

Statement by James Callaghan (Luxembourg, 4 June 1974)

Caption: On 4 June 1974, in Luxembourg, James Callaghan, British Foreign Minister, informs his European colleagues in the Council of Ministers of the position of his Government concerning the terms for the United Kingdom's accession to the European Communities.

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At the meeting of the Council on 1 April I undertook to place before you in greater detail the matters which the United Kingdom finds unsatisfactory in its membership of the Community and which we seek to change. In amplification of my statement on renegotiation of 1 April which remains the basic document on the subject for the United Kingdom, I should like today to give more details of the kind of changes we seek in the policies and decisions of the Community under four main headings.

First the Community Budget – an important matter for us but one which I recognize will raise difficulties for others.

Second the Common Agricultural Policy where we shall be suggesting major improvements consistent with the broad principles on which the policy is based.

Third the Commonwealth and developing countries where improvements are necessary in both the trade and aid fields.

Fourth Regional and Industrial policy where it is important for us to be certain that the rules of the Community will enable Britain to pursue the effective policies which are required if the British economy is to begin to grow at a rate which will approach the Community average rather than to sink further below it.

There is a *fifth question* about the future of Economic Monetary and Political Union to which an added point has been given by recent events which have affected individual members of the Community. We discussed these matters at our recent meeting at Schloss Gymnich and will be resuming our talks again shortly so I shall not pursue them today, except to say that as I understand it, the position on these matters is that a great deal of further work and discussion will be required before any further decisions can be taken in pursuit of these general aims. We are very ready to continue with these talks in order that we can all elucidate, in a constructive spirit, what content it may be possible to give to them.

As regards the four issues I shall discuss today you will recall that I said on 1 April that our initial approach would be to seek improvements by way of changes in the Community's policies and decisions in preference to proposing changes in the Treaties themselves. In our preparations for today we have adhered to this approach. In our judgment Ministers will find that the proposals I shall put before you, if accepted, would not require changes in the Treaties and we shall continue on that basis though of course our reserve on Treaty amendments continues to stand.

As regards the current work of the Community we shall continue to cooperate fully in its work as we have done in recent weeks. Of course like other members of the Community, from time to time there will be issues upon which we shall have to put a reserve so as to safeguard our negotiating position but we shall not do so out of a desire to hold up the work of the Community but because genuine differences cannot be reconciled. And we shall play as big a part as anyone in trying to reconcile these differences when they do occur. We all understand that other nations are looking to the Community for decisions on current items of business with which they are concerned and we shall do our best to reach agreements.

I have considered whether we should ask you to handle these issues together in one forum but we believe that it will make for smoother working if we do not ask you to do so. We suggest that different procedures will be appropriate for the different issues that I shall outline. In the matter of the Common Agricultural Policy, we suggest that this should be dealt with in the Agricultural Council. The Development Council will deal with most aspects of aid. Trade matters and, insofar as they need come before Ministers, regional and industrial issues will be dealt with in our own Council. There needs be no procedural problems in these cases.

But the Budget issue is somewhat different. Its handling will require special consideration for it is a most important matter for all of us. It may be that budgetary problems can be taken on the Agenda of this Council or alternatively in the Finance Ministers' Council whichever seems appropriate.

Naturally, we in the United Kingdom shall be looking at the results of our discussions on these issues as a whole at the end of the process and therefore it seems to me appropriate that the Council of Foreign Ministers should exercise a general oversight over the issues I am about to describe and that if necessary the Council should be able to give a political impetus to this or that issue if progress seems slow.

If we can proceed in this way the Council would not find that it has to accept any appreciable delay in its normal work in order to deal with these particular issues that are so important to the United Kingdom. It would be our intention to make substantial progress with renegotiation during the remaining months of this year. When I return to London I should like to be able to report to the British Parliament and people that we have agreed that discussion of the matters that I am about to outline will take place in the appropriate machinery of the Community.

One more word before I come to outline our proposals. My colleagues will have seen that there is no change in the list of the matters we wish to raise. These represent the limits of the problems for renegotiation.

