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Britain and the European Communities

An Economic Assessment

*Presented to Parliament by the Prime Minister
by Command of Her Majesty
February 1970*

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BRITAIN AND THE EUROPEAN COMMUNITIES
AN ECONOMIC ASSESSMENT

I. INTRODUCTION

Background

Her Majesty's Government decided on 2nd May, 1967 to make an application under Article 237 of the Treaty of Rome for membership of the European Economic Community (EEC), and parallel applications for membership of the European Coal and Steel Community (ECSC) and EURATOM. The Government's decision was debated by both Houses of Parliament, and at the end of a three-day debate in the House of Commons the decision was approved by a majority of 426, one of the largest majorities in a vote in the House of Commons in peacetime. Her Majesty's Government thereupon applied for membership of the Communities on 10th May, 1967.

2. The Prime Minister's statement on the Government's decision was presented as a White Paper (Cmnd. 3269) which set out the reasons underlying the decision to apply for membership of the Communities, and the issues which it would be necessary to resolve during the negotiations for that purpose. On the economic side, the White Paper spoke of "the long-term potential for Europe, and therefore for Britain, of the creation of a single market of approaching 300 million people, with all the scope and incentive which this will provide for British industry, and of the enormous possibilities which an integrated strategy for technology, on a truly Continental scale, can create". On the other side of the account Parliament was also informed that, while all calculations were necessarily extremely speculative, the effect of adopting the EEC's common agricultural policy as it stood might be to bring about a rise in the cost of living of $2\frac{1}{2}$ - $3\frac{1}{2}$ per cent (reflecting a 10-14 per cent rise in the cost of food) and to create a cost to the balance of payments of between £175 million and £250 million a year. The overall cost to the balance of payments of entry, including the agricultural element, was estimated to require the redeployment of resources from present home use to exports, or to import substitution, of the order of about £100 million each year over a period of perhaps five years.

3. The political reasons for applying for membership of the European Communities were summarised in the White Paper as follows: "But whatever the economic arguments, the House will realise that . . . the Government's purpose derives above all from our recognition that Europe is now faced with the opportunity of a great move forward in political unity and that we can—and indeed we must—play our full part in it. 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." Her Majesty's Government consider that events since the statement was made, and particularly the outcome of the Summit Conference of the Six on 1st and 2nd December, 1969, reaffirm the validity of the statement.

4. Following approval by Parliament of the Government's decision to apply for membership of the Communities, the then Foreign Secretary on 4th July, 1967, made a statement on behalf of Her Majesty's Government to the Council of the Western European Union (Cmnd. 3345), in which, after elaborating the political and economic and industrial reasons indicated above which underlay Britain's application to join the Communities, he set out the issues which Britain would seek to deal with in the course of negotiations for entry into the Communities. The major issues included the inequitable burden which the then existing financial arrangements for agriculture would place on Britain; the need for a transitional period or periods to permit a gradual adaptation to the circumstances of an enlarged Community; the need to make provision for the interests of the developing countries and territories whose economies are dependent on the Commonwealth Sugar Agreement; and the need to make provision for New Zealand's dairy products. On 4th December, 1969, the Prime Minister in the House of Commons confirmed that this statement by the Foreign Secretary remained the basis for our negotiations for membership.

5. In December 1967 the Council of Ministers of the European Communities failed to reach the unanimity necessary under the Community treaties to return a reply to Britain's application for membership. Her Majesty's Government decided nevertheless to maintain their application, and it was discussed at each meeting of the Council of Ministers of the European Communities in the ensuing two years. Finally, at the meeting of the member states of the European Communities on 1st-2nd December, 1969, it was agreed to open negotiations between the Community and the states which had applied for membership, and it was also agreed that the essential preparatory work by the Community would be undertaken with the least possible delay and in a most positive spirit. At the same time it was made clear that this preparatory work would be completed at the latest by the middle of 1970 and that negotiations with Britain and the other candidate countries could open immediately thereafter.

Developments since 1967 affecting the position of the United Kingdom

6. In view of the prospect of negotiations for membership of the Community later this year, this White Paper seeks to assess, so far as possible, the major economic consequences of membership of the EEC. The political implications were set out in the White Paper (Cmnd. 3269) referred to above, and the legal and constitutional implications of membership in a White Paper (Cmnd. 3301) published in May 1967. Since the Government's decision to apply for membership and the Parliamentary debates on it of May 1967, there have been important developments in the position of Britain and the Community. So far as Britain is concerned, the cost of entry into the Community has been somewhat increased by devaluation, but on the other hand there has been a very substantial improvement in our balance of payments and in the competitive strength of our economy. An external

deficit of over £400 million in 1968 (£250 million after adjustment for Euro-currency borrowing to finance outward investment) has been converted into a surplus in 1969 likely to turn out around £300 million (and nearly £100 million more after the Euro-currency adjustment), with good prospects of continuing improvement. New developments in, *inter alia*, the control of public expenditure and the money supply, and much modernisation of industry, have increased the stability and strength of the economy.

7. In the Community, apart from the substantial completion of the removal of internal tariff and other barriers to trade within the Community, there have been several major developments since 1967 which require a new assessment of the economic consequences for Britain of membership of the Community. First, the common agricultural policy has come under review because of its rising cost. In addition, temporary arrangements have had to be made to meet the situation following the changes in the parities of the French franc and the German mark. A fuller account of these developments will be found in this White Paper's chapter on agriculture and food.

8. The second major development is that at their meeting on 19th-22nd December, 1969, the Council of Ministers of the Communities reached agreement in principle on new financing arrangements for the Community budget, which are of great significance in three ways. First, after 1970 they would increasingly provide the Community for the first time with its "own resources", *i.e.*, the proceeds of the Community's agricultural levies, tariffs and taxes from which to finance expenditure on agriculture and certain non-agricultural items. Second, these arrangements when finally agreed would be changeable only by unanimous vote: as such their consequences would be one of the major items in the negotiations for enlargement of the Community. Third, the introduction of "Community resources" would be accompanied after 1974 by an extension of the budgetary powers of the European Parliament. These arrangements, which had not been finalised when this White Paper was printed and which are more fully described in Chapter II, are very complex, so that assessment of the effect of their implementation is bound to be precarious even for member countries, quite apart from the additional uncertainty of the changes which would have to be negotiated to provide for the United Kingdom and the other applicants to become members.

9. The third major development in the Community springs from the Summit meeting of the Six on 1st and 2nd December, 1969. In addition to the decisions in principle on agriculture and Community financing, the Six resolved to intensify, through harmonisation of economic policies, the Community's progress towards economic and monetary unification; and also the development of common programmes of technological advance, and of a common social policy. They instructed their Ministers of Foreign Affairs to study the best ways of achieving progress towards political unification, within the context of enlargement of the Community. The broad objectives towards which these policies are directed—in the economic, monetary, technological, social and political fields—are consistent with those indicated in the statement made on behalf of Her Majesty's Government in 1967 in support of their application for membership of the Communities.

Limitations on assessments of the economic effects of membership

10. The foregoing outline of some major developments since 1967 in our position and that of the Community provides the background necessary for an assessment of the economic effects of membership of the Community. It is clear from even so summary an account of these developments that a comprehensive, reliable and quantified assessment of the economic effects of membership, starting say in the early 1970s and building up during that decade, is quite impracticable. Not only are the areas of uncertainty already mentioned very large, but the technical problems of making comprehensive and realistic estimates of the effects of membership are equally formidable. It is equally impracticable to make reliable estimates of the situation in which we should find ourselves in the latter part of the 1970s if this country were not to join the Community. It should be emphasised that it is that future situation, some years ahead, and not our position today, which one has to try to compare with our position as a future member, if the effects are to be fairly assessed.

11. Any assessment of the economic effects of membership must therefore be in large measure qualitative. Nevertheless, in so large an issue, it is necessary to make such quantitative estimates as can be made, and to set these in the perspective of a general assessment of the likely effects of membership on the economy as a whole. The following chapters seek to do this in the sectors where significant economic effects may be expected, that is:

- (i) agriculture and food;
- (ii) trade and industry;
- (iii) capital movements and invisible trade.

The effects of the removal of barriers to trade in coal and steel have been taken into account in the chapter on trade and industry, but otherwise this White Paper is not concerned with the ECSC or EURATOM. The basic assumptions made are constant throughout the estimates. It is assumed that in each case the effects of membership will not have their full impact until the second half of the seventies and *no allowance is made for the effect of negotiations on the terms of entry*. These estimates must be treated with caution for the general reasons given above and particularised in each chapter, but they do point to the direction and magnitude of certain effects, which in the concluding chapter are set in perspective in the overall assessment there attempted.

II. AGRICULTURE AND FOOD

Introduction

12. This chapter examines the ways in which adoption by the United Kingdom of the EEC's common agricultural policy would affect our agriculture, the cost of our food, and our balance of payments. For this purpose it is assumed that the Irish Republic, Denmark and Norway would also join the EEC and adopt the common agricultural policy at the same time as ourselves.

13. An outline of the common agricultural policy and of the effects of adopting it was provided in a White Paper published in May 1967, entitled "The Common Agricultural Policy of the European Economic Community" (Cmnd. 3274). Much of that paper still holds good, including its account of the basis and development of the common agricultural policy, and its detailed comparison of arrangements in the EEC and in the United Kingdom for individual commodities. There have, however, been subsequent developments in the EEC and the United Kingdom which must be taken into account.

Recent agricultural developments in the United Kingdom

14. Since the publication of Cmnd. 3274 the Government have continued their policy of selective expansion for home agriculture and there have been increases in the guaranteed prices for a number of products, particularly for cereals and beef cattle. There has been no basic change in the United Kingdom system of agricultural support, although for eggs it has been decided to phase out the guarantee arrangements and move to a basically free marketing system. However, the picture as regards the effects on producer prices, food prices and the balance of payments of adopting the EEC's common agricultural policy is now rather different from what it was in 1967, partly because of the devaluation of sterling in November 1967, and partly because of the rising cost of the common agricultural policy. The extent to which the picture has changed is indicated in the relevant sections of this chapter.

Recent agricultural developments in the EEC

15. A number of regulations and directives have been adopted which elaborate and extend the operation of the common organisation of agricultural markets. Broadly speaking the main change since 1967 is that the single market stage has now been achieved for cereals, beef cattle, pigmeat, milk and milk products, eggs and poultry and rice. The EEC's target prices have remained at the same level over the last three years, except for some small increases for barley, maize and rice. The change in the United Kingdom exchange rate means, however, that EEC prices are now higher in sterling terms than they were before.

