

Federal Trust."L'Europa dopo De Gaulle".11-13 VII 69.

- 1) - Programma e lista dei partecipanti.
- 2) - Economic problems of an enlarged Community.
- 3) - A political and economic package deal.
- 4) - R.Pryce:The enlargement of the Communities:institutional aspects.
- 5) - C.Layton: A strategy for a new phase:a new Messina conference.

EUROPE AFTER DE GAULLE

International Discussion Seminar, July 11/13, 1969
Pendley Manor, Tring, Hertfordshire, England

Friday, July 11

18.00 - 19.00 hrs	Arrival
19.30	Dinner
20.30	The Current Situation in Europe - General Discussion

Saturday, July 12

08.30 hrs	Breakfast
09.30	The Enlargement of the European Communities: - Agriculture, Balance of Payments and Technology paper by John Pinder
11.00	coffee
11.20	Continuation of Session
13.15	lunch
	early afternoon free
16.15	tea
16.40	The Enlargement of the European Communities: - Institutional Problems introduced by Dr. Roy Pryce
18.30	Bar opens
19.00	dinner
20.00	Political Union in Europe introduced by Altiero Spinelli P. PERASSICH

Sunday, July 13

09.00 hrs	Breakfast
10.00	Strategy for European integration now introduced by Christopher Layton
11.00	coffee
11.15	Continuation of session and conclusions
13.15	lunch
14.00	Departure

EUROPE AFTER DE GAULLE

List of Participants

ANDERSON, Donald	Labour M.P. for Monmouth
— ANTICI, Paolo	Chief Executive Assistant of Edoardo Martino, Member of the Commission of the European Communities
— BARTON, B.D.	Partner, Barton & Mayhew, Trustee, Federal Trust
— BERTHOIN, Georges	Deputy Head, Delegation of the Commission of the European Communities in London
BOWYER, John	Trustee, Federal Trust, Barrister-at-Law, Chairman, British Association for World Government
— BYNGER, Hugh	International Officer, National Association of Local Government Officers
— CALMANN, John	Publisher, Pall Mall Press, Liberal Party Parliamentary Candidate
— COHEN, Robert	Official, Commission of the European Communities, Brussels
— COOMBES, David	Lecturer in Politics, University of Reading
— COX, Robert R.	Spokesman's Group, European Communities, Brussels
— DENTON, Geoffrey	Lecturer in Economics, University of Reading
— EVERETT, C.H.D.	Foreign and Commonwealth Office
FRANK, Christian	Assistant to Professor Walter Hallstein, Bonn
— GILPIN, Robert	American post-graduate student
— HART, Norman	Joint Hon. Secretary, Campaign for a European Political Community
KITZINGER, Uwe	Fellow of Nuffield College, Oxford
— LATHAM-KOENIG, Alfred	McKinsey & Co. Inc.
— LAYTON, The Hon. Christopher	Liberal Party Economic Adviser
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List of Participants (cont.)

— PERISSICH, R.	Istituto Affari Internazionale, Rome
— PINDER, John	Director, Political and Economic Planning
— de la PRESLE, Guy	Secretary, Suez Finance Co., London
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— PRYCE, Dr. Roy	Director, Centre for Contemporary European Studies, University of Sussex
— RICHARD, Ivor	Labour M.P. for Barons Court
— SALTER, Noel	Commonwealth Secretariat
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— SCOTT, Peter	Research Fellow, Centre for Contemporary European Studies
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— STEED, Michael	Lecturer in Politics, Manchester University, Liberal Party Parliamentary Candidate
— STEPHENSON, Peter	Business Consultant, Former Labour Party Parliamentary Candidate
— SYKES, Richard	Post-graduate scholar, Yale University, Former Chairman, Committee of Student European Associations
— THOMPSON, E.G.	Hon. Secretary, Britain-in-Europe Ltd.
— TOULEMON, Robert	Director General, Industrial Affairs, Commission of the European Communities, Brussels
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FEDERAL TRUST

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è emersa una terza via (Toulemon, Antici, Perissich) di procedere ai negoziati "limitati", ma di cercare un accordo politico globale su alcuni obiettivi da raggiungere in seguito.

Antici e Toulemon hanno proposto che i governi si accordino di affidare ad un comitato di esperti l'elaborazione di proposte future; io ho obiettato che si tratta di un compito politico da affidare quindi a un ^{corpo} ~~comitato~~ politico.

Unanimi tutti nell'affermare che nè i francesi, nè gli inglesi prenderanno iniziative di vasto respiro.

Sull'inizio dei negoziati la data più probabile sembra essere la primavera '70. Le elezioni inglesi saranno infatti alla fine del '70. In questo modo: (a) Wilson potrebbe sperare di arrivare alle elezioni con un accordo politico di fondo, ^{ma} ~~non~~ senza impegni precisi, difficili da difendere davanti all'elettorato; (b) il Governo francese potrebbe manovrare per favorire i conservatori.

Altre discussioni, sulle istituzioni e sui problemi politici, sono state di minore interesse.

Ant Perissich

PINDER

The problems on the table

1. Apart from the applications for membership, the European Communities have a number of problems on which they should soon take decisions, many of them because the end of the transitional period is approaching. These problems include:
 - a. agricultural policy. The Community timetable demands a renewal of the common agricultural policy, and its cost and unmanageable surpluses compel a reconsideration. The Mansholt plan proposes very big expenditure on structural reform to match the very big expenditure on featherbedding, in order that both may become redundant by the late 1970s.
 - b. own revenue. It has been agreed that revenue (import levies and tariffs) should be paid direct to the Communities, instead of via national budgets, though the details remain to be decided. Merger of the Treaties, which it is also agreed should take place, raises the question of the turnover tax which in the ECSC is raised direct from the coal and steel industries.
 - c. institutions. The prospect of own revenue for the Community raises the issue of control by the European Parliament (cf the Hallstein proposals of 1965), which in turn raises the issue of direct elections (the long-shelved Dehousse proposals). The merger of the Treaties also raises some institutional issues.
 - d. monetary policy. The Barre proposals, for short-term swaps between member countries accompanied by policy coordination if the swaps are prolonged beyond three months, are awaiting a decision. The French and German payments crises may moreover force the issue of whether changes in the exchange rates as between member countries are a legitimate means of adjusting balances of payments within the Community; of

the implications of such adjustments for the common market in agriculture; and of the use of the "clauses of safeguard" which enable a country (in the present case, France) to protect its balance of payments by traditional means.

