

Statement by James Callaghan (Luxembourg, 1 April 1974)

Caption: Following his previous statement of 1st April 1974 on British renegotiation, the British Foreign Secretary, James Callaghan, clarifies for his European colleagues at the meeting of the Council of Ministers in Luxembourg on 4 June 1974, the changes that he and his Government would like to see made to Community policies and decisions, with particular regard to the budgetary question.

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Statement by the British Secretary of State for Foreign and Commonwealth Affairs at the Council (Luxembourg, 1 April 1974)

1. Mr Chairman, with your permission I should like to make a statement about the policy of my Government towards the Community. It will come as no surprise to you that the Labour Government opposes membership of the Community on the terms that were negotiated at the time of our entry in January 1973. We do not consider that they provided for a fair balance of advantages in the Community and we are of the opinion that the terms should have been specifically put to the British people for their approval or otherwise. We wish to put these errors right and if we succeed there will then be a firm basis for continuing British membership of a strengthened Community.

2. We seek to raise with you a number of important questions on which my Government consider a successful renegotiation to be necessary. We shall negotiate in good faith and if we are successful in achieving the right terms we shall put them to our people for approval. But if we fail, we shall submit to the British people the reason why we find the terms unacceptable and consult them on the advisability of negotiating the withdrawal of the United Kingdom from the Community. I am confident that no one in the Community would wish to argue that it would be in the interests of the Community to seek to retain my country as a member against its will. But I stress that I do not hope for a negotiation about withdrawal. I would prefer successful renegotiation from which the right terms for continued membership will emerge. To some extent that will depend upon us —but it will also depend upon the attitude of the other partners in the negotiations.

3. For our part, we have made clear — in the Labour Party Manifesto for the recent election — that ‘Britain is a European nation, and a Labour Britain would always seek a wider cooperation between the European peoples.’ I would now like to quote a passage of fundamental importance to my Government from our Manifesto. In our view the terms of entry negotiated by the previous Government involved, as we have said:

‘the imposition of food taxes on top of rising world prices, crippling fresh burdens on our balance of payments, and a draconian curtailment of the power of the British Parliament to settle questions affecting vital British interests.’

This is why we are immediately seeking a fundamental renegotiation of the terms of entry, for which we have spelled out our objectives in the following terms —

‘The Labour Party opposes British membership of the European Communities on the terms negotiated by the Conservative Government.

We have said that we are ready to renegotiate.

In preparing to renegotiate the entry terms, our main objectives are these —

Major changes in the Common Agricultural Policy, so that it ceases to be a threat to world trade in food products, and so that low-cost producers outside Europe can continue to have access to the British food market.

New and fairer methods of financing the Community Budget. Neither the taxes that form the so-called ‘own resources’ of the Communities, nor the purposes, mainly agricultural support, on which the funds are mainly to be spent, are acceptable to us. We would be ready to contribute to Community finances only such sums as were fair in relation to what is paid and what is received by other member countries.

As stated earlier, we would reject any kind of international agreement which compelled us to accept increased unemployment for the sake of maintaining a fixed parity, as is required by current proposals for a European Economic and Monetary Union. We believe that the monetary problems of the European countries can be resolved only in a world-wide framework.

The retention by Parliament of those powers over the British economy needed to pursue effective regional, industrial and fiscal policies. Equally we need an agreement on capital movements which protects our balance of payments and full employment policies. The economic interests of the Commonwealth and the developing countries must be better safeguarded. This involves securing continued access to the British market and, more generally, the adoption by an enlarged Community of trade and aid policies designed to benefit not just 'associated overseas territories' in Africa, but developing countries throughout the world.

No harmonization of Value Added Tax which would require us to tax necessities.

If renegotiations are successful, it is the policy of the Labour Party that, in view of the unique importance of the decision, the people should have the right to decide the issue through a General Election or a Consultative Referendum. If these two tests are passed, a successful renegotiation and the expressed approval of the majority of the British people, then we shall be ready to play our full part in developing a new and wider Europe.

If renegotiations do not succeed, we shall not regard the Treaty obligations as binding upon us. We shall then put to the British people the reasons why we find the new terms unacceptable, and consult them on the advisability of negotiating our withdrawal from the Communities.