16. As the common organisation of markets for each product has been completed, the cost of supporting prices through market intervention and export subsidies has been transferred from national governments to the Community. Community expenditure on agriculture has increased very

rapidly in recent years as can be seen from Table 1,* because of the increased coverage of commodities under the common policy, the higher proportion of eligible expenditure being met by the Community's Agricultural Fund rather than national Exchequers, and the development of surpluses within the Community. Expenditure from the Guarantee Section of the Fund is estimated at £831 million for 1968-69, compared with £154 million for 1966-67. Expenditure from this section is now considerably higher than was anticipated; in January 1967, for example, the Commission estimated 1968-69 expenditure at £572 million. Roughly a third of the expenditure is on cereals, and another third on milk and milk products; a full breakdown by commodities is contained in Table 2. Expenditure from the Guidance Section of the Fund on the structural improvement of agriculture has been subject since July 1967 to a limit of £119 million. This makes a total estimated liability for expenditure from the Fund in 1968-69 of £950 million. A breakdown of receipts by member countries is given in Table 3.

TABLE 1

**Expenditure from European Agricultural Guidance and Guarantee Fund
(Fonds Européen d'Orientation et de Garantie Agricole)
1966-67 to 1968-69**

£ million

	1966-67	1967-68	1968-69
1. <i>Guarantee Section</i> ⁽¹⁾			
Export restitutions ...	94	302	441
Market intervention ...	59	244	389
Other expenditure ...	—	1	1
Total ...	154	547	831
2. <i>Guidance Section</i> ...	51	119	119
3. <i>Total</i> ...	205	666	950

(¹) In 1966-67 the Guarantee Section was contributing towards eligible expenditure by member Governments to the extent of seven-tenths, but in later years to the full extent.

Source: EEC Official Journals Nos. L 109 of 10th May, 1968, and L 36 of 12th February, 1969.

* Community agricultural prices and expenditure are officially defined in terms of the Community "unit of account" (UA) which at present is equivalent in value to the United States dollar. All figures in the text and tables of this chapter have been converted at the exchange rate of 2.40 UA per £ Sterling.

TABLE 2

**Expenditure from Guarantee Section by Commodity,
1968-69**

£ million

Commodity	Export restitutions	Market intervention	Total
Cereals ...	193	88	281
Milk and dairy products ...	133	127	260
Oils and fats (includes olive oil) ...	3	95	98
Fruit and vegetables ...	1	19	20
Rice ...	8	—	8
Pigmeat ...	18	—	18
Beef and veal ...	4	5	9
Sugar ...	71	55	126
Eggs ...	1	—	1
Poultry ...	2	—	2
Processed products ...	8	—	8
Total ...	442	389	831

Source: EEC Official Journal No. L 36 of 12th February, 1969.

TABLE 3

**Receipts from Agricultural Fund by Country,
1966-67 to 1968-69**

£ million (figures in brackets show percentages of total)

	1966-67			1967-68	1968-69
	Guarantee Section	Guidance Section	Total	Guarantee Section	Guarantee Section
Germany ...	8.5	0.8	9.3 (7.8)	40.0 (12.4)	90.2 (18.5)
France ...	48.2	0.8	49.0 (41.0)	125.8 (38.9)	197.6 (40.6)
Italy ...	30.0	1.3	31.3 (26.2)	60.1 (18.6)	73.2 (15.0)
Netherlands ...	23.4	0.3	23.7 (19.8)	68.6 (21.2)	90.7 (18.6)
Belgium ...	5.6	0.3	5.9 (4.9)	28.6 (8.9)	35.0 (7.2)
Luxembourg ...	0.3	—	0.3 (0.3)	0.1 (—)	0.6 (0.1)
Total ...	116.0	3.5	119.5 (100.0)	323.2 (100.0)	487.3 (100.0)

Note: The large differences between the totals in Tables 1 and 3 are because the former refer to amounts budgeted for each year, while the latter refer to amounts actually paid following claims by member countries. The accounts for 1966-67, 1967-68 and 1968-69 are only partially complete.

Sources:

1966-67—"Statistisches Jahrbuch über Ernährung, Landwirtschaft und Forsten 1969". Verlag Paul Parey, Hamburg.

1967-68—EEC Official Journals Nos. L 204 of 14th August, 1968 and L 103 of 30 April, 1969.

1968-69—EEC Official Journals Nos. L 173 of 15th July, 1969 and L 13 of 19 January, 1970.

17. The method of financing the Fund in 1969 was that member states paid in to the Guarantee Section 90 per cent of the proceeds of their levies on imports of agricultural products from non-Community countries. In addition, sugar producers in member countries contributed a special levy on the excess of their sugar production over their national quotas. The remainder of the Guarantee Section and the whole of the Guidance Section were paid for by budgetary contributions from the Governments of member countries according to an agreed percentage scale or "fixed key" roughly proportional to each country's gross national product; the scale used and the amounts contributed in 1968-69 are shown in Table 4.

TABLE 4
Contributions to Agricultural Fund by Country, 1968-69

£ million (figures in brackets show percentages of total)

	Guarantee Section		Guidance Section	Total
	Import levies ⁽¹⁾	Budgetary contribution		
Belgium and Luxembourg	37	38 (8.3)	10	85 (9.0)
Germany	102	143 (31.2)	37	282 (29.7)
France	47	147 (32.0)	38	232 (24.4)
Italy	124	93 (20.3)	24	241 (25.4)
Netherlands	62	37 (8.2)	10	109 (11.5)
Total	372	458 (100.0)	119	950 (100.0)

⁽¹⁾ Includes special levy on sugar production.

Source: EEC Official Journal No. L 36 of 12th February, 1969.

18. In December 1969 the members of the Community agreed in principle on a new system of financial contributions for the future. For 1970 the whole cost of the Agricultural Fund would be met from national Exchequer contributions according to the following fixed key:

	<i>per cent</i>
Belgium	8.25
France	28.0
Germany	31.7
Italy	21.5
Luxembourg	0.2
Netherlands	10.35

From 1971 new arrangements would come into force for financing not only the Agricultural Fund, but also certain non-agricultural expenditure. It is not however yet clear precisely what non-agricultural items of Community

expenditure would be covered by the arrangements. Under these arrangements, from 1971 to 1974 levies on agricultural imports would be handed over by member countries, together with an increasing proportion of customs duties on all goods. The amount of customs duties handed over would be equal to the difference between a "reference amount" and the amount of levies handed over. In 1971 this "reference amount" would be 50 per cent of the total levies and customs duties collected by each state and, in the following years 62½ per cent, 75 per cent and 87½ per cent successively. 10 per cent of the sums handed over would be refunded to member states to cover collection costs. The balance of expenditure would be met by members from national budgets according to the fixed key shown below:

	<i>per cent</i>
Belgium	6.8
France	32.6
Germany	32.9
Italy	20.2
Luxembourg	0.2
Netherlands	7.3

From 1975 onwards all levies and customs duties would be handed over (less 10 per cent to cover collection costs) and in the place of the budgetary contributions the balance would be met from contributions from member states corresponding at the most to a 1 per cent value added tax. All the above would be subject to the over-riding provision that in the years 1971 to 1974 no country's proportion of total contributions to this expenditure might rise by more than 1 per cent above or fall by more than 1½ per cent below its previous year's proportion. For the years 1975 to 1977 these annual limits would be 2 per cent in either direction.*

19. Finally, during the past year certain changes in international exchange rates have had a significant effect on the operation of the common agricultural policy. The common prices for each member country are derived, according to the official exchange rate, from the prices expressed in Community units of account. When therefore the French franc was devalued in August 1969, the prices of products subject to the common agricultural policy would automatically have risen to the benefit of French farmers, and when the German Government revalued the mark in October 1969, their prices would automatically have fallen to the detriment of farmers there. These sudden changes in farm prices were not acceptable to the Governments concerned, and special measures were devised whereby the French for a period of two years may impose a tax on agricultural exports to other member states and grant subsidies on imports from them; while the Germans for a period of four years may compensate their farmers by means of tax adjustments and direct subsidies. Thus the full application of the common agricultural policy is temporarily abated for these two members of the Community.

* For the purposes of calculating the German share after 1970, their agriculture percentage in 1970 would be deemed to be 31.5 per cent.

Future developments

20. The assessment of the effects of adopting the common agricultural policy depends on a forecast of how the common policy will develop within the present Community; what adjustments would be necessary to it on enlargement of the Community; and how United Kingdom food production and consumption would respond to the new conditions. All these matters are subject to much uncertainty.

21. Within the Community discussions are currently being held on the future shape of the common agricultural policy. The application of the policy at the relatively high prices for some products agreed by the members of the Community has contributed to a marked increase in agricultural production. As Table 5 shows, the Community now has in many cases a higher degree of self-sufficiency than before the common policy was introduced. For wheat, sugar, rice, cheese and butter, production within the Community has moved from a position in the early 1960s where it was at a lower level than consumption, to one of excess over consumption within the Community. This development of surpluses has caused expenditure from the Guarantee Section of the Agricultural Fund to rise very considerably, since the disposal or storage of excess supplies is carried out at the Fund's expense. If present production trends continue, the cost of dealing with surpluses will become still greater.

TABLE 5

Self-sufficiency of the Six in principal farm products

Commodity	1962-63 and	1967-68
	1963-64 (average)	(per cent)
Wheat	99.5	112.5
Feed grain	77.1	78.6
Total cereals (excluding rice)	86.3	91.1
Rice (husked)	79.0	100.8
White sugar	98.7	104.6
Vegetables	102.4	102.5
Fresh fruit (excluding citrus fruit)	91.3	89.9
Citrus fruit	43.9	not available
Beef and veal	90.3	88.8
Pigmeat (including bacon)	99.2	100.0
Poultry meat	91.4	97.8
Mutton, lamb and goat meat	92.3	84.2
Eggs	94.4	97.1
Cheese	98.0	102.7 ⁽¹⁾
Butter	99.5	111.1 ⁽¹⁾
Oils and fats	38.5	41.8

⁽¹⁾ Provisional figures.

Source: Economic Union and Enlargement: the European Commission's revised opinion on the applications for membership from the United Kingdom, Ireland, Denmark and Norway, October 1969.

22. Various proposals have been put forward within the Community for dealing with these problems, in addition to arrangements agreed last year for encouraging the slaughter of surplus dairy cows. The Commission has submitted a Memorandum on the Reform of Agriculture in the European Economic Community (the "Mansholt Plan"), containing a set of economic and social measures intended to bring about major structural changes. Among other things, it suggests taking certain land out of agricultural use, easing the retirement of farmers, and helping those remaining in agriculture to improve their efficiency. These suggestions would involve considerable expenditure from the Guidance Section of the Fund as well as from national Exchequers. More recently the Commission has put forward proposals for reducing the prices of certain products under the common agricultural policy, with the aim of correcting the imbalance between supply and demand. If implemented, these proposals could be expected to lead to a reduction in expenditure from the Guarantee Section of the Fund. Table 6 gives the Commission's estimates for the cost until 1975 of each section of the Fund, with and without the application of the Mansholt Plan. It shows also a more recent reported estimate by the Commission, based on the application of part only of the Mansholt Plan together with certain proposals on commodity prices recently submitted to the Council. Other suggestions for reforms of various kinds have come from individual members of the Community. No decisions have yet been taken on these matters, but at their Summit Meeting at The Hague in December 1969 the Six affirmed their desire to press on with efforts to ensure a better control of agricultural production making it possible to limit budgetary charges.