- e. commercial policy. The Treaty provides that there shall be a common commercial policy after the end of the transitional period. It looks at present as if this will take the minimal form of an attempt to prevent "distortions" of intra-Community trade due to differences in the member states' trade agreements with East European countries.
- f. energy policy, transport policy, technological cooperation. These are all at varying stages of progress, without much sense of urgency.

2. In addition, there are the applications of Britain, Denmark, Norway and the Republic of Ireland. The principal problems raised by these applications are:

- a. agriculture. Because the common agricultural policy supports very high prices by making the importers of food pay for subsidies to high-cost farmers, it is extremely disadvantageous for Britain. It is regressive (dear food hits the poor hard) and protectionist. It would make the British as big importers pay a huge sum into the FEOGA while, as efficient farmers, they get little out (deficit of £500 million a year?).
- b. balance of payments. The British deficits have raised doubts whether the British can in fact be full members of the Community, i.e. can avoid continual resort to safeguard clauses. One particular question is whether the British can afford to eliminate their strict exchange controls.
- c. sterling. What will happen to sterling's reserve role, at present underpinned by the Basle Facility? If the British have big debts to non-members, won't British economic and monetary policies be excessively influenced by outsiders,

perhaps in conflict with Community requirements?

- d. Commonwealth. The hard core of this problem has been said by the British government to be butter and sugar. Other important aspects include association for the African and West Indian members of the Commonwealth, and the trade of the Asian members, in particular textiles.
- e. Institutions. It is feared that an influx of new members will weaken the institutions.
- f. transitional period. The length of a transitional period (perhaps different for different aspects) has to be agreed.

3. Study of these two sets of problems shows that, although most of the headings are different, the solutions cover largely the same ground. It is a helpful simplification to consider the problems around three focal points: agriculture, the balance of payments, (both considered below), and institutions (considered in the paper by Roy Pryce). In this paper solutions are put forward which seem to be in the general interest. The question of securing political acceptance, and that of which matters should be dealt with in negotiations on enlargement, are dealt with in the separate paper on "A Political and Economic Package Deal".

Agriculture

4. The agricultural problems - high prices to the consumer, huge surpluses to be financed by the taxpayer, massive protection against cheap food from outside, and unfair sharing of costs and benefits between the member countries - are very great. The policies to deal with them need to be based on correspondingly far-reaching principles.

5. The main principles concern (i) the development of the Communities into a truly united, or federal, Europe, and (ii) the fair distribution of costs and benefits between the various interested groups. These two main principles are interdependent. The Communities are not likely to be developed into a federal Europe if the peoples come to feel that the

Communities' main activities are grossly unjust; and there will be no system available to secure a just distribution of costs and benefits, either between European countries or between Europe and the superpowers, whether in agriculture or any other domain, unless a federal Europe is constructed. The two main principles break down as follows:

- a. a single market in the Community (though temporary and degressive derogations could be justified in order to solve particular problems).
- b. development of the federal character of the Community and expansion of its activities.
- c. if the protection of foodstuffs is higher than that of manufactures (which is about 10 per cent), there is a regressive bias against the poorer people, for whom food is a larger part of the family budget. Social justice demands either that the level of protection should be reduced to this level, or that the Community's social policy should compensate the poorer people throughout the Community with welfare payments and negative income tax sufficient to close the gap.
- d. a liberal external trade policy implies that protection (which includes subsidies as well as tariffs or levies) should be reduced over a period to the same level as the level of protection for manufactures.
- e. redeployment of people from low-productive work, in agriculture as in other sectors, should be carried out as humanely and quickly as possible. Subsidies should as far as possible be used for this and not for the perpetuation of low-productive activities.
- f. there should be a rough justice in the costs and benefits of the community activities to the peoples in the different geographical areas in the Community. This should apply to the community activities taken as a whole, not just in one sector such as agriculture; it should apply to regions rather than to member states (though the latter may have to serve as an approximation until adequate regional statistics are available); and the poorer people (in the latter case

represented by low-income regions) should be favoured.

6. There are two main ways (not mutually competitive) in which these principles can be applied to the case of the Community's agricultural policy: to make the policy itself work, and work fairly (which may be called the "agricultural" solutions); and to compensate for the unfairness of the policy by measures in other domains (the "general" solutions).

7. Agricultural solutions include:

- a. price cuts (not usually possible, but might be when and if the franc is devalued).
- b. deficiency payments (could be applied on a national but degressive basis - cf Italian sulphur mines - particularly by the revaluers if there is a realignment of currencies. Could help the British, too, if applied on a Community basis for products, such as mutton, of which production in the Six is low, so deficiency payments cheap, while imports into Britain are high, so import levies substantial).
- c. production quotas (hence less surpluses to be financed).
- d. greater self-sufficiency in the importing countries (this would reduce Britain's excessive import levy contributions).
- e. long-term quotas for imports of butter and sugar, to look after New Zealand and the sugar islands.
- f. more structural reform (killing cows and merging smallholdings, as in the Mansholt plan).
- g. reducing the percentage of import levies (now 90 per cent) paid into FEOGA.
- h. a transitional period for British entry into the agricultural common market long enough for the British to escape the period of greatest cost under the Mansholt plan.

