Britain in the Community 1973-1983

The impact of membership

Commission of the European Communities

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INTRODUCTION

It is now ten years since the United Kingdom entered the European Community. The great historical change which this entailed - perhaps the greatest alteration in the British constitution since 1688 - was imperceptible during the early years of membership. Gradually, however, this new relationship has come to affect the whole of British life, affecting economic decisions, bringing about new legislation, giving to UK foreign policy an entirely new dimension. More and more we have become accustomed to a European dimension in our national existence, and those whose business it is to make decisions or to plan ahead in the various sectors of national life have learned to allow for the new possibilities opened up by our membership of a wider market, our lasting association with other European countries. The present document and those which accompany it and the other studies which deal with the regions of the United Kingdom describe the results of this transformation.

These changes have not been accomplished without difficulties and discontents. In 1975 British membership was confirmed by a referendum which saw the British people voting to stay in the Community by 66.2 per cent to 32.8 per cent of votes cast in a 65 per cent poll. Since then, however, the polls have shown some decline in public support for British membership, though recent polling suggests that if the British people were again to be offered the choice of leaving or staying in, then opinion would divide along the lines of 1975. A decision to come out would be rejected for its potential of economic disorder and the leap into the unknown it would represent.

The real story

Yet the figures in the polls and the political skirmishing are not the only story. Beneath the superficial arguments, profound changes are taking place in Britain under the influence of Community membership.

The most obvious example is the change in the pattern of British trade. Some 43 per cent of British exports now go to our EEC partners (60 per cent go to Western Europe if the EFTA countries are added), of whom all but Greece are among the top 12 export markets. Britain is in deficit with its partners in manufactures, but, nonetheless , the value of its manufacturing exports to its European partners between 1972 and 1980 increased by far more than to other areas (480 per cent compared to 237 per cent to Japan and 234 per cent to the United States). The result of this has been increased turnover for ports on the south and east coasts - from Shoreham to Goole - changes in the location of industry and in the nature of exports. Moreover, membership of the EC has attracted to Britain investment from third countries, eager to place subsidiaries within the Community tariff barrier. In 1980 Britain received 58.8 per cent of American non-oil investment in the European Community and 30 per cent of total American investment world-wide. Since 1969 Britain has attracted much Japanese investment.

British farmers have also been helped by Community membership. In 1972 Britain produced 63.3 per cent of its own indigenous foodstuffs. In 1980 the figure was 74.8 per cent. In the same year 61.9 per cent of Britain's agricultural imports (food, feed and live animals) was covered by agricultural exports. As Britain's agriculture has expanded, so its share of money spent under the CAP has grown: from 3.3 per cent in 1973 to 10.3 per cent in 1980.

At the same time Britain has constantly been in surplus with its Community partners in invisibles: a surplus of £645m in 1980.

All this is the real story of change resulting from Britain's membership of the European Community. It is a change which includes countless connections established by British business with other enterprises in the Community, the setting up of subsidiaries and export agencies, the improvement of communications, the extension of various services. Since 1975 - for no firm moved before the result of the referendum - a silent, but considerable work of developing a new market has been going on, whose results are only now becoming apparent. Without that process Britain would be far worse off economically than it now is. The Confederation of British Industry (CBI) estimates that 2.5m jobs depend on the European market.

The external scene

British foreign policy too has been changed by membership of the European Community. In the regular 'political cooperation' meetings a common foreign policy for the member states is being elaborated. Among the most recent manifestations of this were the sanctions against Argentina. British ministers now take into consideration a process of consultation and Community solidarity which operates in most forums - the United Nations, the negotiations of Helsinki - where international problems are debated. In trade talks too - where the ten member states negotiate through the European Commission - the Community dimension means that Britain can add its weight to that of other countries to exert a greater influence in defence of British trade and industry than would be possible alone. The resolution of the dispute with the United States over the Siberian gas pipeline bore testimony to the effectiveness of a co-ordinated Community approach, as did the negotiations over European steel sales to the American market.

In the Third World, which includes so many Commonwealth countries, common action by the European Community on aid and development is welcomed by governments and peoples. The two Lomé agreements, now extended to 61 states in Africa, the Caribbean and the Pacific, are widely regarded as the most advanced model of relations between industrialised and developing countries. Participation in arrangements of this kind has enhanced Britain's reputation in the Third World. Outside Lomé the Mediterranean countries of the Middle East and North Africa have also shown themselves eager to establish agreements with the Community, and the example has been followed, around the Indian ocean, by India, Pakistan, Bangladesh, Sri Lanka and the countries of the Association of South-East Asian Nations (ASEAN). All these are areas in which Britain has traditional interests and the Community presence has helped to sustain Britain's own connection (and those of other member states) more effectively and at a lower cost than would otherwise have been the case.