TABLE 6

Estimates of expenditure from Agricultural Fund by the Six, 1970-75

A. WITHOUT APPLICATION OF MANSHOLT PLAN

		£ million			
		1971	1972	1973	1975
Guarantee Section	1,125	1,185	1,250	1,355
Guidance Section	120	120	120	125
Total	1,245	1,305	1,370	1,480

Source: EEC Document COM (69) 700, July 1969.

B. WITH APPLICATION OF MANSHOLT PLAN

£ million

	1971	1972	1973	1975
Guarantee Section	1,000	960	875	665
Guidance Section	415	500	625	585
Total	1,415	1,460	1,500	1,250

Source: EEC Document COM (69) 700, July 1969.

C. WITH MODIFIED APPLICATION OF MANSHOLT PLAN AND COMMISSION'S PROPOSED COMMODITY MEASURES

£ million

	1970	1971	1972	1973	1974	1975
Guarantee Section	1,045	1,030	1,025	945	965	985
Guidance Section	185	260	325	475	525	575
Total	1,230	1,290	1,350	1,420	1,490	1,560

Source: EEC Document COM (69) 1200, November 1969.

23. The adoption by the United Kingdom of the EEC arrangements for agriculture would lead to large changes in prices for producers and consumers of food here. The magnitude of some of these changes would be so great compared with previous experience that it is difficult to make a reliable forecast of the response to them in terms of production and consumption.

24. Apart from these inherent uncertainties, there are also the possible consequences of adaptation of the common agricultural policy on enlargement of the Community. In the statement to the Western European Union in July 1967 (Cmd. 3345) the Government set out the main questions in the field of agriculture which they wished to discuss with the Community before entry. This statement referred not only to considerations affecting British producers, consumers and the balance of payments, but also to our obligations to Commonwealth sugar producers and to the special problems of New Zealand. Unlike the uncertainties described above, however, these are essentially matters for negotiation with the Community, and no allowance for modifications to take account of these problems has been made in this assessment.

Method of assessing effects of adopting the common agricultural policy

25. It is clear that any assessment of the effects of adopting the common agricultural policy must depend upon a whole range of assumptions and be subject to a substantial range of possibilities. This is true of the likely effect

on food prices discussed in paragraphs 27-30 below; it is even more true of the likely effects on agricultural production and trade which are discussed in paragraphs 31-37. The effects on production and consumption, together with higher import prices, will determine the effect on our import bill for food. This is one element in the direct balance of payments cost of adopting the common agricultural policy. The other element is the net contribution we must make to the Community's Agricultural Fund; this is discussed in paragraphs 38-43. The breakdown between these two effects is to some extent arbitrary, since the calculations in each sector cannot be considered in isolation. Outside the field of food and agriculture, there is also the effect on imports and exports resulting from the impact on industrial costs of the rise in food prices. This is dealt with in Chapter III.

26. Two points deserve emphasis. An attempt to assess the effects of adopting the common agricultural policy is an attempt to compare what might happen if we became a member of the Community with what might happen if we did not. Thus, although not related to a specific future year, the assessment allows for a period of time to elapse during which the necessary adjustments could take place. Secondly, the assessment assumes that, if we became a member, we should adopt the common agricultural policy essentially as it stands. This is a simplifying assumption which carries no implications whatever as to the changes which might be agreed upon in negotiations for our entry.

Effects on food prices, consumption and the cost of living

27. Food prices in the EEC are higher partly because of the different method of support for agriculture and partly because producer prices under the common agricultural policy for most farm products are set at higher levels than in the United Kingdom. Adoption of the common agricultural policy would involve a rise in food prices for most items through the imposition of levies on imports from non-Community sources and paying Community prices for imports from other members. The change in the system of support would involve a substantial reduction of Government expenditure on agriculture, which in 1968-69 amounted to about £315 million of which about £125 million was in respect of direct price support to farmers. This reduction in Government expenditure would however be accompanied by a reduction in net Government revenue through payments to Community funds, for instance through the transfer of the proceeds of import duties.

28. The precise effect on food prices at the retail level is difficult to predict as it would depend on the extent to which distributive and retail margins changed as a result of the higher first-hand prices. United Kingdom retail food prices would not necessarily be the same as those in another Community country, since as can be seen from the examples in Table 7, there is within the Community at present quite a wide variation of prices. This is due to differences in the quality, composition and presentation of products and in the efficiency of the processing and distributive industries. On the basis of the present price differentials at the wholesale stage, and making certain assumptions about distributive and retail margins, the retail price index for food might be 18-26 per cent higher than it would otherwise have been and this would result in a 4-5 per cent increase in the cost-of-living index. The rise would of course be spread over a period of years with the full effect only being felt at the end of a transitional period and it would be associated with all the other various factors which normally influence the cost of living.

TABLE 7

Retail prices of main foodstuffs in the EEC and the United Kingdom,
October 1969

Shillings and pence per lb.

	Beef		Pork		Chickens (oven ready, for roasting)	Milk (per pint)	Butter			
	s. d.		s. d.		s. d.	s. d.	s. d.			
Belgium ...	15	4 (steak)	9	9 (rib chop)	4	10	7	11		
France ...	12	8 (steak)	6	0 (chine, with bone)	4	3	9	7	5	
Germany ...	9	4 (hind, boneless)	7	10 (chop)	3	10	11	7	4	
Italy ...	12	0 (first quality)	10	6 (first quality)	n.a.		1	0	9	7
Netherlands ...	11	11 (roasting)	8	8 (rib chop)	4	6	10	7	6	
United Kingdom	8	7 (sirloin, without bone)	6	3 (loin, with bone)	3	9	11	3	4	

	Cheese		Sugar	Bread		
	s. d.		s. d.	s. d.		
Belgium ...	5	10 (various types)	1	5	11	
France ...	7	2 (Gruyere)	1	1	1	4 (average of Baguette and Parisien)
Germany ...	7	11 (Emmenthal with rind)	1	2	1	2 (dark, mixed)
Italy ...	12	7 (Parmesan)	1	6	1	3
Netherlands ...	5	11 (Gouda, matured)	1	2	11	(brown)
United Kingdom	3	7 (Cheddar type)		9	11	(white)

Notes:

(1) Prices relate to October 1969, except for Italy for which they relate to July 1969.

(2) As far as possible the quotations given are for the most representative type or quality consumed in each country. Because of the differences between countries of the types, presentation and quality of foodstuffs, the prices can provide a broad indication only of price relativities.

(3) n.a. = not available.

Source: Collation by Ministry of Agriculture, Fisheries and Food of latest available data from various official national statistics.

29. It is of course possible to vary the assumptions inherent in this calculation. The estimates published recently by the CBI* which rely upon different assumptions about the likely course of prices in the United Kingdom, whether or not we were members of the EEC, and about the effects of entry on distributive and retail margins, show generally somewhat smaller percentage increases in the cost of living. Given the surplus situation within the Community, it might well happen that the gap between present EEC prices and world prices would tend to narrow. If that came about, or if distributive and retail margins increased less than expected, then the increase in food prices attributable to the adoption of the common agricultural policy would be less. The estimate of the rise in food prices given in paragraph 28 therefore probably represents the most that is likely to occur.

* "Britain in Europe: A Second Industrial Appraisal", Confederation of British Industry, December 1969.

30. What the effect of an 18-26 per cent rise in retail food prices taking place over a transitional period would be on the pattern of consumers' food purchases is difficult to predict as the increases for some products would differ markedly from those hitherto experienced. In the main the changes would consist of a switch from one food product to another, and spread over a period of years would result in food consumption going up more slowly than it otherwise would have done. It is estimated that the adoption of the common agricultural policy would cause overall expenditure on food (allowing for changes in the pattern of consumption) to be 15-22 per cent higher than it would otherwise have been. In 1967 the corresponding estimate was 10-14 per cent, and the difference is mainly attributable to the change in the relationship between United Kingdom and EEC prices caused by the devaluation of sterling.

Agricultural prices and production

31. The prices at present received by producers in EEC countries for most farm products are higher than in the United Kingdom and it is expected that our producer price levels overall would rise significantly if the common agricultural policy were adopted as it stands.

32. In assessing the production response to the price changes, account has to be taken of a number of other factors. There is the uncertain future of some production grants under EEC regulations on state aids to agriculture and there is the increase in the cost of animal feedingstuffs resulting from the higher cereal prices, a factor of particular importance to pig and poultry producers. And, of course, the significance of particular price levels varies over time depending on farming costs and efficiency; on how farmers' responses are influenced by their assessment of future prospects; on the development of new techniques of production; and on the limits imposed by climate and the quality of land. Moreover, the amount of the response in terms of production naturally depends on what level production has reached at the time the price changes are introduced.

33. Taking all these factors into account, it is only possible to indicate a range—with a "lower" and "upper" estimate—of the possible response of production to these higher prices. But on the assumption that United Kingdom prices would be increased over a transitional period by the amount necessary to eliminate the present gap between them and the EEC prices, the overall effect might be to increase the volume of total agricultural production (net of feed and seeds used) by between 3 and 10 per cent above what it would otherwise have been. Although farmers' total revenue would also be increased appreciably, this would be partly offset by increases in production costs, particularly for feedingstuffs as already described. Farmers' net income would nevertheless be higher than it would otherwise have been, although its distribution, and so the gains and losses, would differ greatly between commodities, types of farm and areas of the country.

34. These estimates assume that producer prices in the United Kingdom would rise from their current levels by the extent of the present difference between United Kingdom and EEC prices. But, in the event, the relationship between United Kingdom and EEC prices could be somewhat different by the time we had adopted Community prices. Given the pressure of surpluses

in the EEC, it is possible that the gap between their prices and ours would narrow. It is also possible, although much less likely, that the price gap would widen. For illustrative purposes therefore an assessment has been made of the possible changes in production if the gap were 5 per cent wider than now when we adopted EEC prices; and also if the gap were to narrow by 10 per cent. With a wider price gap it is estimated that the volume of production might increase by between about 5 and 15 per cent depending, as before, upon whether the production responses were less or more favourable. With a smaller price gap, the overall level of production might be marginally higher or lower than it would be outside the Community depending upon whether the production response was greater or less.