8. These would all be useful measures to cut the cost, distribute the burden more fairly and make the policy more effective. But they could hardly be sufficient to reduce the deficit for Britain below a level which would certainly be very unfair and perhaps impossible to pay.

9. It is therefore necessary to think also of general solutions, which redress the balance by expanding Community activities in other domains. These happen also to be the solutions which help to create an economic union and a federal system.

10. On the revenue side, the burden could be shifted away from those who eat imported food (cf 7g above). The most neutral tax would be a percentage added-value tax (though the rate could be varied in line with community social policy, eg low-income or stagnating regions could pay a lower rate). This would be paid direct to the Community, as the ECSC turnover tax is paid. If a transitional period were necessary, contributions from national budgets, related to national incomes, could fill the gap. (The Commission's claim, made in its Opinion on the applications for membership, that unless 90 per cent of the import levies are used for Community purposes member countries will have an incentive to import from third countries, does not seem valid. For the importing is done by private traders, who have no business interest in the purpose for which the levy is used; and even if this were not so, why 90 per cent rather than 50 per cent or even 25 per cent?)

11. On the expenditure side, the Community could expand its activities in a number of fields which would benefit groups (including member countries) that are hurt by the agricultural policy:

- a. structural change in industry as well as agriculture (of particular interest to Britain at present).
- b. programme for advanced-technology industries. (Could eventually include arms production.)
- c. programme for energy industries. (Coal policy could have been a splendid complement of agricultural policy, compensating Britain and Germany for their huge contributions to the latter. But it seems too late for this, as both have reconverted at their own expense.)

- d. transport programme. (Essential if Community is to become really integrated. Would Community finance of Channel tunnel help to offset Britain's one-sided contributions to Community agriculture?)
- e. regional development.
- f. aid to less-developed countries. (Here again, £200 million of Britain's net contribution to the agricultural fund would be offset if the Community took over Britain's programme of aid; and the Community's activities would be correspondingly enhanced.)

12. In order to ensure that the Community is based on principles of social justice, it could be provided that by the end of a transitional period the Community would have a fiscal system that is not only effective (enough own revenue to cover current expenditure) but also just (net tax - taxes less subsidies - bearing equitably on the various regions and main social groups).

Balance of payments

13. The current condition of the British and French balances of payments, though they present grave practical problems and dangers, is not the point on which we should concentrate in considering the issue of the balance of payments within an enlarged Community. For if the recent British and French deficits are fully rectified over the next 3-5 years, they will be no problem to an enlarged Community, given the time required for negotiations and for a transitional period. If the French deficit did last that long, however, the common market (though not necessarily the Community) would certainly be in a state of suspension; and the entry of Britain into the common market would surely be delayed beyond that time if the British deficit persisted until then. But neither eventuality is likely, and we should therefore make our analysis, and negotiations should take place, on the assumption that neither will occur.

14. The lesson of the French deficit and of the German surplus is, however, extremely important: the common market

has not removed balance-of-payments problems. These problems are inherent in the relations between different economies, so long as these economies experience different rates of change in their structure, price levels, and patterns of demand for imports, exports and investment funds. The EEC has indeed aggravated the problems by both intensifying the economic exchanges between the members and at the same time restraining their use of important means of rectifying balance-of-payments disequilibria.

15. A common currency is often put forward as a solution. If the balance of payments consists of the transactions between two currency areas, the merger of currencies by definition eliminates the problem. But in reality it further aggravates the problem, by making it impossible to adjust exchange rates, and thus removing a basic method of correcting a structural disequilibrium.

16. Reasonably disinflationary policies can be demanded of debtor countries; and the "coordination of economic and monetary policies" is therefore one aspect of a Community policy of adjustment. But the Community cannot be allowed to depend on massive deflation as its main means of correcting structural deficits. If the Community is to attract the loyalty of its citizens, or even maintain their acceptance, it must have a modern economic policy that aims to secure the welfare of all significant groups, or at least to avoid needless damage to them. In so far, therefore, as it removes the "national" means of correcting disequilibria (e.g. trade or exchange controls), it must replace them by measures to promote the provision of jobs and the acceleration of economic growth in the member countries where there is above-average unemployment, poverty or economic stagnation. These would correspond to measures of regional and social policy within nation-states, which do much to keep the inter-regional payments in equilibrium, and in taking such measures of policy, the Community will similarly offset the deficits of those member countries that have them. It would indeed be better if the Community's policy

applied to regions that are in trouble rather than to whole countries; it would then be applied more accurately where it is needed (and the effect on member countries' payments deficits would be the same, for a country's deficit consists of the sum of regional deficits).

17. In order therefore to develop a system that will in the future deal with the balance-of-payments problems of member countries, without recourse to exchange rate adjustments or trade and exchange controls, the Community needs to have a number of elements of economic union, including:
- a. financial help for regions with low incomes or slow growth, in particular for infrastructure and human investments, and for investments in productive equipment.
 - b. fiscal discrimination in favour of these regions, eg. investment grants or lower rates of added-value tax levied by the Community, which will stimulate economic activity.
 - c. assistance for regions with above-average unemployment, in particular "adjustment assistance" to enable the unemployed to take new jobs.
 - d. quick and cheap transport between all regions in the Community, to reduce the disadvantage of the peripheral regions.
 - e. a unified capital market, to enable capital to move to the regions that need it, once economic activity has been stimulated enough to make investment in those regions attractive.