An incoming Labour Government will immediately set in train the procedures designed to achieve an early result and whilst the negotiations proceed and until the British people have voted, we shall stop further processes of integration, particularly as they affect food taxes. The Government will be free to take decisions, subject to the authority of Parliament, in cases where decisions of the Common Market prejudice the negotiations. Thus, the right to decide the final issue of British entry into the Market will be restored to the British people.'

4. My Government now proposes that we should consider together how these objectives can be met. In view of the great importance of the issue of membership of the Community, my Government is now engaged in a root and branch review of the effect of Community policies and will place before you in due course in detail the proposals which we would wish to see the Community adopt in order to remedy the situation. In particular, we are examining with great care the working of the Common Agricultural Policy; the estimates for future contributions to and receipts from the Community budget; the Community's trade and aid policies towards the Commonwealth and developing countries and how far in practice the existing rules, as they are interpreted, interfere with the powers over the British economy which we need to pursue effective regional, industrial and fiscal policies. As soon as this review is completed, we shall be ready to put forward proposals for the changes which will in our view be necessary if Britain is to remain a member of the Community and thus, as the Manifesto put it, 'to play our full part in developing a new and wider Europe'.

5. Why do my Government, and indeed the British people, question whether all is well in the Community as it is and why are we planning to seek changes?

6. First, we were deeply concerned by the Resolutions of March 1971 and 1972 which were confirmed at the Summit Meeting of October 1972. They seemed to lay down a rigid programme under which Economic and Monetary Union, including permanently fixed parities, would be achieved by 1980. This seemed to us to be dangerously over-ambitious: over-ambitious because the chances of achieving by 1980 the requisite degree of convergence of the rates of growth of productivity and wages rates, of investment and savings, seemed to us to be very small: dangerous because of the impossibility for any country, particularly a country with a relatively low growth rate, to manage its own economy efficiently and provide for full employment if it accepted permanently fixed parities without such convergence having been achieved. I understand that much new thinking is going on in the Community on the subject of Economic and Monetary Union and that the proposals now being considered for a second stage in it do not provide for automatic movement towards permanently fixed parities. You will find our objections very much lessened if we can all agree that there can be no question of trying to force the pace of compelling member countries to accept permanently fixed parities if this means accepting massive unemployment or before their economies are ready.

7. Then we are concerned at another phrase from the Paris Summit Communiqué — at the intention there stated of transforming the whole complex of the relations of Member States into a European Union by 1980. What does this mean? Is it to be taken literally? It seems to us to imply a change which is quite unrealistic and not desired by our peoples, certainly not by the British people. I understand that work on clarifying this issue is about to begin within the Community. I shall watch carefully to see if this clarification will help to relieve our anxieties.

8. Then there is the Common Agricultural Policy. The position of the United Kingdom is different from that of the other Members of the Community in an important sense. We import a very much larger proportion of our food and if we have to pay a high price for these imports, this can impose a heavy burden on our balance of payments. This is much more of a problem for us than for other Members. We are of course aware that the Community's prices are at present lower than they were relative to other Community prices and that many of them are now below world prices. But how long will this last? We are unable to agree to perpetuate policies that would allow the butter mountains and the cheap butter sales to Russia to recur. Are you sure that there will be no future mountain of beef in store? Have the interests of the consumer been sufficiently safeguarded? Could overseas producers have better access to Community markets? Is financial control sufficiently strict? It is our view that more needs to be done to keep down the cost of the CAP which accounts for 80% of the Community budget. At present the system does not take sufficient account of the differing interests and circumstances of member countries. It confers privileges on some and imposes unfair burdens on others. That is why we shall certainly be proposing major changes.

9. Then there is the question of the trade of Commonwealth and developing countries, which is linked with the Common Agricultural Policy because of the need to offer a fair deal to the Community's consumers as well as to the suppliers overseas. We are not satisfied that the arrangements made in the entry negotiations are as good as they should have been, for the one or for the other. We have in mind not only sugar and New Zealand butter, but the position of those Commonwealth countries for whom the option of Association is not open. Apart from changes in the field of the Common Agricultural Policy, no doubt the general position could be improved if the Community's generalized preference scheme undergoes serious improvement both in the industrial and agricultural sectors, if the Community when it comes to draw up its detailed mandate for the multilateral trade negotiations takes a liberal attitude especially about agricultural trade and if the Protocol 22 negotiations result in really generous terms for access to our markets of developing countries' agricultural products, which is on the whole what they want to sell, as well as for their industrial products. There is also the field of aid in which in our view the Community should look wider than those countries eligible for association. We are examining this whole field most carefully in the context of renegotiation in order to see what should be done.