Effects on trade in agricultural products

35. The changes in prices and in production and consumption of food would have consequences for the overall import bill for food and feedingstuffs. This is the first main element in the calculation of the balance of payments cost of adopting the common agricultural policy. Estimates of the changes in the United Kingdom import bill on various assumptions are given in Table 8. In view of the uncertainty surrounding the degree of response to higher retail prices, the calculations of the change in the import bill and of the levies collected on imports from third countries are based on an "upper" and "lower" estimate of changes in consumption. The estimates shown suggest that the change in the food import bill could range from a reduction of £85 million to an increase of £255 million, depending on the response of United Kingdom production and consumption, and the relationship between United Kingdom and EEC prices.

TABLE 8

Estimated change in United Kingdom food imports and estimated levy receipts

£ million

	Larger change in consumption		Smaller change in consumption	
	Food imports ⁽¹⁾	Levies	Food imports ⁽¹⁾	Levies
<i>Present difference in prices</i>				
1. Upper production response ...	-85	185	+105	210
2. Lower production response ...	+60	195	+250	220
<i>Middle production response</i>				
3. Present difference in prices ...	-15	190	+175	220
4. Smaller difference in prices ...	+80	165	+255	185
5. Larger difference in prices ...	-75	195	+120	230

⁽¹⁾ Estimated change in food and feed import bill (net of exports) at c.i.f. prices.

36. The estimates in paragraph 35 do not include the value of the import levies which would be imposed by the United Kingdom under the EEC agricultural system. Estimates of these are given separately in the table for each of the possible outcomes for the import bill. The amount of the levies is particularly difficult to forecast because they are charged only on imports from non-Community countries; certain assumptions therefore have to be made about the changes in the source of food imports. In effect, these levies represent an additional charge on the cost of importing food, since under the EEC system the levy proceeds would be paid over into Community funds; the implications of this are dealt with in the next section of this chapter.

37. The estimates given above of the changes in the import bill are intended to take account of the possibility of offsetting changes in exports of agricultural products. Compared with food imports, these exports are of course small, and half of their value is represented by exports of alcoholic and other drinks. If the United Kingdom becomes a member of the Community, other members would remove the tariffs and levies to which United Kingdom exports are at present subject, and the United Kingdom would do the same as regards imports from the Community. The effect on our exports of manufactured foods would depend on much the same considerations as apply to industrial exports generally and this has therefore been taken into account in the next chapter. Direct exports of certain agricultural commodities and of fish could be stimulated but a large net increase is not expected, since additional exports of products in which we are not self-sufficient would be likely to bring about a corresponding increase in imports.

Contribution to the Community Agricultural Fund

38. In addition to the effect on the import bill, which is considered in the immediately preceding section, the other agricultural element in the cost to the balance of payments is the amount of the net contribution by the United Kingdom to the Agricultural Fund.

39. The future cost of the Agricultural Fund depends not merely on the course of world and EEC prices, but on decisions which have yet to be taken on the Mansholt Plan and on market reforms, which in turn will affect the balance between agricultural production and consumption. These decisions will determine not only the future level of expenditure on market support and on schemes for structural reform, but also how far they will be financed out of Community or national funds. The enlargement of the Community will itself increase the claims upon the Agricultural Fund, an additional cost which will be offset by reduced payments on market intervention or export subsidies to the extent that the enlarged Community can absorb commodities currently in surplus. The EEC Commission has estimated that expenditure on agriculture by the enlarged Community might in a few years' time amount to £1,560 million (3,750 million UA) if present policies continue and £1,750 million (4,200 million UA) if the reforms proposed in the Mansholt Plan are adopted. These estimates, the detailed basis of which has not been disclosed by the Commission, clearly depend upon certain assumptions about the extent to which the surplus problem is brought under control, and the extent to which any structural expenditure is borne by Community funds.

40. The amount we would be likely to get back out of this agricultural expenditure would probably be relatively small; perhaps of the order of £50 million to £100 million depending on the way the common agricultural policy developed.

41. The method of financing Community expenditure on agriculture and certain non-agricultural items which was agreed in principle by the Six in December 1969 is described in detail in paragraph 18 above. The essential features of this agreement are that the contribution to agricultural expenditure of each member state for 1970 was fixed as a percentage of the total sum required. For subsequent years, individual member states would be required to subscribe 90 per cent of the levies collected on agricultural imports; an annually increasing proportion of import duties up to a maximum of 90 per cent by 1975; and from 1975 any balance required would be provided by contributions corresponding at the most to a 1 per cent value added tax. There is, however, a further provision that, subject to unconditional payment of levies, the proportion of this expenditure paid for by each individual member state should not rise by more than 1 per cent or fall by more than 1.5 per cent as compared with the previous year from 1971-74; or rise or fall by more than 2 per cent annually from 1975-77.

42. Thus, the main determinant of the proportionate contribution of individual members would be likely to be the percentage share of agricultural expenditure which in December 1969 was agreed in principle for each of them for 1970. It is of course impossible to say at what level our share would have been fixed if we had then been a member. In the circumstances the best that can be done is to indicate—as a form of ready reckoner—what our contribution might have been to the Agricultural Fund in 1970, and in subsequent years, if we had been a member and our share, within a Community of Ten instead of Six, had been set at respectively 15 per cent or 20 per cent. This is done in the following table which relates these percentages to the Agricultural Fund which is assumed to rise from, say, £1,250 million in 1970 to £1,600 million in 1977. As explained in paragraph 18, it is not yet clear what non-agricultural expenditures would be covered by these arrangements but they would seem unlikely to increase our annual contribution by more than about £15 million.

TABLE 9

Year	Size of Agricultural Fund	£ million	
		United Kingdom contribution (to nearest £10 million) assuming share in 1970 of:	
		15 per cent	20 per cent
1970	1,250	190	250
1971	1,300	200	260
1972	1,350	210	280
1973	1,400	220	290
1974	1,450	230	300
1975	1,500	240	320
1976	1,550	250	340
1977	1,600	270	350

It is estimated that 90 per cent of United Kingdom agricultural levies might bring in about £150 to £200 million by the late 1970s; 90 per cent of United Kingdom customs duties might by then be about £240 million; and the yield corresponding to a 1 per cent value added tax could, depending on the coverage, range up to about £230 million. Since 90 per cent of a member country's levy income must be paid to the Community, it will be seen that, if the United Kingdom had been a party to the agreement reached in the Community in December 1969, our annual contribution to the Community's budget could not have been less than £150 million (equivalent to 90 per cent of our lower estimate of levy income). The above figures also show that on the same basis there would have been a theoretical upper limit to our contribution of about £670 million. In practice, our contribution would have been fixed within narrower limits by the percentage share agreed for us, and for other members of the Community, in the recent financial settlement.

43. For the purposes of illustration, an attempt has been made above to show on various assumptions what the cost of the common agricultural policy might have been for the United Kingdom if we had been a party to the recent agreement by the Community on agricultural financing. But of course we were not, and in the negotiations it will be necessary, not only to settle our starting contribution to the Fund, but also to settle the transitional arrangements under which we approach paying our full share of the recently agreed Community financing arrangements which will be changing from year to year.

Net effect on the balance of payments

44. Taken together, the trade effects and the financial charges described in the paragraphs above represent the net effect on the balance of payments of adopting the common agricultural policy. When this calculation was made in 1967, it was estimated that the net cost to the balance of payments would be £175-£250 million annually. The net cost is now likely to be greater than this, partly because of the effects of the devaluation of sterling and partly because of the greatly increased cost of the European Agricultural Fund. The preceding sections of this chapter have attempted to describe the elements which have to be taken into account in making an assessment of this kind and the reasons why a number of alternative assumptions can and must be made in relation to many of them; and to indicate some of the orders of magnitude which attach to them. It is clear that a very wide range of estimates is possible, although the extreme assumptions at either end of the spectrum could not be regarded as realistic since they would depend on all factors operating in the same direction. In practice it is much more likely that the outcome would result from a combination of factors some more favourable than others. But in the crucial area of our financial contribution to the Fund, there is just not a sufficient basis, in advance of negotiations, for making reliable assumptions either about its cost or our share of it. The present members of the Community have made it clear that they wish to bring the cost under control, but the implementing decisions have not yet been taken. They have reached agreement in principle on arrangements for meeting the cost, but their application in a reasonable and equitable way to our situation must be a matter for negotiation, as has always been recognised.

III. TRADE AND INDUSTRY

Trade and industry in the Common Market

45. The Treaty of Rome provides for the progressive establishment of a Common Market with free movement of goods, persons, services and capital. It contemplates the evolution of common policies for agriculture, transport, foreign trade, regional development and for consultation and collaboration on economic and social matters. This chapter is concerned with Community policies directly affecting trade and industry.

46. A Customs Union was completed by the EEC on 1st July, 1968. It involved the complete abolition (other than in exceptional circumstances) of tariff and quota restrictions between the member states, and the replacement of the national external tariffs of the member states by a Common External Tariff (CET) which is applied against imports from all third countries except those having preferential arrangements with the Community.

47. The growth and pattern of the foreign trade of the EEC over the 10 years since the Community was formed is compared in Tables 10 and 11 below with the United Kingdom pattern.

48. Both the CET and the United Kingdom tariff will be progressively reduced as a result of the "Kennedy Round" tariff agreements reached in the GATT, and the comparison which follows relates to the situation as it will be after full implementation of these reductions which is due from 1st January, 1972. The duties on most raw materials are zero in the CET, as in the United Kingdom tariff; examples are raw wool and cotton, most metallic ores, unwrought copper and tin, natural rubber and most unprocessed hides and skins, many of which are important Commonwealth exports. A few materials of major importance such as aluminium, lead, zinc and newsprint, are dutiable under the CET* (currently at rates between 4.5 per cent and 9.0 per cent), but are subject to zero or very low duties in the United Kingdom: and certain materials are dutiable here but not under the CET. The bulk of the latter category are, however, materials of which most of our imports enter duty free from the Commonwealth Preference Area. Examples are asbestos and coir fibre. In the agriculture and food sectors, duty free imports from the Commonwealth Preference Area represent a considerable part of our total imports. In certain cases, Commonwealth supplies which are at present allowed into this country duty free would become subject to quite a high rate of duty under the CET, for example mutton and lamb and bananas (CET currently 20 per cent).

* Under certain circumstances, member states may be authorised to import specified quantities of a product at a duty lower than prescribed in the Common External Tariff. These tariff quotas, which are reviewed periodically, cover only a small proportion of Community imports.