18. Such measures will doubtless eventually make it possible to eliminate general poverty, high unemployment or economic stagnation from all regions in the Community. But the scope and cost of the measures will have to go far beyond anything the Community has contemplated so far; and the process will take much time. Despite years of such measures and very heavy expenditure in Italy and Britain, for example, the condition of the Mezzogiorno and of Ulster remains profoundly unsatisfactory - to say nothing of Scotland and the North of England. Meanwhile, therefore, the Community should

recognise that measures of safeguard will sometimes be required by member states, and that adjustments of border taxes and of exchange rates are a lesser evil than high unemployment or low economic growth in the member countries. (It would probably be desirable that such adjustments should be made as far as possible at the borders of regions rather than of member countries as a whole. In this way they would be concentrated where they are really required, and the perpetuation of the protectionist establishment of the nation-state would moreover be avoided.)

19. The adjustment mechanisms for correcting disequilibria are more important than the short-term credits for tiding countries over periods of deficit; but the credits have their importance too. The small steps towards a Community credit system envisaged in the Barre plan should be extended into a plan for a federal reserve system, which could be created in the near future, without waiting on the much longer-term goal of the indissoluble linking of exchange rates and hence the creation of a common currency. A federal reserve system would help in both easing internal balance-of-payments adjustments and giving the Community power to influence the world monetary system.

20. The federal reserve system could be based on the creation of a new European reserve unit (the Europa?), based on subscriptions from each member country's central bank.

21. The Europa could be used to provide credits to member countries with balance-of-payments deficits, under conditions decided in the Community's institutions.

22. It could also be available as an international reserve currency. This would enable Europe to break the monopoly of the dollar as the world's credit base (which will be reinforced, rather than essentially altered, by the issue of annual increments of SDRs). This would enable Europe both to

defend its interests within the existing system and to exert real influence towards the creation of a genuinely international credit system, such as Professor Triffin foresees.

23. The conversion of official sterling balances into Europas, in exchange for a long-term debt from the Bank of England to the European federal reserve bank, might arise out of the Basle Facility, which is a facility of up to \$2000, provided mostly by European countries, on which drawings can be made until 1971, with repayment due between 1974 and 1978. During the 1970s, therefore, this arrangement might be converted into a long-term funding, and the occasion used as a springboard to launch the Europa as a reserve unit.

Negotiations for enlargement

24. The focal problems of agricultural policy and of balance-of-payments adjustment can be seen, then, to demand the establishment of an economic union, beyond what the Rome Treaty provides, if they are to be satisfactorily resolved. This in turn required federal institutions, because the present Community institutions are too weak.

25. But economic union will not be built in a day, nor will agreement on it be reached in one negotiation. It is necessary, therefore, to consider at which stage the various elements need to be decided, and in particular how much should be agreed during negotiations to enlarge the Community.

26. This is the subject of the separate paper on "A Political and Economic Package Deal". As far as the subjects considered here are concerned, it should be enough to agree on:

- a. a transitional period of, say, five years during which Britain's net contributions to the agricultural fund will not be excessive.

PINDER

1. In the next five years it should be possible to make much progress towards the United States of Europe. The main steps that could be realised include:

- a. enlargement of the EEC.
- b. substantial progress towards economic union.
- c. stronger and more democratic institutions for the EEC.
- d. re-integration of France into Western Europe's defence system.
- e. substantial progress towards effective European institutions for this system, and for making a common defence and external policy.

How far should these steps be taken separately, and how far joined together in a package deal?

2. The present British policy, following the advice which has been given by Monnet on previous occasions, is to try to secure enlargement of the Community ("sign the Treaty") first, and come to the other questions after that.

3. But there are serious objections to this:

- a. British public and parliament might turn sour about accepting the concrete disadvantages of the agricultural common market for the sake of possible political and economic gains, unless the latter are at the same time made more concrete than at present. (But this is probably only a factor during the coming year to year-and-a-half of pre-election period.)
- b. the French, on the contrary, would fear that the British, once members, would combine with the Germans to undermine the agricultural policy; and more generally that French political leadership in the Community would be reduced.

- c. the Germans, while not likely to oppose British entry, are not likely to pay the French any price to secure it; and their fears that Britain will be added to France as a second (and even bigger) liability may dilute their enthusiasm to a low level.
- d. the federalists fear that the new members will weaken the institutions. A number of those in the Commission want to make institutional reform a condition of enlargement; others suggest that the three smaller applicants should wait until after Britain is in.
- e. most people on the Continent still think the British are interested in the EEC only for reasons of trade, and once they become members will obstruct further political development. If the British try too hard to confine negotiations to a narrow front, they will confirm this belief and thus provoke hostility.

In sum, while a negotiation on the technical matters necessitated by enlargement (transitional period, institutional and budgetary arithmetic) might succeed, there are real problems relating to agriculture, balances of payments, and the strength of the institutions, which are not likely to be resolved unless all the parties to such a negotiation really want to resolve them. But there are so many doubts, particularly in France, Germany and the Commission, that attitudes cannot be relied upon to be generally positive. So it would at least be helpful, and may well be essential, to generate some more political will, particularly in the French and German governments, among the "Europeans" (who may be said to include important elements in France and Germany as well as the establishments in Benelux, Italy and the Commission), and also among the British.

4. The most effective way to allay doubts and evoke enthusiasm among the "Europeans" would be to link enlargement of the Community with progress in the building of Europe. Progress towards the creation of a Europe that can stand up to the super-powers is an incentive for the British too, though majority

opinion has not yet evolved to the point where a precise commitment to federal institutions would be regarded positively. Agreements for economic collaboration that would redress the very unfavourable balance of advantage in the agricultural policy would also be helpful to the British, and could be identified with advances towards economic union that would please the "Europeans". The problem is not, then, to satisfy both "Europeans" and British, who can both respond to moves in the same direction. It is, rather, to provide incentives for the French and German governments.

