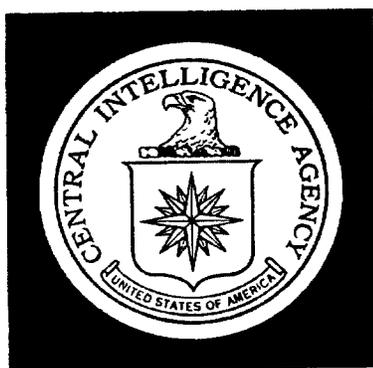


Mr. Tolson

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

BRITAIN AND THE EEC

~~Secret~~

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
14 March 1967

INTELLIGENCE MEMORANDUM

Britain and the EEC

Summary

Prime Minister Wilson has now completed his "probings" of attitudes among the Six toward his stated intention to try to take Britain into the Common Market. In addition to determining whether conditions are now ripe for making a bid, Wilson sought to remove any doubts on the part of EEC leaders as to his seriousness of purpose. From all reports, he has been successful in the latter objective. French opposition to British entry has not abated, however, and the West Germans have indicated that they are not eager to see the British question lead to an early confrontation between the Five and France.

There are as yet no clear indications of what Wilson's next move will be, nor of when he will choose to make it. One conclusion which the British must have drawn from their continental odyssey, however, is that the maintenance of momentum behind their drive for membership will depend largely on their own efforts.

As a result of Wilson's visits, the Six have become less concerned than formerly over the economic problems entailed in British entry, and more acutely aware of the political and institutional consequences. In recognition of this shift in

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attitude, Wilson has argued that his commitment to the Rome Treaty and the community's organization would be as firm as that of any of the present members. The shift has also brought closer to the surface the basic differences between France and the Five over the community's future, and has heightened the possibility of another crisis when and if London makes a formal approach.

In this context, Britain's attitudes on other broad, political issues--including the nuclear non-proliferation treaty, offset costs of British troops in West Germany, and London's current eagerness to conclude a treaty of friendship with Moscow--have permitted the skeptics further to question the extent of Britain's "European mindedness." The debate on these issues, however, has had the result of increasing the awareness on both sides of the channel of the wider implications of Britain's effort to join the EEC.

Around the Six

1. The British have said that the round of talks completed on 9 March with the trip to Luxembourg was intended to bring out the problems which British accession would raise for the EEC and to elicit its reactions to the difficulties which Britain envisages. As Wilson has since remarked in Commons, some of these problems now seem less formidable than at first. Two which still pose difficulties are Britain's participation in financing the EEC's agricultural policy and the reserve-currency status of the pound sterling. These issues could prove extremely difficult to negotiate. In the meantime, they are primarily significant because they might lead London to delay its application or give the EEC the excuse--should the Five be unwilling to face a reluctant France--to turn down a British bid for negotiations.

2. Wilson made no attempt during his visits with the Six to negotiate differences, although the scope of some possible future compromises was explored. None of the Six believe that Wilson has been discouraged. Indeed, they are probably uncomfortably aware that while the British have come no closer to becoming a member, the time for clear-cut answers necessitating hard decisions on their part may nevertheless be near. Although the French have alleged otherwise, Wilson succeeded in overcoming a great deal of the prevailing skepticism of Britain's sincerity in its desire to join the community, and of its readiness to support existing community institutions and rules. As a matter of fact, the French themselves are now less inclined than before to emphasize that London is uncommitted to community principles. They stress instead that British accession would in some way "inevitably" change the character of the community.

Problems Emphasized

3. In the present exploratory stage, both sides have been purposely emphasizing the problems and difficulties involved. The Dutch, who have endorsed a British entry, have said that they went out of their way to avoid encouraging the British to take an excessively rosy view of their prospects.

It is widely considered that London approached the accession negotiations in 1962 with a false sense of optimism. For their part, the British continue to emphasize their need to "safeguard their interests," reflecting their problems on the domestic and Commonwealth fronts. London has, however, almost certainly taken to heart the advice of the Five to restrict its bid to essentials and to keep up the momentum. One Dutch official has ventured the opinion that Wilson has been deliberately "painting himself into a corner" so that events would make it appear that he has no alternative to seeking accession to the EEC.