TABLE 10

External trade of the EEC

(excluding intra-trade)

	1958		1968		Percentage increase 1958-68
	£ million	Per cent of total	£ million	Per cent of total	
<i>Imports</i>					
Total	5,747	100	13,978	100	143
of which					
United Kingdom	420	7	1,069	8	155
Continental EFTA ⁽¹⁾	943	16	2,201	16	133
Rest of world	4,384	76	10,708	77	144
Food, beverages and tobacco ...	1,436	25	2,538	18	77
Basic materials and fuels ...	2,695	47	5,523	40	105
Manufactured goods	1,591	28	5,683	41	257
<i>Exports</i>					
Total	5,667	100	14,704	100	159
of which					
United Kingdom	474	8	1,303	9	175
Continental EFTA ⁽¹⁾	1,366	24	3,539	24	159
Rest of world	3,827	68	9,862	67	158
Food, beverages and tobacco ...	542	10	1,046	7	93
Basic materials and fuels ...	527	9	1,023	7	94
Manufactured goods	4,523	80	12,467	85	176

Source: OECD Series B.

⁽¹⁾ Including Finland.

Note: Import values are c.i.f., export values f.o.b.

harmonisation of commercial policy, *i.e.*, trading relations with third countries; of economic and fiscal policy; of company and patent law; of standards for industrial products, including specifications for public sector purchasing; and generally of the whole structure of law and practice within which industry would operate.

53. The creation of such an enlarged and integrated European market would provide in effect a much larger and a much faster growing "home market" for British industry. It would provide the stimuli of much greater opportunities—and competition—than exist at present or would otherwise exist in future. There would be substantial advantages for British industry from membership of this new enlarged Common Market, stemming primarily from the opportunities for greater economies of scale, increased specialisation, a sharper competitive climate and faster growth. These may be described as the "dynamic" effects of membership on British industry and trade. It has not been found possible to measure the likely response of British industry to these new opportunities nor, therefore, the effects on our economic growth and balance of payments. On the other hand we should have to make changes in our tariffs and food prices in order to join the Community and the net effect of these changes would be disadvantageous to British industry. These may be described as the "impact" effects of membership. It has been possible to make a rough estimate of the possible cost to the balance of payments of these impact effects.

54. It is noted in Chapter II that membership would lead to an increase in United Kingdom food prices to Community levels and accordingly to an increase in our cost of living. It has been estimated that the maximum increase which would be likely to occur if we joined the Community would involve the index of retail prices rising over a transitional period by about 4 to 5 per cent more than it otherwise would.* This additional increase in the cost of living spread over a transitional period of some years could raise the future level of wage settlements somewhat above what it otherwise would be and any consequent increases in industrial costs would of course adversely affect our competitive position.

55. It has also been argued that the requirement to harmonise the systems of indirect taxation of the member states would affect the cost of living here. It is not possible however to make any quantitative assessment of the effect in the United Kingdom, not least because the EEC have not settled on a common system of rates and coverage of value added tax.

56. At present we enjoy special preferential trading relationships with the Commonwealth Preference Area, EFTA and the Irish Republic. If we moved into a new enlarged Community, these existing trade relationships would be affected to our disadvantage. In the new circumstances, subject to any special arrangements made in the course of negotiations, we should generally apply the CET against imports from third countries, including the Commonwealth, and we could hardly expect that all our existing Commonwealth preferences would be maintained indefinitely. We stand to

* The index of retail prices has risen by 34 per cent between January 1962 and December 1969.

lose the tariff preference over the Six which we now enjoy in the Irish Republic and in EFTA countries. Finally, we should of course gain duty free entry for our exports to the Six and we should concede it on imports from them. Thus, in exchange for the new preferential position we should enjoy behind the CET in the enlarged Community, we should expect to lose most of our existing preferences. But in order to make a true comparison of our situation inside and outside the Community some years hence, it is necessary to take into account the probability of continuing erosion of preferences in the Commonwealth and the possibility of new preferential trading arrangements between the Community and some of our trading partners. It is relevant in this connection that a number of Commonwealth countries in Africa have found it to their advantage in recent years to give tariff preferences, to our disadvantage, to the Six.

57. Finally, in considering the disadvantages of membership for industry and the economy, we must recognise that if the total burden on our balance of payments as a result of membership became excessive we might find that we were unable to pursue economic policies which enabled the full benefits of membership to be realised. Since such an outcome would be as contrary to the interests of the Community as of the United Kingdom, the Government would expect to find its avoidance a common aim of all concerned with the negotiations.

Effects on United Kingdom visible trade

58. The effects of the tariff and cost changes would depend on the responses to these changed conditions of exporters and their customers throughout the world. Any attempt to measure what these responses might be and what effect they would have on our trade can only be based on past experience, including the recent experience of devaluation. The degree of the response in flows of trade to a given change, say a decline in tariffs or in relative cost levels, depends partly on the ability of supply industries to respond to the increased opportunities for profitable sales, and partly on the extent to which lower prices call forth increased demand. The elasticities used for the purpose of the estimates which follow allow for both kinds of response, and allowances are also made for some degree of absorption by United Kingdom and foreign suppliers of tariff and cost changes. Inevitably there must be great uncertainty about the degree of response. Higher and lower values have been taken for the response elasticities for both imports and exports. For imports it is assumed that, given a change of 1 per cent in prices arising from changes in tariffs or costs, the response in the quantity imported would be between $\frac{1}{3}$ per cent and $1\frac{1}{2}$ per cent. For exports the assumption is that the response to a 1 per cent change in prices would be a quantity change between $1\frac{1}{2}$ and $2\frac{1}{2}$ per cent. The assumption about the response of suppliers to tariff changes is that those faced with a tariff change to their advantage would absorb one-quarter of the change. This would increase their unit profits and it is assumed that a 1 per cent increase in unit profits would lead to a $\frac{1}{2}$ per cent increase in the volume exported on the lower assumption for elasticities and to a 1 per cent increase on the higher assumption. Suppliers faced with a tariff change to their disadvantage

are assumed to react competitively by cutting their prices to the extent of one-quarter of the change. These assumptions imply a fairly modest degree of response by both buyers and sellers.

59. Using these elasticities it is possible on the basis of a number of other assumptions to make some very rough quantitative estimates of the effects of the cost and tariff changes described in paragraphs 54 and 56 on the value and pattern of United Kingdom visible trade in the mid-1970s. The table below sets out in summary form these rough estimates of the effects on United Kingdom exports and imports on the higher and lower assumptions about elasticities.

TABLE 12

Summary of Impact Effects on the Balance of Trade in Items other than Food

£ million at 1968 prices

	Lower Elasticities	Higher Elasticities
Exports	-75	-175
Imports*	-50	-100
Balance of Trade	-125	-275

* Increase in imports shown as -.

60. These estimates do not purport to evaluate the total net effect on our trade of joining the EEC. In order to arrive at them, it has been necessary to make a whole series of assumptions about the future course of world trade over the next five years or so and to adopt highly over-simplified assumptions about the effect and timing of a complex series of tariff and cost changes on the wide range of goods entering into our foreign trade. Each of these assumptions can be little more than an informed guess which may be very wide of the mark. The actual situation in the mid-1970s will be fundamentally affected by the relative development of the economies of the main industrial countries during the intervening years and this in turn depends on a wide range of factors which it is impossible to predict. It is particularly important to bear in mind that the estimates shown in Table 12 relate to a total flow of United Kingdom trade which by the middle of the decade is expected to be about 25 per cent greater than it is now and to be of the order of £18,000 million valued at 1968 prices. The significance of the figures showing the effect on the visible trade balance will therefore be relatively less than it would be today. Furthermore, these estimates only deal with the impact effects. For the reasons given in paragraphs 54 and 56 these effects are bound to be on balance adverse. No corresponding estimates can be made of the dynamic effects of membership but the next section of this chapter discusses these in qualitative terms and sets out the reasons for believing that providing United Kingdom industry responds vigorously to the opportunities there will be substantial benefits to set against the adverse impact effects.

The benefits for United Kingdom industry and trade of membership of an enlarged Community

61. The main consequence of membership for British industry is, as we have seen, that the "home market" will be several times larger than our existing home market, including EFTA. And the new home market will be a more rapidly growing one than the present home market. If we join the Community, companies will be able to plan their sales and investment on the basis of a prosperous home market of approaching 300 million people.

62. The dismantling of tariffs within the present Community and the maintenance of a moderate common tariff against the rest of the world have resulted, as might be expected, in a particularly rapid increase in intra-Community trade. This trade multiplied four times between 1958 and 1968, from £2,800 million to nearly £11,000 million. By comparison, United Kingdom exports to the Community over this period increased only 2½ times, even though the Community was our biggest single export market during this period. The following table shows the rate of growth of exports by individual member countries to their Community partners in comparison with their exports to the world.

TABLE 13

Exports by EEC countries

Average Annual Percentage Growth Rate of Exports 1958-1968

	To other EEC	To Rest of World
	%	%
France	17	6
Germany	15	8½
Italy	21	12
Belgium/Luxembourg	14	5½
Netherlands	13½	6½

Source: United Nations statistics.

This pattern is reflected in the declining share of EEC imports obtained by third countries, which fell from 70.3 per cent in 1958 to 54.2 per cent in 1968. The United Kingdom share of EEC imports of manufactures in the same period fell from 10.6 per cent to 7.1 per cent.

63. The market we should be joining is not only larger but growing substantially more rapidly than ours. As shown by Table 14 below, from 1958-67 the annual rise in the gross national product (g.n.p.) per head averaged 2½ per cent in the United Kingdom compared with 4 per cent in the Community.

TABLE 14

Growth of gross national product per head at 1963 market prices
1958-67

		Average annual percentage increase			
EEC countries		EFTA countries			
Germany	...	3.7	United Kingdom	...	2.5
France	...	3.9	Sweden	...	3.8
Italy	...	4.8	Norway	...	4.0
Belgium	...	3.8	Denmark	...	4.2
Luxembourg	...	n.a.	Austria	...	3.7
Netherlands	...	3.7	Switzerland	...	3.1
Average all EEC countries*	...	4.0	Portugal	...	5.2
			Average all EFTA countries*	...	3.0

Source: OECD National Accounts of OECD Countries, 1958-67.

* At 1963 exchange rates.

Although a number of EFTA countries have also enjoyed a comparatively high growth rate, the preponderance of the United Kingdom in EFTA has meant that the EFTA market as a whole has grown much more slowly than the EEC.

64. The more rapid growth in the EEC compared with the United Kingdom is also indicated by the fact that between 1958 and 1967 industrial production in the Six rose by 68 per cent, in the United Kingdom by 37 per cent. Table 15 compares the development of output in certain industries in the United Kingdom and the EEC over this period.

