and as establishing a satisfactory basis for relations between the developed and the developing world. The scheme for the stabilisation of export earnings from commodities was a new step of especial value. The Community's Generalised Scheme of Preferences had been greatly improved and extended to beyond 1980. Aid to developing countries outside the Lome Convention had been agreed in principle, but no money had yet been forthcoming. This was an issue which

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the Germans looked upon as affecting their national financial interest, and they were proving difficult about it. On trade, a wide range of improvements had been made in a number of trade negotiations which would be of assistance to Commonwealth and developing countries. In his view therefore the Manifesto objective had been met.

In discussion it was argued that the situation on aid to Southern Asia required further consideration, and that the Minister of Overseas Development had expressed her dissatisfaction on this point. Although the countries concerned would benefit under the Generalised Scheme of Preferences and from bilateral aid, we should keep up our pressure on the Community to implement the principles for world-wide aid which it had accepted. It should be recognised that our withdrawal from the Community would reduce rather than increase the pressure for better treatment for Southern Asia; and the countries concerned understood this.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would resume their discussion the following day, starting with the general issue of Parliamentary sovereignty and moving on to an assessment of the overall package.

The Cabinet -

Agreed to resume on the following day their consideration of the outcome of renegotiation.