To this we contribute our own experience of world affairs and our diplomatic skills. A European dimension to British relations with the outside world is not so much an aspiration as a matter of fact, a new prop for our interests and a stimulus for our foreign policy.

Complaints and Misconceptions

Thus, over ten years, two prominent features of the European Community - the common internal market and the common external policy - have changed British life, providing greater opportunities and a safer market for our trade and enhancing the power of our diplomacy through participation in a bloc which is capable of defending its own interests, both economically and politically.

These are two massive advantages which the European Community, in the ordinary course of its operations, has afforded Britain. Yet they are concealed behind a cloud of complaints and misconceptions which often concern relatively minor matters. It is worth looking at some of these to see just how important they are. No one would pretend that the Community and its workings are perfect -

indeed, the European Commission itself has recently suggested a far-reaching programme of reform - but it would be wrong to neglect policies that function normally and beneficially and to concentrate entirely on the problems. What is the truth about some common complaints?

Food prices: These have increased by 293 per cent between 1971 and 1981. Of this only 8 - 10 per cent of this increase can be attributed to the common agricultural policy.

The Community budget: The problems raised by Britain's contribution to the Community's budget have until now been dealt with by ad hoc solutions. Under the agreement reached in May 1980, rebates were agreed for the UK which had reached £1,613m by Juen 30, 1982. According to British Government figures, the net contributions amounted to £947m in 1979, £706m in 1980 and £379m in 1981, with a further big drop in 1982. These figures should be seen in the perspective of total government spending of more than £110,000m, including £32,000m on social security and £14,000m on defence. Nonetheless, the Community recognises that there is a problem and work is under way to resolve it.

Food surpluses: We hear much about 'wine lakes' and 'butter mountains'. In fact, the stocks held of agricultural products sold into intervention have been quite modest in recent years, and any rational system of agricultural support has to include some element of storing surplus supplies after a particularly productive harvest. Measures are now being introduced under which producers pay some of the cost of price guarantees, particularly on sugar, milk and cereals.

Harmonisation: So far from being merely a bureaucratic whim, the measures of harmonisation proposed by the Commission usually stem from three objectives: 1) to ensure that goods can freely circulate in the Community's internal market (e.g.harmonisation of car safety standards); 2) to protect the consumer (e.g. Community legislation on food additives); 3) to protect the environment (e.g. legislation about the cleanliness of beaches).

Bureaucracy: In November 1982 the size of the European Commission's staff was only 12,197 officials, more than a third of whom are interpreters or translators. This is less than the number of staff employed by some London borough coun cils.

From these examples, taken from among the most frequently repeated complaints about EEC policies and their effects on Britain, it can be seen that, while there is room for improvement, criticism often exaggerates the scale of problems. In the other scale can be put the general effects of the internal market and the Community's external policies outlined above. In addition, under such Community instruments as the Regional and Social funds (of which details are given elsewhere in this document) and the lending facilities of the European Investment Bank (EIB) Britain has received in grants and loans: £7,871m from 1973 until July 1982.

The policies of the Community

Apart from the EEC;s external policies (outlined above) and the creation of a common market designed to increase trade and economic activity within the Community, a number of specific common policies have been developed over the years. Some of these are well-advanced, others only in an embryonic stage.

The principle behind them all is the same. The countries of the Community all share common problems, many of which can be effectively solved only on a scale wider than that of individual member states. The position of a hill farmer in France is not much different fron his opposite number in Wales and common remedies can be devised for their difficulties. Unemployment is a scourge at present afflicting all the member states, and the retraining schemes planned under the Community's social policy are relevant to all of them. The Commission has taken the lead in trying to restructure the ailing Community steel industry, and its efforts to produce an orderly run-down of steel capacity have helped to save jobs in Lorraine as well as on Teesside which would otherwise have been lost.

The creation of future European industry as well as the rescue of what exists must also be a Community preoccupation. The Commission's relatively new industrial policy includes a sustained effort to establish in the Community the high-technology industries of the future - particularly those concerned with information technology and communications. For it is no use pretending that individual European countries can make the effort to become competitive with Japan and the United States in these areas. Only European-scale effort can provide an industrial base to last to the 21st century. Similarly, the Commission has put forward an energypolicy designed to lessen the Community's too great dependence on oil. It has pointed to the need for the development of new sources of energy and energy-saving on the part of industry and the individual consumer.