65. There were and still are a number of factors at work encouraging faster growth in the Community than in the United Kingdom. More workers now leaving agriculture for industry; the advantages of post-war rebuilding of major industries with new machinery and the latest technologies; and generally a significantly lower proportion of g.n.p. expended on defence, though the gap has been narrowing over the last few years. Nevertheless it seems highly probable that the creation of the Community itself generated a faster rate of growth through greater specialisation and greater competition than the economies of the Six member countries would have separately enjoyed and that, apart from the likely beneficial effects on growth of the enlargement of the Community, an enlarged Community would in any event continue to grow faster in future than the United Kingdom or EFTA on their own.

TABLE 15

United Kingdom and EEC output, 1958-67
Index numbers (1958 = 100)

		Output	
Categories ⁽¹⁾		United Kingdom	EEC
Division 71	Machinery other than electric ⁽²⁾ ...	178	209
of which	715.1 Machine tools for working metals ⁽²⁾ ...	183	213
Division 72	Electrical machinery, apparatus and appliances ⁽²⁾ ...	183	202
Division 73	Transport equipment ⁽³⁾ ...	137	215
of which	ex 732 Passenger cars ⁽³⁾ ...	148	217
	Commercial vehicles ⁽³⁾ ...	123	140
Division 5	Chemicals ⁽⁴⁾ (⁵) ...	183	244

Source: Based on various sources, including figures published in "The Motor Industry of Great Britain" series by The Society of Motor Manufacturers and Traders.

⁽¹⁾ Categories are defined in terms of the United Nations Standard International Trade Classification (SITC).

⁽²⁾ Values of deliveries at current prices (expressed in United States dollars, *not* adjusted for price movements).

⁽³⁾ Based on figures relating to numbers of vehicles.

⁽⁴⁾ Including synthetic rubber and photographic chemical materials.

⁽⁵⁾ Volume of output.

66. The creation of this very large and fast growing home market will provide greater opportunities and greater competition for British industry. The rapid development of intra-Community trade is a reflection of growing international specialisation, and the need for United Kingdom industry to participate fully in this was a theme which found a considerable amount of support in the recent industrial assessments made by the Economic Development Committees of the National Economic Development Council in analysing medium-term prospects. It is of course true that the widening of the field of competition will stimulate the industries of other member countries as well as those of the United Kingdom, but for the EEC countries this would be a further phase in a process to which they have been subjected for a number of years, and the future rate of growth of the enlarged Community may not be exceptionally high by EEC standards. On the other hand, for the United Kingdom the new market would be a stimulus and an opportunity on a quite different scale from that provided by EFTA and with a rate of growth which could also be expected to be substantially higher than in EFTA. In this connection, it is of interest to note that, when the prospect of British membership was before industry in the early 1960s, there were indications of a much more significant increase in interest and activity on the part of British than of Community industry. A study of the trade trends in 1960-63 shows that the proportion of United Kingdom exports going to the EEC increased perceptibly.

67. Moreover, a faster growing market will provide British industry with opportunities, which it has not shared with the rest of western Europe since the war, for a *sustained* high level of investment in new plant and

equipment. Such investment would serve to improve our competitive position, not only in relation to the Six, but also to the rest of the world. The economic position of Belgium in the 1950s had features in common with that of the United Kingdom. Over the period 1953-60 the annual average rate of growth of g.n.p. was 2.9 per cent in Belgium and in the United Kingdom. But over the period 1960-67 the rate of growth in Belgium had more or less caught up with the faster growth rates of her fellow members in the European Community: Belgium's average over this period was 4.6 per cent compared with 3.0 per cent for the United Kingdom, and this higher growth rate was achieved with a net surplus on the current Belgian balance of payments over the period as a whole. This experience will not be directly applicable to the United Kingdom. Only time would show the response of British industries to the new opportunities and greater competition which in turn would determine the extent of the long-term benefits to the United Kingdom growth rate and balance of payments. But an increase of 1 per cent in our g.n.p. would be equivalent in the mid-1970s to something approaching £500 million a year at present prices.

68. *Inward investment into the United Kingdom.* Linked with the question of growth is the degree to which the United Kingdom will in future attract overseas investment—particularly from the United States. In addition to its benefits to the reserves, this has been of considerable benefit to the United Kingdom economy in several ways; in providing jobs (particularly in development areas), in its contribution to exports and in the dissemination of technology and management techniques. If the United Kingdom remained outside the Community, it is likely that American investment in the Six would be stimulated at the expense of the much smaller and less rapidly growing United Kingdom market. If on the other hand the United Kingdom entered, it is likely that we would attract substantially more American investment to this country than if the United Kingdom remained outside. The fact that net additional American investment in this country in 1968 totalled £246 million shows that the stakes are high.

69. *Protecting United Kingdom trade interests.* Apart from these factors of growth and investment, there remains the question of the United Kingdom's ability to protect its economic interests if it remained outside the Community. Since the formation of the European Economic Community, the United Kingdom's position in international trade negotiations has been weakened because a country's bargaining power depends largely on the size of its market, and ours is now relatively small compared with the Community and the United States. We might find ourselves in the position of seeing arrangements governing international trade negotiated in the main by others—in particular the European Economic Community and the United States. On the other hand, as a member of an enlarged Community, we should share in the bargaining strength of the biggest trading bloc in the world and have an important voice in determining how that strength was used.

70. *High technology industries.* So far, the effects of membership on British industry have been considered as a whole. But the future of the so-called high technology industries—in the rest of western Europe just as much as in the United Kingdom—depends decisively on whether or not it proves possible to create an enlarged Community.

71. Approaching one half of manufacturing output of the United States and western Europe is in industries which rely heavily on advanced technologies—such as engineering, electrical and electronics, chemicals. These have been and still are fast growing sectors in most developed countries. Their growth depends on a number of factors—marketing and rate of innovation for example—besides research and development (R and D) which nevertheless play a most important role. The very high expenditure on research and development in these industries is illustrated in Table 16. This expenditure on R and D is accompanied by high risks and rapid outdating of products.

72. In this very important matter, European industry suffers from three relative disadvantages:

- (a) the support that is given in the United States, both directly and indirectly, by the large scale of Government expenditure on R and D is far more massive than is practicable in Europe;
- (b) national markets in Europe—even the Community as it is at present—are too small to generate the financial and other resources needed for the adequate growth of such industries, particularly in competition with the United States. Even the enlarged Community's gross national product would fall short of that of the United States;*
- (c) the larger the company and its financial resources, the greater its capacity to incur substantial expenditure on R and D; in this sense, there is a certain threshold linked with the size of the company. The threshold may be quite small for some highly specialised producers but, in general, western Europe suffers seriously from lack of companies of a sufficient size to be able to command R and D resources on the scale required to compete effectively with the United States.

In an enlarged Community there would be the opportunity, because of the larger market, for European firms, British and Continental, to grow to the point where adequate R and D expenditure became profitable and practicable in fields where today it is not.

73. This does not of course mean that technological co-operation in Europe as it exists is impossible. In the defence field there have been some successes and the recent agreement on the gas centrifuge is an indication of what can be achieved on civil projects when the economic viability can clearly be established. But on the whole the record has been disappointing. More generally, a beginning has been made on studies of possible future technological co-operation in Europe, through the Working Group of the Community's Medium-Term Economic Policy Committee, under the chairmanship of Professor Aigrain. Proposals have been made by this Group for new co-operative European studies and research in the fields of computers, communications, surface transport, metallurgy, meteorology,

* g.n.p. at market prices, in United States dollars ('000 million)

	1964	1965	1966	1967
United States ...	642.8	696.3	760.5	803.9
United Kingdom	93.0	100.1	106.1	109.3
EEC ...	279.5	302.3	323.5	341.0

Source: OECD National Accounts of OECD Countries 1958-67.

TABLE 16

1964 expenditure on research and development

	United States		United Kingdom		France		Germany	
	£ million	Per cent	£ million	Per cent	£ million	Per cent	£ million	Per cent
Total expenditure ...	4,781	100.0	489	100.0	262	100.0	318	100.0
of which—								
Aircraft ...	1,825	38.2	139	28.4	59	22.5	—	—
Electrical ...	943	19.7	97	19.8	68	26.2	90 ⁽¹⁾	28.2
Chemicals ...	580	12.1	65	13.3	47	17.8	102	32.0
Machinery ...	368	7.7	31	6.4	13 ⁽²⁾	5.0	—	—
Motor vehicles ...	426 ⁽³⁾	8.9	32	6.6	14	5.4	58 ⁽⁴⁾	18.1

Source: Based on OECD study of R and D in member countries.

Notes:

The above figures, which have been converted at the 1964 official exchange rates, cover R and D expenditure by private industry, public corporations and research associations, including Government expenditure in private industry, but not Government expenditure in Government establishments.

(1) Includes instruments.

(2) Includes metal products and instruments.

(3) Includes shipbuilding and other transport.

(4) Includes metal products.

oceanography and pollution. As a result of this initiative, leading manufacturers of computers in the United Kingdom and other European countries have already begun discussions amongst themselves about concerting their ideas for the development of advanced computers. The United Kingdom amongst other European nations has been invited to be associated with the further development of the proposals by the Working Group and we have gladly accepted.

74. But such co-operation can only be fully productive within an enlarged economic union, for the goal is not co-operation for its own sake, but the opportunity over a period to build European enterprises on a continental scale and thus for Europe to hold its own in future industrial development with the United States and the Soviet Union. And in all this the record of the United Kingdom in technological development entitles us to hope and the rest of Europe to expect that our role will be a prominent one.

75. *Company size and monopoly.* The benefits of membership of an enlarged Community will by no means go only to large companies in Europe. The opportunities for successful specialisation by the small entrepreneur should be greater in a larger and more competitive market. Technological innovation in the United States, particularly in the new and more speculative fields, has often been supported by very small industrial enterprises. But successful competition with the United States in the high technology industries of the future will increasingly depend on the existence of at least some west European companies of comparable size to their United States counterparts. At present, most of the largest companies in the United Kingdom and in the rest of western Europe are much smaller than their United States competitors (see Table 17). The existence of an enlarged Community can be expected not only to provide the environment in which European companies would be able to grow in size and in command of resources, but also an environment in which companies of such size would be acceptable. Within the United Kingdom, for example, it is necessary for the Government to weigh the advantages of the economies of scale and concentration of resources offered by a prospective merger against the possible dangers of a monopoly or near monopoly situation which might result. Within an enlarged Community, the position with regard to monopolies would be different. What would be a monopoly situation within the United Kingdom would not necessarily remain one when the United Kingdom formed part of a larger market to which French and German companies would have duty-free access.