5. The French government probably still fears both economic and political loss as a result of British entry into the Community. This is, admittedly, a short-term or medium-term calculation - but good enough to make British entry a disagreeable prospect in the short or medium term. The idea that the pill might be sugared by using British entry as a lever to secure a settlement on agricultural policy that is very favourable to France is no longer valid, as the British cannot pay and the Germans are not likely to want to pay for this. There is, however, one respect in which French official thinking inclines heavily towards collaboration with Britain because of what Britain could offer; and that is nuclear defence.

6. The force de frappe is ground between the millstones of rising costs and budgetary stringency. The British could bridge this financial gap for the French, by sharing the more advanced British (and American-derived) technology. Both countries could also make their forces more cost-effective by joint targeting. This could give the French government a real incentive to accept British entry into the EEC. But there are problems:

- a. Would this be inconsistent with British nuclear policy? Not for Heath, who has proposed as much. But could the Labour government, whose policy is to let the British deterrent lapse when the present generation fades away, help the development of the French deterrent? Although it can be

argued that the French would develop it anyway, and the British would be merely saving the French people from cuts in, say, their social services, this is a politically explosive issue for the Labour Party.

- b. Would the Americans agree that their technology be passed on by Britain? The British have undertaken that this will not be done without American permission, which would probably be forthcoming if the French were to return to the North Atlantic Treaty Organisation. But would the French move far enough in that direction?
- c. Would the Germans fear that the British and French were joining together to maintain their superiority over (and possibly in some sense against) Germany? It would certainly be necessary to develop a system of consultation between Britain, France and Germany; and this raises again the question of the relationship with NATO, in addition to the complication of Russian reactions.

7. It also raises the question of whether the British could evoke German enthusiasm, rather than just securing acquiescence, by promoting steps towards political union. The idea of a European political framework still attracts much support in Germany. This support would be greatly strengthened if the political union was to be on a basis of full equality. This would imply, since Germany is precluded from having national nuclear arms, that nuclear policy would eventually be the responsibility of European institutions - which would have to be powerful federal institutions if the policy was to be that nuclear weapons should be deployed. Even if the British government agreed to this, it is most doubtful that the present French government (Defence Minister Debré) would do so. But the British might meanwhile be able to help to promote less far-reaching measures of political collaboration, and to bring the French back into an integrated system of European defence, which would have a satisfactory relationship with America. The need for the latter, and the attraction to the Germans, would be increased if the Americans were to withdraw a proportion of their

troops from Germany, as may happen in the next year or two.

8. Thus it may be possible to find, in the field of defence and political union, badly needed incentives for the French and German governments to overcome the difficulties and reservations that lie in the way of enlargement of the EEC. It can be done only by steering a careful course between various hazards; and there may even be no opening between them, unless existing policies change. But if such an opening could be found, it would help to create a more favourable context for the operations of enlarging and strengthening the EEC.

9. This leads to the idea that it may be possible to compose a package deal, in which enlargement of the EEC, steps towards economic union and institutional reform, and steps towards political and defence union would be linked together in a way that would offer everybody a sufficient incentive to reach agreement.

10. There are however two factors that limit the scope of the package deal: the amount of integration that the present governments, and particularly the French government, will accept; and the amount of detailed negotiation that it is wise to undertake at one time, when all the main parties to the negotiations may not sustain a pronounced will to ensure their success.

11. The French government will probably be happy to broaden the extent of European collaboration and to envisage empirical progress in the EEC; but it is not likely to agree in the near future to any specific steps towards federal institutions, or towards strengthening the existing Community institutions, or even to an explicit reversal of the former French government's position on unanimity in the Council.

12. The amount of detailed negotiation could be kept down, while at the same time harnessing the requisite political will and promoting European integration, if those aspects on which detailed agreement is not strictly necessary to enlargement of the Community were dealt with by agreement of principle, combined with agreement on the timetable (transitional period) and procedure whereby detailed agreement on these aspects is to be reached. On all subjects other than defence this procedure could be that of decision within the existing Community institutions, which is highly desirable because, despite their weaknesses, they are a more effective framework for taking joint decisions than any other which is available.

13. Detailed agreement on a narrow front combined with agreement of principle on a broad front would be an empty achievement if the agreements of principle were not translated into detailed agreements during the transitional period. Such a technique is valid, therefore, only if the chances of reaching detailed agreement were to be at least no less during the transitional period than at the time of the initial negotiation. But the conditions are in fact almost certain to be more favourable. For the French government will be influenced by forthcoming elections in 1971-73 (parliamentary elections 1973) and 1974-76 (presidential elections 1976); and as long as these elections turn on the attraction of voters from the centre, they will continue to influence policies in a European direction. Thus the process of "ouverture" will be reinforced by electoral logic. The French government will be inclined to respond to broad European proposals, although it could still resist a narrowly-based British attempt to join the EEC, which appeared to threaten the agricultural policy and offered no great advantage for either the French interest or the European cause.

14. For the British, the period 1971-75 should also be favourable to European construction. So long as the agricultural policy on its present lines is the central feature of community activity, the Communities are liable to arouse negative reactions which could influence governments during a pre-election period. Between elections, with all parties committed to a European policy, and with time to develop sufficient other community activities to remove agriculture from the centre of the scene, the British government should have a fairly free hand.

15. The Commission is likely to recover some of its strength over the next year or two, and thus to be a more positive factor in the early 1970s.

16. It is not so easy to predict the evolution of the German government's thinking. Some reduction in farm prices will be more feasible after the election this year. But will there be enthusiasm for integration so long as the memory of the British and French deficits remains? In any case, Germany is not likely to stand in the way if its partners want to make progress; and in certain circumstances, Germany might be very positive factor.