4. Among the specific problems Wilson raised in his talks with the Six was the potentially adverse effect EEC membership might have on Britain's regional development policy. This policy is designed to encourage industrialization in the north while slowing down the increasing concentration of industry in southeast England and elsewhere. The Italians pointed out that it is likewise a basic community objective to eliminate imbalances between "over-extended" and backward areas--an objective which has had no adverse effects on Italy's own endeavors in behalf of its underdeveloped south. The Dutch likewise indicated that the UK's regional policies would present no difficulty.

5. Wilson also voiced concern that the EEC countries might become a channel for diverting British capital--now prevented by UK controls--to other highly industrialized countries, in particular the US. The Dutch considered this concern to be unwarranted since the escape clauses already provided in the EEC treaty could be applied if the need to check such outflows arose. London was also given the impression that some type of special arrangement would be possible for the problems arising from the UK's Commonwealth ties, particularly giving New Zealand's agricultural exports continued access to the British market. There is a gap, however, between the community emphasis on a transitional period and the British desire for something permanent.

Agriculture and Sterling

6. Agriculture and sterling are likely to be much more serious technical issues in any new accession negotiations, but all sides appear to believe that they are not insuperable obstacles in themselves. The Belgian minister for European affairs has stated that "the fate of the pound cannot constitute a political prerequisite to these negotiations." While admitting that agriculture is also a serious problem, the minister added that "we remain convinced that this is purely a technical problem which can be solved if the political will exists. This political will is the only real condition for opening negotiations."

7. In commenting on the implications for Britain of adopting the EEC's agricultural policy, the British leaders heavily stressed both the increase in Britain's domestic food prices and the large contribution--larger than that now made by any present member--the UK would have to make to the EEC's farm fund. The British are evidently genuinely concerned about this, but there may have been an element of exaggeration in their presentations for bargaining purposes. British farmers, not surprisingly, see advantages for themselves in a switch to the high-price community system. Moreover, key UK officials appear to recognize the merit of the view--pressed particularly by Commissioner Mansholt and the Dutch--that once inside the community, the British would participate in the review of CAP prices and financing arrangements which must take place before 1970.

8. The complex problems posed by the delicate state of Britain's economy and the UK's international financial role may prove more troublesome than the agricultural ones. Wilson went to great lengths to demonstrate that Britain's balance of payments and its trading position are improving and that the Six would not be taking on the burden of a sick economy. The British recognize, however, that an ability to sustain economic growth without the reappearance of a balance of payments deficit is essential if Britain's economy is to survive the initial "plunge" into the community. On the part of the Six there is fear that some future UK balance of payments crisis would inevitably call into play

the treaty's mutual-help provisions and involve them in more massive and costly support than they have rendered in the past.

9. The UK has yet to show that it can sustain even moderate growth without inducing a payments crisis and attendant speculation against sterling. Because of the UK's large external sterling liabilities and weak reserve position, sterling is especially vulnerable to a loss of confidence. The community presently fears that, if a crisis were to occur after the UK had become a member, the measures taken to bolster the UK economy--whether direct loans, deflation, or devaluation of the pound--would entail heavy costs to the other members. Furthermore, it fears that such measures would tend to disrupt the balance of advantages that has evolved in the advancing community system through the elimination of internal tariffs, the implementation of the common agricultural pricing and financing schemes, and harmonization of economic policies.

10. The Six, especially the French, appear to believe that the international role of sterling--a world-wide trading currency and a component of many countries' monetary reserves, entails special problems for the community. In addition to concern over the adequacy and liquidity of the UK's reserve assets, the Six suspect that pressure on sterling originating from the sterling area (for example, balance of payments deficits of sterling area countries) could have costly repercussions on their own economies. In the light of this, Wilson took great pains to explain the workings of the sterling area and to discount anxiety on its account. Although no specific solutions were proposed to the problem of the sterling balances during the round of talks, Britain maintained that it is willing to discuss various possibilities. In the talks in The Hague, the British also gave explicit assurances that they would not consider it an EEC responsibility to bail the UK out of a crisis brought on by sterling's international role, as opposed to one traceable to a purely British-incurred payments deficit. They also stated that in the event of difficulties arising from the world-wide use of sterling, the problem would be one for international cooperative solution, rather than for the EEC alone. Whether or

not such distinctions can in fact be made, however, seems doubtful and the monetary questions could prove a serious stumbling block in negotiations. The French in particular seem likely at some stage to stress these issues.