TABLE 17

Company Turnover

Country	Chemical	Electrical engineering, electronics, computers, etc.	Motor vehicle	Aircraft and aerospace	Machine tool
United States	Du Pont	General Electric	General Motors	McDonnell Douglas	Prait & Whitney
	Union Carbide	IBM	Ford	Boeing	Machine Tool
	Monsanto	Western Electric	Chrysler	General Dynamics	Division of Colt Industries
	W. R. Grace	Westinghouse Electric		United Aircraft	Norton Co.
	Dow Chemicals	RCA		Lockheed Aircraft	Cincinnati Milling Machines
United Kingdom	Allied Chemicals	General Telephone and Electronics		Grumman Aircraft	
	ICI	GE and EEC Ltd.	British Leyland Motor Corporation Ltd.	Hawker Siddeley Group	John Brown (Wickman)
Italy	Shell Chemical	Thorn Electrical Industries	Ford Motor Co.	Rolls-Royce	Staveley Industries
	British Oxygen	Plessey International Computers (Holdings)	Vauxhall Motors	BAC	Alfred Herbert & Co.
Germany	British Petroleum		Rootes Motors		
	Montecatini Edison	Olivetti	Fiat Sp. A		
France	Hoechst	Siemens	Alfa Romeo	Messerschmidt Bolkow	
	Bayer	AEG/Telefunken	Volkswagenwerk	Blohm	
Netherlands	Rhone Poulenc	Bosch	Daimler-Benz	VFW	
	AKU	Thomson Brandt (includes CSF)	Opel		
Japan	KZO	Philips	BMW		
	Idemitsu-Kosan	Hitachi Matsushita Electric Industry	Renault	Sud-Aviation	
			Citroen	SNECMA	
			Peugeot	Avion Marcel Dassault	
			Simca	Nord Aviation	
			DAF		
			Toyota Motors		
			Nissan		

Notes:

Sales are given to two significant figures. They have been assembled from a variety of sources for the calendar year 1968 or the nearest convenient financial year. Because of the variety of sources complete comparability is not possible, but the figures represent orders of magnitude for broad comparative purposes. The sales figures given for individual firms in some cases include sales for products other than the broad industrial sectors under which firms are listed.

Conclusion

76. The probable effects on industry and trade of entry into the EEC may be summarised as follows. On the one hand, there are the impact effects. The increase in wage-levels following the rise in food prices would tend to reduce the competitiveness of our industrial producers and this, combined with the tariff changes involved in membership, would affect both exports and imports in directions damaging to the balance of payments. A very rough estimate of the adverse effect of these two factors on trade in the mid-1970s is that it could be of the order of £125-£275 million. If to this was added an excessive balance of payments burden arising from the acceptance of the EEC's agricultural arrangements, defensive policies might be enforced on the United Kingdom Government which would restore the balance of payments position at the cost of damaging the growth of industry's market in the United Kingdom.

77. On the other hand, there are the dynamic effects resulting from membership of a much larger and faster growing market. This would open up to our industrial producers substantial opportunities for increasing export sales, while at the same time exposing them more fully to the competition of European industries. No way has been found of quantifying these dynamic effects but, if British industry responded vigorously to these stimuli, they would be considerable and highly advantageous. The acceleration in the rate of growth of industrial exports could then outpace any increase in the rate of growth of imports, with corresponding benefits to the balance of payments. Moreover, with such a response, the growth of industrial productivity would be accelerated as a result of increased competition and the advantages derived from specialisation and larger scale production. This faster rate of growth of productivity would, in turn, accelerate the rate of growth of national production and real income.

78. Finally, it must be remembered that the comparison which has to be attempted is between our position as members of an enlarged Community and our position if we remained outside it in the mid-1970s. During that period the preferences which we at present enjoy might well have been further eroded and our general trading interests prejudiced by developments over which we should not have been able—as non-members—to exercise so much influence.

IV. CAPITAL MOVEMENTS AND INVISIBLE TRADE

Community obligations and safeguards

79. Under the Treaty of Rome and the two existing Directives on capital movements, member states must authorise both inward and outward transfers from and to other member states at the official rate of exchange (or at rates showing no "marked and persistent differences") for direct investment, quoted portfolio investment, real estate and a number of transactions of a personal character. (Direct investments are those where the investor plays a direct part in the running of the enterprise in which he has a stake. Portfolio investment means the acquisition of securities quoted on a stock exchange.) In addition, companies resident in one member country but owned by residents of another must be allowed to borrow in the country of residence on an equal footing with resident-owned companies.

80. Certain articles of the Treaty provide that protective measures may be taken by a member state, subject to the approval of the appropriate Community bodies, in order to safeguard its balance of payments in times of crisis or in cases where movements of capital threaten the proper functioning of its own capital market. This indicates that there is a measure of flexibility in this field, which should be borne in mind in considering the assessment below. The Treaty also provides for a member state to take measures to avoid leaks of capital to third countries through other member states with different exchange control policies.

United Kingdom practice

81. Restrictions at present operated through exchange control in respect of United Kingdom investment in EEC countries safeguard the balance of payments. Under existing exchange control rules, the normal methods of financing direct investment in the EEC are the ploughing back, within limits, of part of the earnings of subsidiaries and other related companies in Europe, and the use of foreign currency borrowing. The financing of direct investment by transfer from the United Kingdom at the official rate of exchange is permitted only, within certain limits, for oil investment and, in other cases, where the prospective balance of payments return meets a stringent criterion. Financial institutions may be permitted to borrow foreign currency to finance portfolio investment in foreign currency securities but purchase of such securities is permitted otherwise only in "investment currency", that is, the proceeds of sale of other resident-owned foreign currency securities, on which a substantial premium is normally payable. Access to official exchange is not allowed for the acquisition of private houses in EEC countries and there are restrictions on other personal capital transfers.

Assessment: some special factors

82. The method used to assess the effects of United Kingdom membership of the EEC on inward and outward capital movements has been to take account of the possible pattern of capital flows in the mid-seventies on the assumptions that the United Kingdom was to remain outside the EEC, and was

to maintain its present exchange control rules (which would depend in practice on the development of the balance of payments situation); and then to consider how that pattern might change if the United Kingdom were a member of the EEC, at the end of a transitional period.

83. There are differences between this assessment and those for agriculture and trade. Flows of capital have a different kind of effect upon the balance of payments from changes in the trade account. An adverse effect upon the current account involves a permanent cost to the balance of payments; a net capital outflow for investment also involves an immediate cost to the balance of payments, but it creates assets abroad, and promises a future flow of receipts in the form of earnings. Moreover, investments, especially portfolio investments, are from time to time realised, producing balance of payments benefits.

84. A second difference is that the volume of capital flows is more volatile than the trend of payments on trade account. Large individual direct investments, in either direction, occur irregularly. The volume and direction of flows of portfolio investment are influenced by many factors, including the state of confidence in relative prospects for different economies and currencies.

Direct investment

85. Total United Kingdom outward direct investment has been rising, and is almost certain to continue to do so. The proportion of the total invested in the EEC has also been increasing over recent years. Membership of the EEC would remove the present incentive to invest in other EEC countries in order to overcome the tariff barrier, but the EEC proportion of total United Kingdom direct investment abroad would be likely to rise further with increasing trade and with the process of industrial rationalisation as, for example, United Kingdom firms sought economies of scale through mergers with their European partners.

86. Of the increased flow of outward investment to the EEC, a sizeable proportion would probably continue to be financed as now by foreign currency borrowing, which avoids a net cost to the balance of payments, or by share exchanges, with equivalent effect. However, a larger proportion than at present would probably be financed from retained earnings or with official exchange, both at a cost to the balance of payments.

87. Some increase may reasonably be assumed in the flow from other EEC countries of direct investment into the United Kingdom. But allowance must also be made for possible increased borrowing in the United Kingdom market by EEC companies resident here, which implies a smaller capital inflow than would otherwise have been the case.

Portfolio investment

88. Changes in the flows of portfolio investment are extremely hard to assess. Predictions about United Kingdom demand for foreign securities depend on views about the state of confidence in the economies concerned, and hence in the stock markets, both at home and abroad. In circumstances favourable to such investment the potential cost to the balance of payments of additional United Kingdom portfolio investment in other EEC countries

could be substantial in any given year. In other years there might be net disinvestment, producing a benefit to the balance of payments on a quite significant scale. It seems reasonable also to make some allowance for an increase in EEC portfolio investment in the United Kingdom.

Personal capital

89. There would be a continuing cost to the balance of payments as a result of allowing free access to official exchange for some personal transfers, including in particular the purchase of private houses in EEC countries. There would also be a large once-for-all item in this category. Under present United Kingdom rules, after the initial allowance of £5,000, emigrants are permitted to transfer their assets with official exchange only after a period of four years, although they do not necessarily do so even then. Under the EEC rules, they would be allowed to transfer them all without delay though again they would not necessarily do so. For practical reasons, the relaxation of exchange control rules for emigrants' assets could not be confined to emigrants to EEC countries.

Inward investment

90. The United Kingdom balance of payments might benefit from increased inflow of direct and portfolio investments from outside the Community to this country. The United Kingdom could become an increasingly attractive country in which to invest. This inflow would offset in some measure the adverse effects on the balance of payments of the transactions considered above.

Invisibles

91. There should be a valuable expansion of our invisible earnings as a result of membership. In the field of insurance, for example, the EEC countries have legislation which in one way or another discriminates against non-EEC-insurers—in contrast to the United Kingdom where there is no such discrimination. Membership should, therefore, provide British insurers with better access to other EEC member countries than they have at present and this is particularly important since the EEC is expected to try to remove governmental restrictions so as to create a common market for insurance.

92. More generally, the contribution of the City of London should bring benefits not only to the United Kingdom, but to the other members of the EEC as well. The City can offer a wide range of financial and commercial services—not only insurance, but also banking, shipping, merchanting, commodity markets and portfolio management—which is unrivalled outside the United States. With greater awareness of the diversity and sophistication of these facilities both we and our future partners can expect to gain increasing advantage.

93. As Community regulations now stand, United Kingdom membership of the EEC would not require any changes in Government regulations or policies directly concerning invisibles either in the United Kingdom or in EEC countries. Receipts of interest, profits and dividends (IPD) derived from overseas investment would clearly depend on how membership affected

the volume and direction of investment flows. For the reasons explained in paragraphs 85–87, United Kingdom membership is likely to result in a net outflow of private capital to EEC countries, which would bring over time a corresponding increase in earnings on IPD account.

Conclusion

94. Compliance with the requirements of the present Directives under the Treaty concerning capital movements must be expected in a typical year to involve a sizeable cost to the United Kingdom balance of payments, compared with the situation which would obtain if the present United Kingdom exchange control rules were maintained unaltered. The cost would vary however according to circumstances which cannot usefully be predicted. In some years it could be substantial, in others negligible or even turn into a modest gain. To the extent however that continued improvement in our balance of payments position may be expected to lead to some easement of the present United Kingdom exchange control rules, the effects of superimposing the obligations of membership on top of this would be reduced. In addition there should in any case be an improvement in invisible earnings as a result of membership.