17. It is likely, then, that during the period 1971-75, and particularly in 1972-74, it will be possible to take more far-reaching decisions in the direction of federal institutions, economic union and political/defence union than during the next two years. This justifies the tactic of aiming to secure a minimal detailed agreement on enlargement of the Community, accompanied by agreement on the principle of a number of other steps towards the United States of Europe, and on the procedure and timetable for detailed decisions thereon.

18. This could be described as the simultaneous signing of the Rome Treaty and of a new Messina declaration.

19. The only protocols required for the Rome Treaty would consist of:

- a. institutional and budgetary arithmetic.
- b. length of transitional period (say five years) and rate of entry into common market during that period.
- c. end of transitional period to be confirmed by a qualified majority vote as to whether the necessary conditions had been fulfilled, viz:
 - (i) balance of payments of applicants not an obstacle.
 - (ii) enough progress made towards economic union to ensure a fair distribution of the burdens and benefits of the Communities' budgetary activities.
 - (iii) strengthening of Community institutions sufficient to enable it to function adequately.

There is a precedent for confirmation of the end of the transitional period by a majority vote, in the provision (as a result of French insistence) for such a vote at the end of the first stage of the EEC's transitional period.

20. The main elements of the new Messina declaration could be:

- I. Decisions to be reached during the transitional period, by the normal procedures of the EEC, on:
 - a. making the institutions fully effective and democratic.
 - b. payment direct to the Community of a general tax, as well as of taxes on imports as already agreed by an EEC decision.
 - c. creation of a European federal bank and reserve unit, and of a unified European capital market.
 - d. a European programme for advanced technology, endowed with substantial funds.
 - e. the development of a modern transport network linking all parts of the Community (including for example the Channel Tunnel).

- f. a far-reaching programme for the development of regions with low incomes, high unemployment or slow economic growth.
- g. expansion of the Community's social programmes, with special reference to adjustment assistance for workers who have to change their jobs because of economic progress.
- h. a joint Community budget for aid to Asian and Latin American as well as African countries.
- i. association of those European countries that do not become members.

II. Decisions to be reached during the transitional period, at an inter-governmental conference to be attended by the Commission of the European Communities, on the form and content of collaboration in the fields of defence and non-economic foreign policy. Proposals to be presented to the conference by the Commission on the relationship between this developing political union and the existing Communities, in such a way as to reinforce the process of European integration.

III. The decisions under I and II above to be reached in a spirit of determination to make the greatest possible progress towards the United States of Europe.

21. This framework could of course be adapted according as political circumstances develop. If, for example, conditions seem particularly favourable for enlargement of the Communities without a simultaneous step towards political union, or particularly unfavourable for agreement on defence and political union, Part I could be removed from the new Messina. If there is more goodwill on all sides than now seems likely towards economic union and a federal system, then some at least of the items (a)-(i) under Part I could be taken into the detailed negotiations for enlargement, and become further protocols to the Treaty when it is signed. But in almost any conceivable circumstances, it seems likely that it will be desirable to combine a hard core of detailed negotiations with

more general agreement on the period and procedures by which decisions will be taken to develop common action over a wider field.

THE ENLARGEMENT OF THE COMMUNITIES: INSTITUTIONAL ASPECTS

Dr. Roy Pryce

INTRODUCTION

1. I assume that any enlargement of the Community will come about as a result of a negotiation based on acceptance of the existing Community treaties. This means that as far as institutions are concerned, the starting point will inevitably be the present treaty provisions.
2. The options likely to face the negotiators will be as follows:
 - (a) Enlargement of the existing institutions, and an acceptance of the Luxembourg compromise excluding weighted majority voting on issues deemed to be of vital national importance;
 - (b) Enlargement of existing institutions, plus an agreement (tacit or explicit) to drop the Luxembourg compromise;
 - (c) Enlargement; acceptance of majority voting; plus an agreement (tacit or explicit) to implement those institutional provisions which have so far remained in abeyance - and specifically the introduction of direct financing (assuming that this has not at that point already been agreed) and direct elections;
 - (d) Enlargement; majority voting; implementation of direct financing and direct elections, plus further measures - going beyond the existing treaties - to upgrade the Community element in the institutions.
3. It is unlikely that governmental positions will have yet been fully worked out: there is some hope therefore that at this stage they may be open to some degree of influence.
4. The aim of our discussion should be to see whether we can arrive at any degree of agreement about the strategy to be followed in this situation, and which of the options mentioned above (or some other) it would be desirable to press for.

A SUGGESTED APPROACH

5. The answer to the questions posed above can only be given in the light of the view we have about the future of the Community and its political development.
6. We would all agree, I imagine, that the object of the exercise is not merely to create a larger market (or even an economic union) but also to provide the member states collectively with a means to formulate and pursue common policies with regard to the rest of the world.
7. Even if there is widespread agreement, however, on these generalised objectives, there are still substantial divergencies about the nature of the political system required to achieve them. At one end of the spectrum are those who believe that they can and should be achieved by leaving as much power as possible in the hands of national governments. At the other end are those who consider that they can only be achieved by a substantial transfer of power to common institutions. The tension between these views is bound to make itself felt in any negotiation about institutions.