Community Budget

I begin with our views on the Community Budget. In recent weeks we have had useful conversations about the impact of the Community Budget on the United Kingdom with members of the Commission and with representatives of member governments. We have made it clear why we consider that the impact of the present system is unfair on the United Kingdom and could be unfair to other members. Therefore a solution to the budget problem is central to our objectives in renegotiation.

We also believe that there is here a problem which should concern the whole Community, if it is to be made to work properly. It certainly cannot develop in the way the United Kingdom would like, unless there is progress in the direction of economic convergence between Member States. The difficulties are well known and have been aggravated by the impact of the energy crisis. The recent severe economic strains in the Community, reflect differences in economic circumstances and performance.

We ourselves in the United Kingdom have also been subjected to such strains; and my government are taking all possible national measures to deal with them. But we are not helped by the present Community Budget arrangements, involving as they do an increasing and serious transfer of resources from the United Kingdom to other members of the Community. These will tend to have precisely the opposite effect to that which is required if we are to participate in a gradual convergence of economic growth in the Community. It is wrong in principle and would defeat the objects of the Community if resource transfers under the Budget should promote divergence rather than convergence. This is why we believe that our case for fairer treatment presents a real problem for the whole of the Community.

I know that not everybody around this table would be ready to endorse the forecasts which we have made about the impact of the Community Budget on the United Kingdom; and indeed I do not ask you to accept our precise figures. What I would ask you to accept is that our figures are a serious estimate, based on realistic assumptions, of the order of magnitude of the burden which the Community Budget places on the British economy. It is at least as likely that they will be worse as that they will be better. I am convinced that any other set of assumptions, provided they are realistic, would show that the United Kingdom will be undertaking substantial and increasing resource transfers to the Community during the rest of our transitional period up to 1977 and on a rapidly growing scale afterwards.

To give a few conclusions from our calculations about what will happen if no solution is found, we estimate that the United Kingdom net contribution would be of the order of 300-550 million u.a. in 1975, 550-600 million in 1977, and 700-800 million in 1980. This would mean a net contribution of about 3 500 million u.a. in the period 1974-80. These are no small sums. To illustrate this point it is worth drawing attention to the fact that during the discussions on the size of the Community Fund for Regional Development, the Community was unable to accept a recommendation from the Commission for a fund of 2 250 million u.a. over 3 years for all the members of the Community.

Why is the system likely in this way to produce permanent disadvantages for the United Kingdom? It is because the "own resources" system was devised to suit a smaller Community made up of countries which are not such large importers as the UK. It is also because there will soon be a striking contrast between our expected share of Community GDP and our contribution to the Community Budget. It is because, notwithstanding our economic position in relation to other members of the Community, we shall have to provide, as we estimate, about 24% of the Community's "own resources" by 1980.

Some people may say that we are not entitled to claim that the British share of the tariffs and levies which will form the largest part of the "own resources" of the Community is a "national" contribution. Therefore they say, questions of equality do not arise. That might be a possible argument if the Community were, in a full economic and monetary union, with a central budget responsible for most of the main areas of government expenditure, and with major resources transfers taking place from the more prosperous to the less prosperous areas. But that is not the position. The Community must take into account that it is real resources from its own citizens which each Member State will transfer to the Community under the "own resources" system. The Community cannot close its eyes to an important factor influencing the way in which the economics of its members move relative to each other.

Recent estimates suggest that by 1977 our share of Community GDP will be about 16 ½% and by 1980 14%. This is taking account of favourable factors such as North Sea oil, which will be an immense help to our balance of payments as the decade goes on. But it cannot produce a rapid and substantial change in our growth rate. These estimates assume an annual UK rate of growth well beyond the average for the past decade. Compare this 14% share of Community GDP with our expected 24% share of contributions, and the Community is faced with an unacceptable situation.