V. OVERALL ECONOMIC ASSESSMENT AND CONCLUSION

Overall economic assessment

95. The economic effects of entry into the Community comprise first the consequences of adopting their common agricultural policy and of making our net contribution to the Community budget, which at present mainly covers expenditure on financing that agricultural policy. Second, the effects on industry and trade resulting from membership of an enlarged Community. Third, the effects on capital movements and invisible trade.

96. The effects of the common agricultural policy on future British agricultural production, food consumption and hence on imports are to some limited extent predictable, but the changes both in price levels and in support systems involved in moving to the common agricultural policy are so radical that past experience can provide only a limited guide. In Chapter II it is suggested that the change in the cost of our food imports as a consequence of entry (excluding levies payable on them) could range from a reduction of £85 million to an increase of £255 million a year. This range was obtained by making alternative assumptions about the differences between United Kingdom and Community prices and about the responses to them by British farmers and consumers. It is further estimated that the maximum increase in retail food prices which would be likely to occur if we joined the Community would be in the range of 18-26 per cent, involving a corresponding increase of 4-5 per cent in the cost-of-living index. This rise would be spread over a period of years and the full effect would be felt only at the end of a transitional period.

97. Our gross contribution to the Community budget is calculable only within the purely theoretical and extremely wide range of £150-£670 million a year given in Chapter II. Where in that range our contribution might lie depends partly on the growth of total Community expenditures and partly on the rules for the division of contributions between countries the effect of which on the United Kingdom cannot be estimated because we were not members of the Community in December 1969 when agreement in principle was reached by the existing members on individual percentage keys, which would govern their share of contributions (see paragraph 18). Nor can we estimate what we might receive by way of payments from the various sections of the Community budget as Community policies develop; it is suggested in Chapter II that United Kingdom receipts from the operation of the common agricultural policy might amount, in very round figures, to £50-£100 million annually depending on the way the policy developed.

98. The effects of entry on United Kingdom industry and trade are partly what may be called impact effects, which are measurable, and partly dynamic effects, which are not. The distinction between these two is only partly one of timing since both impact and dynamic effects build up over a transitional period though the latter will probably take longer to reach their peak. Essentially the impact effects are those which arise in *given* underlying

conditions of supply and demand, *i.e.*, those prevailing at the time of entry, from the reactions of producers, traders and consumers to the tariff changes and the consequences of higher food prices for wage levels. There is some information, albeit imperfect, on which to base estimates of the impact effects. The dynamic effects on the other hand consist in *changes* in the underlying conditions of supply and demand arising from the opportunities for rationalisation, large-scale investment, and more rapid technological improvements in producing for a wider and faster growing market, and from the pressure for greater efficiency and reduction of unit costs to meet competition within that market. There is very little information on which to base estimates of the effect of these changes which will clearly affect the whole of the economy.

99. The best estimate we can make of the *impact* effects is that our visible trade balance in goods other than food might be adversely affected to the extent of £125-£275 million a year. Even this estimate has inevitably to be based on considerable over-simplification and on assumptions open to legitimate questioning, as explained in Chapter III; and the impact would build up gradually over the years of a transitional period in which the *dynamic* industrial and trade advantages of membership would also be at work.

100. Chapter IV describes what would be involved in the adoption of the Community Directives affecting capital movements and concludes that the consequence of their adoption might be a sizeable cost to the United Kingdom balance of payments in a typical year but one which it is impossible to quantify. As Community regulations now stand, membership of the Community would not require any changes in Government regulations or policies affecting invisible trade. It is reasonable to expect an expansion of our invisible earnings as a result of membership but it is not possible to estimate the extent of the increase.

101. The total effect of the estimates of the costs of entry in respect of agriculture, Community finance, trade and industry, capital movements and invisibles, set out in the preceding chapters cannot be assessed by adding together the extremes of the respective ranges there given. The result—an overall balance of payments cost ranging from about £100 million to about £1,100 million—not only makes no allowance for the dynamic effects but is far too wide to afford any basis for judgment; and is positively misleading in that it is inconceivable that all the elements in the calculation will work in the same direction, whether favourable or unfavourable. The cost—ignoring the dynamic benefits—is likely to lie well within the extremes of this range: what the area of greater probability is, depends upon qualitative judgment in which the following main factors must be taken into account. First, at the upper end of the range, the largest component is the figure of our theoretical maximum contribution to the Community budget, and that figure of £670 million substantially overstates this, if only because, as explained in paragraph 97 above, no account could be taken of the bearing on the United Kingdom of the arrangements agreed in principle in December, 1969, by the Six for themselves. Secondly, and this affects both ends of the range, it has not been found possible to make an estimate of the

dynamic effects of entry either on industry or on trade because this depends essentially on the vigour of British industry in exploiting the opportunities undoubtedly offered by joining the Community and in its response to greater competition (see Chapter III). Past experience offers no adequate guide to the advantages which it would be reasonable to expect in terms of greater efficiency and investment nor therefore of the effects on the United Kingdom's relative competitive position and rate of economic growth which is, however, considered further below. Finally, the conclusion that the tariff changes would have an adverse effect may well be too pessimistic in the long run. We shall be gaining tariff advantages in a market—the Community—which in any event is, and will probably continue to be, of increasing importance to us.

102. Nevertheless after allowing for all these qualifications, it is clear that any assessment of the economic effects of membership of an enlarged Community must include a substantial and continuing balance of payments cost, notably that arising from the common agricultural policy and its financing, which must be set against the substantial economic benefits expected from the dynamic effects of membership as well as the expected increase in invisible earnings. In balancing these considerations the weight of opinion in British industry, where the stimuli of greater opportunity and stiffer competition arising in a continental scale market are likely to be directly felt, is clearly of great importance. The general conclusion in the report of the Confederation of British Industry is that certainly the unquantifiable benefits of membership should in the long run exceed the balance of payments cost. The balance of payments cost, however, is only half the story: the other half is how it is to be met. It can only be met out of the national resources (g.n.p.) and will involve adjustment of claims on those resources other than claims pertaining to the balance of payments. These are, in effect, the claims of domestic consumption and investment, and a reduction in investment would sooner or later involve a reduction in the growth of g.n.p. The adjustments would fall to be made as the balance of payments costs took effect over a transitional period and during this period the g.n.p. should itself be growing.

103. The question is, therefore, whether the additional balance of payments cost expressed as an adjustment of domestic claims on the g.n.p. would be too large in relation to the rate of growth of g.n.p. In the past decade the trend rate of growth of g.n.p. has been about 3 per cent a year, though Chapter III sets out the reasons for thinking that membership of a wider market would increase that rate of growth. The estimates set out earlier in this White Paper of the balance of payments cost of membership would involve, at most, an additional claim on the annual rate of growth over a period of a few years of considerably less than 1 per cent of our g.n.p. The g.n.p. of the United Kingdom will certainly be much greater than it is today, some £39,000 million a year, when we have to meet the full cost of membership. Even a marginal transfer of resources from domestic to overseas claims on g.n.p. is however by no means painless, and it exercises a deterrent effect on the rate of growth. The crucial question is therefore whether our g.n.p., after taking account of the transfer problem mentioned above, can be expected to grow more quickly over a transitional

period and beyond if we are members of the Community than if we are not. If it can, and if the additional growth is greater than the cost of membership, then there would be net economic advantage to us in incurring that cost.

104. This is clearly not a question to which any calculations could give a precise mathematical answer. The answer depends on many incalculable factors, but particularly on the outcome of negotiations and on the dynamic effect, *i.e.*, the response of British industry to the stimulus of competition and to the opportunities of a larger integrated market. As already indicated, the more vigorous this response the greater the benefit to the balance of payments and the greater the increase in the rate of growth of our g.n.p. out of which the net cost of entry must be made good. Past experience and the weight of informed opinion in industry leads to the expectation that the increase in g.n.p. would be greater if we were in the Community than if we were outside it. How much greater, it is impossible to estimate: this must remain a matter of judgment. As noted in the preceding paragraph, it would need only a slightly greater increase—considerably less than one per cent annually over a period of a few years—to offset any probable cost of entry and leave us with a net gain. All that can now be said is that there seems to be a reasonable likelihood of such a net gain provided that the cost is not unduly high; what the cost will be can be ascertained only in the course of negotiation. It will then be for Parliament to decide. In the words of the statement published in the White Paper of 2nd May, 1967 (Cmnd. 3269): "On the economic arguments each hon. Member will make his own judgment of the effect on exports and imports, on industrial productivity and investment. Equally, every hon. Member must make his own judgment of the economic consequences of not going into the Community and, in an age of wider economic groupings, of seeking to achieve and maintain viability outside."

Conclusion

105. This paper has been concerned with the economic consequences of membership of the EEC. When Parliament debated the Government's decision to apply in 1967, it was recognised that the economic balance was a fine one and that in the short term there would be some economic disadvantages. It was recognised too that the long-term economic advantages, and even more the political advantages of British membership of the European Communities could be decisive. On this basis Parliament approved, by an overwhelming majority, Her Majesty's Government's decision to negotiate for membership. In this White Paper a detailed account has been given of possible ranges of the costs of entry: and the more favourable and longer term economic considerations have been described, with an explanation why they are, inevitably, even less susceptible of statistical calculation than the shorter term adverse effects.

106. It is not possible therefore to calculate the full economic consequences of not entering the European Communities, in terms of being both excluded from and in competition with an increasingly integrated European economy, on our doorstep, and several times the size and probably faster growing than our own. Nor has this White Paper attempted to set out the political case for membership.

107. This White Paper has attempted to bring up to date the assessment made in 1967 of the benefits and costs of membership of the EEC in the light of developments since that time. In addition to the developments in Community economic policy recorded earlier in this paper, the economy of the United Kingdom is stronger, the Six are now unanimously in favour of our entry, and the political arguments for closer unity between Britain and the other countries of western Europe have also become stronger. The major uncertain factor still is the balance of economic advantage particularly in the short run, where the assessments in this paper indicate a wide range of possible consequences of membership, depending on the development of the Communities' policies over the next few years and upon the outcome of negotiations to determine the terms upon which Britain might join the Communities.

108. This White Paper demonstrates the need for negotiations to determine the conditions on which the opportunity for entry could be seized. Failure to reach agreement in these negotiations would not necessarily condemn Britain or the European Communities to political or economic sterility. But Europe would have lost another historic opportunity to develop its full economic potentialities in the interests of the welfare and security of its citizens; in that case the world would have lost a contribution to its peace and prosperity that neither Britain nor the countries of the European Communities can make separately.

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