Since 1973 the Commission has been concerned with the 'human face' of the comminity. A regional policy and a social policy have been developed as initial steps to the balancing of economic against social considerations. Regional policy is intended to benefit those areas of the Community removed from the main centres of economic activity. The social policy is principally concerned with the retraining of the unemployed and help to certain categories of disadvantaged workers (migrants, the young, women etc). In addition, social policy has taken cognizance of such questions as women's rights, worker participation in industry etc. These policies, together with the social aspects of the Coal and Steel Community, must be considered as experimental. The money made available for dealing with such problems indicates Community interest in social problems associated with advanced industrial societies.

Along with these policies the European Commission has associated environmental and consumer policies which also have a social content. It is true that the problems faced here are such that they can be dealt with only on a European scale. How otherwise could pollution drifting across the North Sea be stopped or the use of pesticides which destroy wild life be forbidden? The fall-out of modern industrial society does not respect frontiers.

Conclusion

The policies of the European Community are discussed in detail in other sections of this document. But it sould be noted here how inevitably they arise from the close association of the states of Western Europe. All of them are answers to problems which can hardly be dealt with satisfactorily on the merely national level.

Britain's record in Europe seems, to many people both in Britain and in Europe, not to have been entirely satisfactory. Yet Britain has already received great benefits from membership, though change has taken place so gradually as to pass almost unperceived. And the people of this country should realise that other benefits are waiting if Britain can grasp the opportunity. Membership of the European Community must imply that we all have an interest in the effective functioning of that Community. But it will only function effectively if its institutions continue to develop and its policies to grow. One major purpose of Britain's accession to the Community was to give the nation's qualities the benefit of a wider forum in which to act, but that will hardly take place if the relationship between Britain and its partners is regarded as an adversary relationship refusing to identify with theprogress of a body freely joined. Membership of the Community must mean identification with the Community. That is the only way to make a success of membership.

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BRITAIN'S TRADE AND THE EUROPEAN COMMUNITY

Summary

Trade with the other countries of the European Community now accounts for well over 40 per cent of UK trade with the world. With the exception of Greece, the individual EC member states are all among this country's top 12 export markets; the German Federal Republic has become Britain's biggest trading partner and British exporters have generally pushed up their share of the import markets of other member countries.

In the 10 years since accession, trade with the other member countries has grown at a remarkable rate - exports from Britain to its EC partners rose by 28 per cent a year on average between 1972 and 1980 and imports by 24 per cent. Trade with the rest of the world, both imports and exports, went up 19 per cent annually. This growth of trade - which is reflected in both oil and non-oil transactions - represents added wealth for the economies of Britain and its partners, potential for British businesses and jobs for British people.

Oil has, of course, been an important factor in boosting the export figures, but many other sectors, including manufactured foods and agricultural products, various high technology goods, woollens and chemicals have improved or maintained their trading position. Road vehicles, on the other hand, have been a deteriorating sector.

In this document use has been made of export/import ratios in addition to money figures, because they provide a better picture of comparative performance than money figures alone. Export figures for 1981 were incomplete at the time of writing due to the civil service strike in Britain so are missing from the tables.

Growth of trade

For the first two quarters of 1982, 42.9 per cent of the UK's world trade was with the other member states - 43.5 per cent of the UK's imports, and 42.2 per cent of its exports. Since the end of the seventies more than 40 per cent of this country's trade has been with the rest of the Community.

Total trade with the EC for the first half of 1982 came to £23 916 million, with the UK's total for the world for the same period amounting to £55 741 million. In 1972, the year before entry, trade with the EC was worth £6.3 billion, accounting for just over 30 per cent of the UK's world trade.

Total trade with the EC (£ billion): Balance of Payments basis
Source - Department of Trade

Visibles

Year	Exports	Imports	Total	Balance
1970	2.4	2.3	4.7	+ .1
1971	2.5	2.7	5.3	- .2
1972	2.8	3.4	6.3	- .6
1973	3.8	5.2	9.0	- 1.4
1974	5.5	7.7	13.2	- 2.2
1975	6.2	8.7	15.0	- 2.5
1976	8.9	11.2	20.1	- 2.3
1977	11.7	13.6	25.3	- 1.9
1978	13.4	15.9	29.2	- 2.5
1979	17.3	19.9	37.3	- 2.6
1980	20.4	19.7	40.1	+ .7
1982 Jan-June	11.5	12.4	23.9	- .9

Figures for 1980 show that the Federal Republic of Germany then became the UK's biggest trading partner, displacing the USA that year. Just over 11 per cent of UK imports were from the Federal Republic, and 10.7 per cent of exports were shipped there. The Netherlands was the UK's third largest export market (8.1 per cent), and all the other EC states, except Greece, were within the UK's top dozen markets.

