

Letter from the Luxembourg Ambassador in London to Gaston Thorn (3 February 1970)

Caption: On 3 February 1970, the Luxembourg Ambassador to London writes to Gaston Thorn, Luxembourg Foreign Minister, outlining the Confederation of British Industry (CBI) report on the economic implications of the United Kingdom's possible membership of the European Economic Community.

Source: Archives Nationales du Luxembourg, Luxembourg. Relations internationales. Politiques-Grande-Bretagne. Correspondance 1967-, AE 15072.

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180/70

3 February 1970

The Luxembourg Ambassador to London
to
the Minister for Foreign Affairs.

Re: — British policy on Europe.

I wish to inform you that the Confederation of British Industry (CBI) recently published its second appraisal of the implications for the British economy and, in particular, for British industry of British accession to the European Communities. A copy of this report is attached.

Ever since the CBI announced, late last year, that it intended to review in detail its 1966 report and its conclusions which favoured British accession, the outcome of the new investigations has been impatiently awaited. The CBI's approval, like the government's, has become a more complex issue. Almost unqualified enthusiasm has been replaced by detailed and confident arguments, and although the conclusions reached still favour British accession to the European Communities, they are considerably more reserved than those reached in 1966. Even in the introduction, the CBI's analysts say: 'There may be doubts, as we recognise in our report, about the economic consequences in the short term of membership for the United Kingdom. We believe, however, that there can be no doubt that, since Britain has an interest in the future shape of the European Community, it should play a leading part in the building of it'.

The report itself begins by analysing trade trends and prospects in Europe and the developments that have taken place in Britain and the EEC since 1966 which are likely to affect trade and economic activity in general: tariffs and non-tariff barriers, commercial policy, regional policy, transport, energy, the social environment, the legal environment, particularly the rules on competition, industrial property and the right of establishment, and, lastly, the economic environment (fiscal, monetary and financial policy). There is a lengthy chapter on European industrial policy. The CBI places particular emphasis on the structural conditions (research and development, marketing) imposed on the industrialised countries by recent technological developments, and the legal, financial and technical mechanisms, both existing and future, that should enable European industry to benefit from those developments through ever closer cooperation. Lastly, in a final section, the CBI gives its views on the economic consequences of British accession both in terms of economic growth and the cost of living, industrial costs, public finances and, finally, the balance of payments.

The report's conclusions are as follows:

- (1) 'It remains to the advantage both of British industry and of the industries of other European countries for a single trading and industrial area to be created in place of two areas (the EEC and EFTA) at present co-existing.'
- (2) 'The elimination of tariffs between the two areas is no longer (after the Kennedy Round) of such importance as the elimination of other barriers to trade and the application of measures of economic integration — this is of particular importance in the rapidly developing technological field.'
- (3) 'The enlargement of the European market, through the progressive removal of trading barriers and integration of its industries, should provide greater opportunities for industrial and commercial enterprise and in turn lead to higher and more sustained rates of economic growth — this should be of particular significance to Britain whose growth has lagged behind that of the EEC.'
- (4) 'As we said in our 1966 report, the enlargement of the EEC to encompass all the applicant countries with suitable arrangements also for the other members of EFTA would appear to provide the most appropriate means for achieving those objectives — subject to the two important considerations below.'

(5) ‘(The CBI) considers it essential that the policies of the enlarged Community should be progressive and outward-looking, and that any restrictive arrangements (such as some features of the common agricultural policy) should be progressively eliminated; the traditions and interests of Europe and especially of Britain in world trade make this a vital consideration.’

(6) ‘(The CBI) also considers it essential that the initial burdens of membership should not be such as to place undue strain on the economies and living standard of the applicant countries. It will in any case be necessary to establish transitional periods during which the economies of both the applicant countries and the Community can be adapted to one another so as eventually to achieve arrangements which would be in the best common interest.’