Institutions and the Treaty

11. In an effort to remove any doubts regarding Britain's commitment to the treaty's operating rules and institutions, Wilson repeatedly stressed that Britain accepted the importance of the role of the EEC Commission and was willing to go as far as the Six themselves in respecting majority voting in the Council. Wilson indicated his recognition that in an expanded community, majority voting would be essential. He even predicted that when the EEC has ten to twelve members the voting pattern would be a fluid one, shifting from issue to issue. In speaking with the Dutch, Wilson also emphasized that British interests would require an expanded role for the European Parliament, to ensure that the community budget--of which the UK would be providing an important share--was "well spent."

12. Despite their well-know distaste for majority voting and the EEC's assumption of government-like powers, the French are now directing attention to the unique structure and character of the EEC, which they say would be impaired by the addition of new members. A major reason for the Five's traditional suspicion of Britain has indeed been the UK's presumed wish to water down the supranational character of the community--in other words, to make common cause with France in a "Gaullist reform" of the community system. Paris' disingenuous employment of this argument against the UK underscores its basic interest in maintaining its dominant voice among the Six. The French may in fact realize that a larger membership would lead--in the interests of efficiency--to a strengthening of the very institutions and procedures which De Gaulle has found barely tolerable.

The French and the Five

13. Although the dubious logic of this French argument may not impress the Five, they may nevertheless tend to be sympathetic to the implication that admitting the UK might in some way rock the boat. The French may more or less explicitly pursue this line at the summit meeting of the Six to be held in Rome in April. (The prospect of this meeting could influence the British to make an early decision.) There are, meanwhile, indications that the French themselves are already proving more cooperative in the community in order to facilitate decisions of interest to the Five. In the final analysis, however, the merits of theoretical French argument will have to be weighed by the Five against an estimate of how their interests would be affected if UK entry were again indefinitely postponed. A British application would compel them to focus on what those interests really are.

14. How much support the Five will find it politically possible to commit to a British application will depend in large part--as they have said from the beginning--on the nature of the bid. If it is short and to the point, they would feel far more inclined to support it because of their own commitment to the Rome Treaty.

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In the meantime the Five are proceeding cautiously since they neither relish facing all the problems involved in British entry, nor do they wish to be let down by a British retreat.

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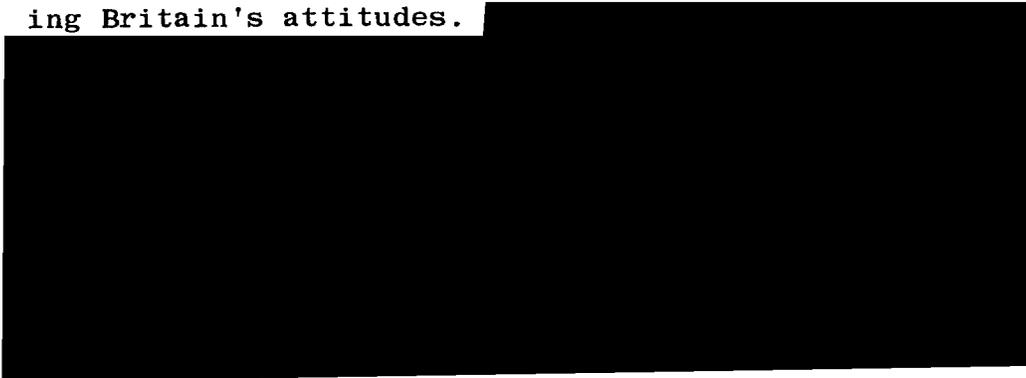
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The "Outside" Issues