I have enquired how the Community thought that this problem should be dealt with when it was raised during the entry negotiations. As I understand it, it was argued first that the problem would not be as bad as our negotiators had suggested; and second that the Community expenditure would be developing new policies in a number of fields where Community expenditure would be of net benefit to Britain, and that that benefit would come to balance the expenditure on the Common Agricultural Policy, which is admitted to be of greater advantage to other Member States. I am not suggesting that there will not be new Community policies. But I ask my colleagues to consider whether there is now any realistic possibility that new Community policies will be developed on a scale which might even begin to balance a British net contribution of 300-350 million u.a. in 1975 or 550-600 million in 1977, still less 700-800 million in 1980.

To make this calculation you have not only to say what new policies involving new expenditure are likely to be approved, but to bear in mind that, with the British contribution as high as it will be, the British return from such Community policies would have to be very high indeed for our net receipts to be substantial. I see no possibility of the Council moving in the direction of a Community Budget of the size which would be required.

The fact is that, in respect of the Community Budget, the negotiated terms of entry were fundamentally inequitable. Experience since then has reinforced that judgment. I now put it to the Council that it is inequitable for the Community that the United Kingdom, with below- average GDP per head, should be obliged to make massive resource transfers to other members of the Community, including those with above-average GDP per head, through the Community Budget; and equally that it is inequitable that the British gross contribution should rise from 13.5% next year to over 24% in 1980 while our share of Community GDP is estimated on the basis of recent forecasts to be 14% in the latter year.

I know that the Council devoted long and arduous work to constructing the "own resources" system of financing the Community Budget and that this system has been approved by the Parliaments of all the Member States. I know that the Council would prefer to find a way of dealing with the problem which would not change or overturn the "own resources" decision of April 1970. We are certainly prepared to consider solutions that would meet the wishes of the Council in this matter. But I would ask that the Council should also meet us. I would remind you that the Community declared to Britain during the course of the

entry negotiations that, if "unacceptable situations" should arise, "the very survival of the Community would demand that the institutions find equitable solutions". My Government believes that we have such a situation.

But we also believe that, if the political will to do so is there, the Council could find a number of different ways of bringing about an equitable solution – that is, one which will produce a fair balance of advantage for the United Kingdom as for other Member States.

I do not consider that it would be appropriate for me to put forward any specific proposal. But one way of proceeding would be to make a direct adjustment on the expenditure side, which would correct the imbalance to which I have drawn attention. This could be done in accordance with a principle of equity to be agreed in the Community, leaving the method of financing the Community Budget untouched. A possible principle might be based on the recognition that a Member State with below-average GDP per head should be accorded appropriate treatment in respect of resource transfers under the Community Budget. Such a system might avoid the tendency to promote divergence rather than convergence. It could also be self-correcting in the sense that the adjustments required would become smaller as the dimensions of a Member State's problem diminished. I recognize that this is not the only way of dealing with the problem; but it would have the great advantage of simplicity – and that could be specially beneficial in handling an issue which is urgent.

I would also like to add that there are two technical points of some importance which arise from an interpretation of the financial arrangements governing the Budget and could lead in our view to results which would be adverse to the UK. We shall want to be sure that these can be resolved in an acceptable manner.

Finally, I would like to stress three points: First, we are not asking for a solution which amounts to a special regime for the United Kingdom alone. Any system should apply to all members. It is in the interest of every country to find a solution that takes account of the economic differences between Member States and thus helps to promote economic convergence.

Second, if an essential requirement of our renegotiation is to be met, we must ask the Community to find such a solution, and so overcome the problem of inequity which the budget presents to us.

Thirdly, I have refrained from proposing a definite solution to the Council; but from what I have said it is clear that possibilities exist which could be adopted within the Treaties.

Mr President, I conclude this section by saying once again that the Budget problem is a problem for the Community – and I ask that it should be dealt with expeditiously.

Common Agricultural Policy

The criticism of the CAP has been particularly strong in Britain both because we are a large importer of food, and because membership of the EEC has weakened our ties with our traditional suppliers. I would therefore like to indicate the nature of our problems and our broad objectives, leaving to Mr Peart the elaboration of more detailed proposals in the Council of Agricultural Ministers.