10. I turn next to the question whether existing rules interfere with the powers over the British economy which we need to pursue effective regional, industrial, fiscal and counter-inflationary policies. We want to be sure that, in cases where jobs are in danger or where there is a need to sustain and develop valuable industrial capacity, we can give aid quickly and effectively. To give another example, coordination of regional aids can usefully prevent over-bidding for internationally available funds. But there is a major difference between those regional problems which are mainly agricultural and those which are mainly industrial. We want to make sure, in particular, that, against this background, we can continue to give our own assisted areas the help which they need.

11. Finally, I come to the Community budget. Here fundamental changes are required. Britain's income per head and her rate of growth is lower than in many of your countries. I take it you would agree that the out-turn of the Community budget should not in all justice result in massive subsidies across the exchanges from my country to yours. This is not acceptable.

12. We are not asking for charity. We seek a fair deal. In 1973, only paying 8.5% of the Community budget in accordance with the transitional key, we were already the second largest net contributors. At the end of our normal transitional period we shall be paying over 19%, well over the 16.5% which is our likely share of GNP at that time. If the full 'own resources' system were to be applied to us with no changes in 1980, we should find ourselves paying still more, perhaps several percentage points more, of the Community budget

— in even sharper contrast with the relatively low share of GNP we can then expect to have. I am sure you will agree that something must be done about that. Britain cannot accept a permanent drain across the exchanges of several hundred million pounds sterling a year.

13. You will wish to know how we would propose that this renegotiation should proceed. I can assure the Council that we do not wish to disrupt the work of the Community more than is necessary during the period of renegotiation.

14. I shall come back to the Council at an early date with detailed proposals on the Common Agricultural Policy, the treatment of the Commonwealth and of developing countries, the Community budget and other areas of difficulty in the economic field. I hope you will agree then to have a general discussion; and to agree how certain of our requests for changes in the Community's arrangements should be handled.

15. Our initial approach will be to seek changes in the Community's policies and decisions which will meet our needs. We must see how we go and where we get. But we shall have to reserve the right to propose changes in the Treaties if it should turn out that essential interests cannot be met without them. I must also reserve the right to propose changes in the Treaties, if we find that in practice the existing rules, as they are interpreted, interfere with the powers over the British economy, which we need to pursue effective regional, industrial and fiscal policies.

16. I have spoken so far today about bread and butter issues, for these are very important to all our people. But we are also deeply concerned about the politics of the Community; about the broad direction which it is going to take both in its internal development and in its relations with other countries or groups of countries.

17. The image of the Community in the United Kingdom is not good. My country wishes to remain a member of an effective Atlantic Alliance; and there is therefore concern about the degree of disagreement between the Community and the United States. Surely this is not inevitable. If the British people thought it was, it would adversely influence their attitude towards the development of the Community.

18. We shall not always be able to agree with the United States but the Community in devising its procedures and its common positions must always try to work with America whenever it can. Conversely America must try and work with us. Only if the Nine work harmoniously with the United States on both economic issues in the framework of the Community and on political issues in the framework of political cooperation, shall we surmount the difficulties to which President Nixon and Dr Kissinger have recently drawn attention.

19. We should also like to work with you to produce a stable, healthy and cooperative relationship with all those countries or groups of countries with whom Europe's life is intimately connected, for example with Japan, Canada and other industrialized countries; with the Commonwealth and the Community's Associates; with the Arab countries; and with the Soviet Union and Eastern Europe.

20. We are ready to intensify political consultation and cooperation. But before we can do so we need to agree on our broad aims. I should certainly like to see if we can do this together. The informal meeting to which our President has so kindly invited us later this month will provide an excellent opportunity.

21. So to conclude, we shall work for an early and successful result to what we in Britain have come to call renegotiation. Meanwhile we shall participate in the work of the Community and act in accordance with Community procedures, subject only to not proceeding with further processes of integration if these seem likely to prejudge the outcome of the negotiations. Our aim will be to get an agreement which can be regarded as providing a fair balance of advantage for each of our countries. If this can be achieved successfully, renegotiation will not damage the Community but will strengthen it.