15. In Paris, Wilson rejected De Gaulle's "suggestions" that the UK "associate" with the EEC, or take part in "something new and different." What he had in mind in the latter suggestion is still unexplained, although he may possibly have hoped to entrap Wilson into endorsing a concept which he could later say was at odds with the community system. De Gaulle might conceivably return to the "new and different" notion later on, however, knowing that the Five would be aghast at the prospect of having to relinquish the community for the "something new." Perhaps even more than by a commitment to the community as such, London is also being challenged to prove its "European" credentials on issues about which the Europeans themselves are by no means in agreement. These include the nonproliferation treaty (NPT), British troops in Germany, and closer ties between London and Moscow. In the present atmosphere these issues have tended to become touchstones for testing Britain's attitudes.

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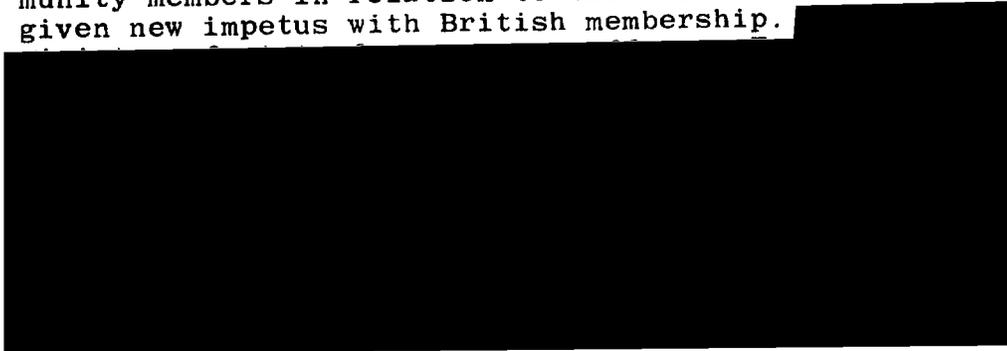


16. Wilson's public approach to these "outside" issues thus far has been to deny that they can be linked to Britain's bid for EEC membership. Wilson wishes to avoid overloading the docket and to get answers on issues specifically germane to the EEC. Moreover, Wilson is seeking to prevent domestic opposition from uniting by keeping these issues separate.

17. Wilson is aware, however, that a breakdown of the negotiations with Bonn over the foreign exchange costs of the British troops in West Germany would have an unfortunate effect on German support

for London's cause in the EEC. Wilson has also admitted the relevance of the NPT issue by telling the Dutch that the prospects for EURATOM--whose future is a major source of concern among community members in relation to the NPT--would be given new impetus with British membership.

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The Domestic Front

18. Wilson's own domestic opposition, especially from the "anti-marketeers" in the Labor Party, is troublesome, but there is virtually no prospect that it can prevent him from bidding for entry into the EEC, if he is determined to do so. Wilson can count on the support of the Conservative and Liberal parties in any parliamentary clash on the issue, and not even his bitterest Labor Party critics seem willing to contemplate the chaos which would follow an attempt to remove him from the leadership--on this or probably any other issue. However, resentment at what they consider Wilson's high-handed disregard of party opinion may increase Labor backbenchers' willingness openly to oppose the leadership on other issues. If Wilson becomes convinced that a bid for entry will fail, however, he might retreat from such an unobtainable goal rather than exacerbate his problems with the Laborite opposition. Any attempt to pacify this opposition by playing down the political implications of British entry into the community would undercut Wilson's position with the Five, on whose support his candidacy depends.

19. In any case, Wilson's current drive to make Britain a member of the EEC reflects the dominant trend of opinion in Britain. The dissenters who remain offer no real alternatives, but they

constitute obstacles to the concentration of effort Wilson will require to succeed. Among these are the advocates of an Atlantic free trade grouping, a notion which has been given some play recently, principally because of its endorsement by a group of US Senators in a public letter to the Times of London. The US Embassy there reported that as of 28 February it had been universally rejected by the press. Government officials, the leader of the Opposition--Edward Heath, and the director of the Confederation of British Industry have all told the US officials that basic UK interests would not be served by a special trade link with the US. It seems likely that informed opinion will continue to consider the idea unrealistic.