Despite our strong criticisms we recognize that for European farmers the CAP has achieved much, and that in addition to the benefits it has brought them, it can provide an assurance of supplies at known prices in a world where both price and availability can be unpredictable. The question therefore is whether, without overthrowing the system, British interests as a large consumer can be accommodated to the principles of Community preference, free circulation of goods and Community financing. Provided some major changes are made, we believe that it would be possible to do so. We recognize that some of the defects of the CAP have been due to factors unrelated to agriculture, such as the complexity of the arrangements that have to be made where currencies within the Community change their relative values.

The major areas in which the United Kingdom wishes to secure improvements are as follows:

(i) First, the cost of the CAP should be reduced in real terms. This calls for the establishment of firm criteria on which price policy is based; and for support mechanisms to be operated and with greater effect. We wish to see agricultural support maintained at realistic levels, and we accept that the aim of the Community should be to produce as much of our food requirements as we can provide efficiently and economically. I emphasize the last part of that sentence as much as the first, for as large importers it is in our interests that prices should be determined with closer reference to the costs of the more efficient producers and to the supply/demand situation for particular commodities. The CAP should aim to gear its policy to the modern farm, as the Commission itself has advocated. Such a policy would create difficulty for special groups of less viable farmers and it would be necessary to consider special provision for them. Indeed, some of their problems might be looked after better in the context of social and regional policy. On another aspect, there should be more recognition in present circumstances of the disparities which actually exist between markets in different parts of the Community. In our view it would be useful on occasion and for particular commodities if there was a right to seek directly a measure of differential pricing. In practice this can occur now as the indirect effect of the systems of compensatory amounts. The exercise of such a right would not be intended to break the principle of common prices: the right would be exercised subject to the normal procedure for reaching agreement during annual price determinations.

A stricter price policy would need to be reinforced by improvements in the intervention and levy mechanisms so as to discourage costly surplus production; by a greater readiness to use direct production aids where it makes financial and economic sense to do so; and by strengthening financial controls and costing in general.

(ii) Next, we are concerned to secure speedy improvements in the marketing regimes for some major commodities. We know that the Commission shares our dissatisfaction with existing operations and we shall take full account of the proposals it will put forward. But there is a need for quick action, as the beef sector is demonstrating at this moment. It does not make sense to take large quantities of fresh beef off the market, freeze it, put it in store then watch the price of the remainder go up, to be followed in turn by a fall in the amount the housewife buys. In the end neither producer nor consumer benefits. We would be ready to consider as an alternative a combination of measures, such as slaughter premiums related to reasonable market prices, national or Community production aids, and a realistic import policy, which together would reduce the need for intervention to a minimum.

(iii) Finally, I want to stress the importance we attach to the Community's trading relationship with the rest of the world. We recognize that since our earlier criticisms were made three years ago, world prices for most agricultural commodities are much higher than they were then. It is likely (but not absolutely certain) that there will be a closer relationship between Community and world prices than in the past. We can turn this to our advantage for it gives the Community the opportunity to ensure that whatever the future movement of world prices, the CAP must not become an instrument of excessive protectionism or a threat to world trade through the generation and disposal of surpluses. The changes we propose would do much to ensure that; and to provide for a better balance between the interests of producers, consumers and taxpayers in the Community.

There is a strong case for improved terms of access for many kinds of foodstuffs from countries outside the Community, some of which we do not even produce. This could be done without detriment to Community producers. There is need for a clear commitment to a positive approach in the international trade negotiations now in progress, and we shall put forward our views to the Community as soon as it resumes consideration of the question. More specifically, we also need satisfactory and continuing arrangements for Commonwealth sugar, which provide for adequate access linked to assurances of prices fairly and realistically related to the Community's own price structure. Similarly we shall need satisfactory and continuing arrangements for New Zealand and we would wish to bring forward the review of the arrangements envisaged in Protocol 18 of the Treaty of Accession to the current year. As regards sugar, we remain firmly committed to the offer of access on fair terms for at least 1.4 million tons from the developing countries of the Commonwealth after the CSA expires. We shall be putting forward our proposals on sugar

in the discussions about the Community's internal sugar regime and this will have a bearing on the Protocol 22 negotiations, to which I shall come in a minute.