8. If one accepts the first view, the major problem in any negotiation will be to achieve an institutional arrangement that will ensure efficient decision-making with a minimum degree of erosion of national sovereignty. But if one takes the second view, the problem is rather to see how an upgrading of the Community element in the institutions can be achieved at the same time as geographical enlargement.
9. There are certain limits, however, placed on the area for manoeuvre of the partisans of both these views. There is likely to be sufficient support within the Community to maintain the institutional provisions of the existing treaties to prevent the minimalists from any overt attempt to downgrade the Community element in the present structure. On the other hand federalists are likely to meet substantial opposition - particularly, though not exclusively, from a British government - to any more explicitly federal structure.
10. This paper is based on the assumption that most of us would nevertheless wish to try to use the occasion of enlargement to upgrade the Community element in the institutions. In this context I continue to believe that direct elections are potentially the key to the situation, as they offer the only way that I can see of providing a source of political support for Community organs that by-passes national structures. It is by no means certain, however, that direct elections in themselves would achieve this objective. Unless they were accompanied by other measures direct elections could well leave existing national power structures substantially intact.
11. The same observation applies with even more force to direct financing. The automatic availability, each year, of substantial sums of money will not in itself upgrade the role of the Commission and the Parliament unless the way decisions are taken about the use of these resources reduces the present power of national governments to control this crucial aspect of the Communities operations.
12. Similarly, I regard qualified majority voting in the Council - while being highly desirable - as only a partial step in the right direction. Whatever the rules may be about voting in the Council they will still leave ultimate power in the hands of national governments.
13. A combination of these three devices could, however, provide a starting point for more radical innovations. They have the great advantage of being already provided for in the existing treaties, which all new members will be expected to accept. The real problem is how best to exploit the opportunities they offer.
14. At the heart of this problem is the Commission-Council-Parliament relationship. This will have to be modified if either direct financing or direct elections are to represent any real institutional innovation. It is for this reason that some upgrading of the powers of the Parliament is essential.
15. One difficulty is, however, that the existing treaties make no explicit provision for increased parliamentary powers. If these are to be introduced there will have to be an explicit agreement about this, which under present rules would have to be submitted for approval to each national parliament.
16. A second difficulty is that it is unlikely that the negotiating parties will wish to spend much time on negotiating about institutions. If previous precedents are followed, then the institutional arrangements will only be

considered when other matters of substance have been resolved. On present evidence the British government is unlikely to be willing to agree - not least for internal reasons - to any major explicit change from the present treaties. It is also doubtful how far the new French government is likely to be willing to go.

17. My conclusion is that it is unrealistic to expect any major institutional innovation at the moment of enlargement, but that every effort should be made to exert pressure to get the negotiating parties to commit themselves as firmly as possible (both with regard to procedure and timetable) to an institutional package to follow enlargement.
18. The immediate target should therefore be:
 - (a) A declaration to implement the treaty on qualified majority voting on the accession of the new members;
 - (b) A protocol dealing with the method and time-scale of implementing the treaty provisions on direct financing (if this has not already been agreed by the present members) and direct elections, together with an explicit recognition that these measures shall be accompanied by an upgrading of the powers of the European Parliament. (The proper phrase would probably be something like: 'appropriate steps to ensure more effective parliamentary supervision of the activities of the Community').
19. The actual arithmetical adjustment of the size of the various institutions of the Community I regard as a secondary issue. A central problem in this context is undoubtedly the rules relating to majority voting (weighting of votes; number of countries required to support a non-Commission proposal etc.) but I very much doubt whether the negotiating parties will be willing to depart from the principles underlying the present rules (i.e. a qualified majority is in fact a $\frac{2}{3}$ majority), or whether a reduction in this threshold would be of much significance.

SUBSTANTIVE ISSUES

20. If this general strategy is to be followed, then our attention should be concentrated on such issues as:
 - (a) Is it possible to sell the idea of an 'institutional transition' period, and if so how long this should be, and what should be achieved during it;
 - (b) How such a transition period could be fitted in with an 'accession transition period';
 - (c) The scheduling of the various pieces of institutional innovation (i.e. should direct elections precede, follow, or accompany direct financing);
 - (d) With regard to direct financing, what should the relationship be between Commission, Council and Parliament;
 - (e) How should the legislative powers of the Parliament be increased;
 - (f) Whether, and how, the Parliament should be given a say in the composition of the Commission;
 - (g) The mechanics of the electoral system for direct elections (and whether they should be introduced in one or two stages);
 - (f) The procedure to be followed for the planning and approval of institutional innovation.

A STRATEGY FOR THE NEW PHASE: A NEW MESSINA CONFERENCE

by Chris Layton

We are on the threshold of a new creative period of progress towards European unity. This paper discusses procedure, strategy, tactics, timing, means.

It is natural that the British should see the first need as British membership of the Communities. And right that the Foreign Office should seek a negotiation that is narrow, short and sharp. Last time the negotiations got bogged down in interminable complexities. An attempt to widen the membership negotiations into a detailed negotiation on defence, money, technology etc. would be doomed to failure.

Step one must therefore be the opening of a quick negotiation for British membership.

But it will be essential to seize the present opportunity in Europe on a wider front, for the following reasons:

1. Agriculture. The problem of agriculture and Britain is not soluble in a narrow context. Even if some of the figures are exaggerated, Britain cannot tolerate an additional balance of payments burden of, say £500 million per year.

In the short run - i.e. within the next 5 years - production quotas may limit the size of necessary budgetary contributions to the common fund. And in, say, ten years time, it may have been possible for the CAP to move, seriously, down from present price levels (at least relative to other prices) so that a greater proportion of the assistance given to uneconomic small farmers in certain regions of the Community comes from direct subsidies and less from the market.

The fact remains that the sheer size of the problem makes it intractable. Progress will be slow.

Despite the steady movement off the land, it would have taken ten years under even the Mansholt plan before a serious major reduction in Community price levels (and in the UK balance of payments strain) becomes possible. In isolation agriculture will mean a balance of payments deficit for Britain of several hundred million pounds per year for some years.