It is clearly not possible here to give details of the arguments on which these conclusions are based. However, the following considerations should be stressed:

(1) During the period 1959 to 1968, western Europe has been Britain’s most rapidly growing market and source of imports. Total trade with western Europe grew by 118 % during that time (EEC 132 %, EFTA 103 %). By contrast, total trade with the Sterling Area over the same period rose by 24 %, and with North America, including Canada, by 85 %. There has been a corresponding change in the proportion of Britain’s imports coming from and exports going to western Europe. In 1968, western Europe supplied 36.7 % of Britain’s imports (compared with 27.5 % in 1959) and bought 36.7 % of its exports (compared with 29 % in 1959). Since Britain wishes to achieve the aim of continuous economic growth underpinned by a favourable balance of payments, therefore, the western European market would appear to be the most favourable of the global markets available to it.

(2) Since 1966, nothing has happened in the United Kingdom or the EEC that creates an obstacle to British accession.

On the contrary, the CBI welcomes all the steps taken to achieve the closer integration of Europe’s markets. It is in this area of the qualitative implications for the structures and activities of British industry that the CBI is most firmly convinced of the advantages of British accession to the EEC. First, it regards the increase in competition and the impact of having to adapt to new structures and legislation as salutary in that they will force Britain to make more rapid changes to certain structures and regulations that are no longer appropriate for modern industry. Secondly, being able to operate freely in a large and unified market will at last enable the most dynamic British industries to achieve optimum levels of efficiency and prosperity which they have not previously enjoyed.

(3) It is much more difficult to quantify the costs and benefits of British accession. These estimates must necessarily be based on assumptions which we know in advance will change (1969 price levels or forecasts based on current trends that are likely to change during the forthcoming negotiations). Where estimates have nevertheless been accepted, the economic effect for the United Kingdom of acceding to the EEC appears at best neutral or slightly favourable by 1980. It is almost always unfavourable in the short term. For example, as far as the balance of payments is concerned, it is estimated that the combined cost of adopting the common agricultural policy and the common external tariff could reach £500 million per annum (CAP £400 million, CET £50–100 million). However, it is estimated that the cost of the common agricultural policy for the balance of payments after 1980 will be £200–300 million.

Regarding the cost of living, the combined effect of adopting VAT and the common agricultural policy would increase the cost of living by around 3½–6 % during the transitional period, ¾–1 % per annum more than normal.

(4) For Britain to be able to benefit from accession to the EEC after the transitional period and in the long term, the CBI considers that Britain needs to meet the following conditions:

(a) It needs to achieve an additional growth of GNP of around 1 %. It is pointed out that growth in British

GNP was 3.1 % on average from 1956 and 1968, compared to 5.1 % in the EEC.

(b) The greater opportunities for profitable investment provided by free access to a larger and more dynamic market must be realised in practice.

(c) The savings made possible by optimising the size of businesses and by the increase in productivity resulting from the effects of competition must not be undermined by an excessive increase in industrial costs (particularly wages adjusted in line with the cost of living and a deflationary policy imposed by problems with the balance of payments).

Since these are desirable objectives in themselves, the CBI remains convinced, however, that Britain's accession to the EEC offers the best chance for these developments to occur.

The CBI report has been generally welcomed, and a certain sense of relief has even been noted in the Foreign Office departments that deal more specifically with European affairs. The caution with which the CBI has put forward figures for the costs and benefits of British entry chimes with the concerns of the government and the Foreign Office, which have long been convinced that it is long-term economic and foreign policy reasons, etc., rather than short- and medium-term material advantages, that should persuade the United Kingdom to join the push towards European integration. The next stage in Britain's preparations for the negotiations will be the publication by the government, probably very shortly, of a White Paper on the consequences of accession to the EEC. According to rumour, a preliminary version of the White Paper including very detailed figures and statistics was about to be published when the powers that be said that it was better to be cautious and, in the final version, it appears that the emphasis is on general considerations rather than the necessarily uncertain estimates.