We attach the greatest importance to an early examination of all these important matters with a view to finding adequate solutions. It is our view that everything I have suggested is compatible with the basic principles of the CAP and with the Treaties, and would prove beneficial to everyone in the enlarged Community, as well as to the rest of the world.

Trade and aid

This leads to the question of the trade of Commonwealth and developing countries. The need to offer a fair deal to Community consumers of food as well as to overseas suppliers has important implications both for the developed Commonwealth and the developing world. The problems in this sector fall into five main groups.

The first concerns the developed Commonwealth countries. The problems which they face over access to the Community are mainly in agriculture and here I have already outlined our approach. As to tariffs, in the case of a small number of products for example some canned goods of importance, we wish to see an extension of tariff quotas. More generally, and as a permanent solution, the Community's detailed negotiating directive for the multilateral trade negotiations now under way should include an offer – subject naturally to reciprocity – to make substantial reductions of the tariff on these products as well as on certain industrial products of some importance to these countries.

The second group are the associable Commonwealth countries which under Protocol 22 have been offered the possibility of association with the Community. These negotiations offer the best chance of meeting the interests of these countries, including the interest of many of them in sugar, provided that certain important points are met. For example, I refer to the need for free entry for industrial products, and also to generous treatment of agricultural products, including, if necessary, tariff and levy-free quotas for agricultural products. It is also important that the Community should respect the developing countries' wish to avoid trade reciprocity.

In the discussions that have begun within the Community about the Commission's negotiating mandate, we shall seek these objectives.

Then there is the question of aid. Here, as my colleague, Mrs Hart, recently explained to the Development Council, we want an evolution of Community policies which will take into account the needs not only of the associated countries, but of developing countries throughout the world. We look for a more balanced distribution of Community aid according to need and have in mind particularly the countries of South Asia who are among those hardest hit by the increase in oil and commodity prices. I am glad that in this matter the Commission has taken up our proposal and is preparing an aid framework covering possible commitments over the next five years.

We shall wish in addition to see these Asian countries accorded generous treatment both through the implementation of the *Declaration of Intent* and through a substantial improvement in the Community's *Generalized Preference Scheme*. I recognize that the Community was the first to introduce a Generalized Preference Scheme, and that some other important countries have not. But the Community's scheme embodies restrictions which greatly limit its practical value to the developing countries and which are difficult to defend at a time when many of these countries face severe balance of payments problems as a result of the increase in oil prices. We must aim at the progressive abolition of these various restrictions over several years, recognizing that there will have to be safeguards to deal with cases of material injury or threat of it in one or more Member States and there might have to be special arrangements for textiles.

We also need to see the Scheme's coverage extended in the area of processed agricultural products. Further it seems to us unreasonable for India and Bangladesh to be disadvantaged in the UK market for jute and coir in the period during which the Community tariff is being lowered. And we need substantial improvement in the

position of Hong Kong where at present the UK has to discriminate against one of its own territories. These issues will be for discussion in the Community's review of the Generalized Scheme of Preferences. But I speak of these today to indicate that a substantial improvement in the present scheme is necessary not simply in our own interests but as a token of the responsibility which the Community shares for the future of the developing world.

Regional and industrial policy

There is one further question, namely the powers which we recognize to be able to pursue effective regional and industrial policies. The British Government consider that we recognize new policies to stimulate industry in order to arrest and reverse our relative industrial decline and these will entail interventionist measures that are systematic and comprehensive. We recognize the value of rules within the Community to ensure that one country, in attempting to solve its own problems, does not create problems for the others; and in strengthening our industrial system we certainly have no intention of damaging the economic and commercial interests of other Member States. But we fear that our plans for British industry, including the steel industry, may be hampered by unduly restrictive interpretations of the Treaties; and, as part of the renegotiation, we shall seek assurances that our fears on this score can be set at rest. I would hope that constructive exploratory talks with the Commission can begin as soon as possible to ascertain the impact of the Treaties.