Yet it would be childish to rule out British participation in the vast task of constructing a united Europe because of the price of butter. What government, or federation, would devote its entire budget to the special task of shifting resources to the diminishing peasant minority which it is trying to move gradually and humanely off the land? The imbalance caused by agriculture will only be corrected in the next ten years, if the Community develops other functions, which bring about other major transfers of resources which compensate for those of the farm policy: common policies in arms production and technology, subsidies to declining coal fields, regional policies which aid the extremities of the Community (Scotland, Southern Italy, Spain) might all in some measure provide revenue transfers of resources to, say, Britain.

It was in the French interest that agriculture provide the first major steps towards a government for Europe. It is in the British interest that this be matched by dramatic progress in other fields.

2. Community problems. The Community itself has also reached a stage where major new acts of state are necessary if it is to solve its own internal problems. Many of the tasks spelt out in the old Rome Treaty - above all the formation of the customs union - are completed. But in many other fields the old Treaty did not provide sufficient specific powers, and the institutions lack the political authority to take new steps forward.

In agriculture, the huge sums in the hands of the common fund and the Commission provide a growing pressure to establish effective parliamentary control. The political debate about the future of the Community, postponed in 1965, must, sooner or later, be reopened and resolved.

3. Wider common problems. The pressures inside the Community are supplemented by wider pressures on Western Europe as a whole.

a. Technology

The Prime Minister once made himself the champion of a European Technological Community. None can be satisfied with the progress subsequently made. The existing Community completely lacks the power to elaborate and implement an effective industrial strategy. It has no powers to organise and implement joint buying and development policies in advanced industries, no organs for conducting an inventory of European scientific effort and making the great techno-political choices of a European science policy, no means for establishing new managerial agencies etc. New powers, in a new or extended treaty, are needed.

b. Monetary

The pressures for new action are even more apparent in the monetary field. Inside the Community the probability of a mark revaluation shows that the aim of harmonised economic

policies plus stable exchange rates is far from achieved. At world level, finance ministers and central bankers have patched up the world monetary system, but the prospect of a new upheaval in the autumn is a sharp reminder that they have done no more. The present trend is for the dollar system to be extended more and more, at the very moment when its foundations are shaking. Lacking a European currency and capital market, the bankers have invented the Eurodollar system. This ersatz has now become the means by which the US Federal Reserve Board almost dictates the pattern of interest rates in Europe, and American companies finance the purchase of European firms. The imbalance in the world's financial system has become grotesque. Major steps towards the creation of a European reserve currency would therefore be a perfect compliment to British entry. They would help to relieve Britain of the problem of sterling. They would accelerate solution of an awkward problem within the Community itself. They would provide the means for transforming the world financial scene, creating for America a new financial partner of comparable stature, armed with instruments for a world policy, including that of aid to the third world. Above all, perhaps, such steps are probably essential to the next crucial stage of economic union for both the existing Community and Britain.

c. Defence

Defence is the third major field in which it is time European governments looked further ahead. This is a delicate area. One danger is that the nuclear question could become the subject of an unseemly and damaging debate between the two parties in Britain. Though nuclear sharing with France is sheer common sense at the technological and economic level, serious debate about the proper political objectives for a European defence policy has barely begun. Should Europe in fact develop

a new generation of nuclear weapons - or will this damage the crucial longterm prospects for a European settlement? And what role should the Germans, and Nato play in the integration of European nuclear planning? So far Mr. Healey and Herr Schroeder have made nuclear planning within Nato the focus for their efforts. The only sensible and safe way to treat this political minefield is to begin, not by discussing highly fissile hardware, but by establishing a proper institutional framework for working out the aims of a European defence and foreign policy.

d. Politics

Common policies in all or any of the crucial fields of monetary policy, technology and defence clearly have major political implications. Like the pressures within the Community itself, they force Europeans to chart out a pattern for the development of more effective institutions over the next ten years.

Conclusion: A New Messina Conference

The British Government is right to give priority to having talks about membership. But these should be accompanied by the initiation of parallel discussions on some or all of the wider issues described in this paper. Careful preliminary discussions - amongst a rather independent group of people - should prepare the way for a conference or series of conferences to define the objectives for Europe over the next ten years.

These conferences should lay down certain general principles and a timetable for action and agreement on more specific applications. One could imagine, for instance, an agreement in principle to establish a European reserve fund over a period of, say, five years, with reserves to be deposited stage by stage; and a certain deadline for the establishment of a governing Board with defined tasks. In technology the conference could agree to establish machinery to (a) elaborate priorities for European science and technology policy

(b) integrate public purchasing (c) initiate joint development programmes. The elaboration of these principles, sector by sector, would take place over a period of time.

The setting of new objectives for Europe, with new powers to be established under a timetable, automatically implies taking decisions on the political aspects: a new role for the existing Commission in industrial strategy and technology, a new Defence Planning Group, and European Currency Board, majority voting in a large number of matters, powers for the Parliament etc.

It would be logical if a range of new tasks and functions were planned to emerge gradually during Britain's transitional period of say five years, so that at the end of this time the Community, plus new Member(s) emerged from the chrysalis to become a new and stronger animal.

At this point, a crucial device might link Britain's own transitional period with the wider development. In order to make it possible for Britain to apply the full CAP at the end of its transition period, and to provide a means of pressure to ensure the application of other policies, Britain's membership agreement might stipulate that full application of the CAP to the UK (especially the Budgetary provisions) would only come into force, at the end of the five years, if any major adverse balance of payments effects were (a) compensated by transfers of resources in other fields of policy and (b) minimised by funding of sterling liabilities. (a) would be a crucial lever.

What are the chances of getting such a new policy off the ground? Much depends on the possible speed of movement of the French Government. What is needed is a new and close creative relationship between London and Paris expressed not in dangerous Gaullist terms but in Community terms. Probably only

the French can determine the pace and provide that element of imagination about the future which is needed for a new Messina to succeed. Only the British, by applying to join, provide the new element in the situation which makes a major stride forward necessary and possible.