Linked with this is the question of regional aids, which a Working Party convened by the Commission has begun to study. As I said on 1 April, we accept that coordination of the rules under which each of us gives and has a useful part to play. We are taking part in the work and we intend to make a full contribution to it. Our objective will be to ensure that the rules take account of the needs of the United Kingdom and of the policies we devise to meet those needs. We are conscious that the regional problems of Member States are different – some are agricultural, some are caused by sheer remoteness and others like our own by changes of the industrial structure. The rules must therefore be broad enough in scope to cover all types of aid that may be required. In our experience, they will need to be flexible and capable of modification. It will be necessary from time to time for us to vary the level of aids, the definition of areas. Where particular problems arise, such as steel closures, we may also need to exceed whatever fixed ceilings are agreed. We welcome the Commission's statement that there may be derogations in these circumstances, but the problem may arise in other cases and the new rules should take account of this, as well as of the need to react quickly to particular regional and industrial problems as they arise. These matters are essential to us as an element of the renegotiation. We plan to do this by securing a satisfactory outcome in the Working Party.

General policy

I have outlined the four main issues which we ask the Council to pursue and also have proposed methods for proceeding with them. We believe that our case speaks for itself. Some of the problems we have raised naturally affect us more than they do some other members. Some other issues could be dealt with and would bring benefit to other members of the Community. But whether they affect us alone or whether they affect the Community as a whole there can be no doubt that they are real problems. None has been manufactured.

There is nothing contrived about them. There is a solid case for what we are proposing, and we look to the Community to examine these matters on their merits. In that spirit the United Kingdom will work for an early and successful result for these renegotiations.

I do not understand some of the comments I have heard, not uttered around this table, that we are not in earnest trying to seek a successful solution. I can only say that if the United Kingdom was negotiating in order to achieve a negative answer and a breakdown I would not go about presenting our case in the thorough way we have chosen in addition to playing out full part in the ongoing work of the Community and in proposing solutions that can be reached without disrupting the Treaties. If the negotiations are successful and they secure the approval of the British people we shall be ready to play our full part in constructing a new Europe. Once renegotiation is complete, HMG will form a view on whether the needs of Britain have been met. In submitting the result of the renegotiation to the British people, we shall make clear our verdict

on what has been achieved.

I fully realize that there is a long way to go before such a decision can be taken but we shall accept our responsibilities in this matter.

In April I referred to our readiness to intensify political consultation and cooperation provided that we could agree on our main aims. One of the issues I had in mind was the question of European/American relations. It seems to me that there is some hopeful evidence following the useful exchanges which we had at Schloss Gymnich that we shall now be able to proceed with our work in a way which will promote steadily improving European/American relations. Consultation, cooperation and coordination between Europe and the United States should be as natural as breathing. In our view it is essential. It remains our objective. What is happening in this field encourages us to go further in these matters not only with the United States but with other countries and regions too. In a world which is grouping itself increasingly into regions it cannot be disadvantageous for Community members to discuss among themselves how they can act together in the world in political as well as in economic matters. We adhere to the view that some of the most important problems of the world will only be solved in a world context; but the Community, if it is properly organized, has the capacity to contribute to the solution.

To sum up, the Community is at the cross-roads in its history. The problems raised by Britain today are only one of a number of issues that cloud the Community's future. Quite distinct and separate from the problems I have been discussing is the feeling that there exists among Community members a diminished unity of purpose, a growing divergence in our economies and a readiness to seek nationalist solutions to problems that demand common and joint action. All these things make me fearful for the future welfare of our people.

The countries that make up the Community need to make a fresh start, and this can be done if all the partners in the enterprise feel that their difficulties are understood, their case for changes is recognized and remedied and that the Community can respond to their needs. I have no doubt that this can be done if the will exists. Let us together put these matters right and when we do then the Community will be once again strengthened to play a constructive part in the affairs of Europe and in bringing its influence to bear on the problems of the world.'