Fears that EC imports would flood into the UK and that British exports would not be able to compete in European markets were prevalent in the UK at the time of accession. Indeed, the first few years of EC membership did prove difficult for British industries, but from the mid-seventies the situation steadily improved. For the first half of 1982, exports to other Community countries expressed as a percentage of imports stood at 92.1 per cent. The lowest point was the 71 per cent ratio in 1975, and the highest 104 per cent in 1980 which equalled the ratio in 1970. This 1980 ratio, which gave the UK a £700 million surplus on trade, was in part because recession hit Britain earlier than other member countries, damping down imports while offering buoyant export opportunities. In 1982 the reverse situation seems to apply - British consumers' spending is growing, while export markets are subdued.

Between 1972 and 1980 the value of exports to EC countries rose at an average annual rate of 28 per cent compared with a 24 per cent average annual rate of increase for imports. Exports and imports to non-Community countries both rose by an average of 19 per cent per annum during the same period.

During the first half of 1982 exports to the EC were worth £11 470 million, and imports from the EC £12 446 million, giving the export/import ratio of 92.1 per cent and a net deficit of £976 million. Imports in 1981 were valued at £21 746 million. Export figures for the whole of 1981 are incomplete due to the civil service strike, but for quarters two and four came to £10 570 million, as against imports of £11 239 million.

The import penetration of British exports into other EC markets has improved over the years of membership following a steady decline in the years up to 1973. This was especially true of the Netherlands and West Germany. The only exception is Ireland, where the proportion of total imports coming from Britain remained unchanged between 1973 and 1980.

British exporters' percentage share of import markets

	W. Germany	France	Italy	Netherlands	Bel/Lux.	Denmark	Ireland
1973	3.5	4.7	3.4	4.6	6.6	11.1	50.8
1980	6.7	5.4	4.4	8.2	8.1	12.1	50.8

Source: Department of Trade

Manufacturing industry

The well-being of British manufacturing industry has caused great concern for 20 years. It is interesting to see how the balance of trade developed for manufactures during that period. The figures suggest that Britain was losing its competitive position more rapidly in the decade before 1973 than in the 10 years since.

Britain's world export performance in manufactured goods deteriorated seriously in the 10 years prior to British entry into the European Community. It also declined more quickly for exports to non-Community countries than with its future EC partners. Tracing the ratios of exports to imports of manufactured goods back to 1962 we find that in 1962 the ratio for trade with non-Community countries was 250 - in other words every £100 worth of manufactured imports was matched by £250 of exports. By the end of 1973 the ratio was down to 132.

Towards Community countries the trend was similar but the scale smaller, from a ratio of 165 in 1962 to 88 in 1972.

Since 1973 exports of manufactured goods to the rest of the Community have maintained their position against imports much better than exports to many non-Community countries. The export/import ratio with Japan fell from 48 per cent in 1973 to 28 per cent in 1980, and with North America from 96 per cent to 66 per cent for the same time span. Comparable figures with the EC were 88 per cent in both years.

UK Trade in Manufactures with the EC: Source - Overseas Trade Statistic Department of Trade

Year	Exports (£m)	Imports (£m)	Export/Import ratio
1975	4 842	5 481	88
1976	6 916	7 583	91
1977	8 830	9 740	91
1978	9 967	11 996	83
1979	12 219	15 299	80
1980	13 437	15 202	88
1981 - Q4	3 586	4 600	77
1982 - Q1	3 406	4 523	75

Between 1972 and 1980 the value of UK exports of manufactures to the Community rose by an annual average of 24 per cent. This compares to 18 per cent per annum to non-Community countries. For the first two quarters of 1982 the export/import ratio was 75 per cent, showing a deficit of £1 117 million. The last quarter of 1981 produced a ratio of 77 per cent and a deficit of £1 014 million. In the 1980 year, however, the manufactures export/import ratio was 88 per cent and the deficit £1 765 million.

The deficit in manufactures can largely be traced back to a few sectors. For example, the road vehicle deficit was equal to 60 per cent of the deficit in manufactures in 1980 and steel another 30 per cent; the steel dispute that year badly disrupted exports, producing a deficit of £562 million in that sector.

In the first six months of 1982, the deficit in manufactured products was £2 422m. For motor vehicles alone it was £1 210, for textile yarn £269m and for iron and steel £271m.

British penetration of the import market for manufactured goods in other member countries has shown consistent improvement since 1972 except in Denmark and Ireland. For example, Britain's share of West German imports of manufactured products went up from 4.8 per cent in 1972 to 6.8 per cent in 1980 and the share of the Dutch import market from 6.9 per cent in '72 to 9.2 per cent in '80. Over the same period the British share of American manufactured imports fell from 6.5 to 5.1 per cent, of Japanese from 6.2 to 4.8 and of Canadian from 5.5 to 3.3. The figures are as follows:

British manufacturers' percentage share of imports 1972-1980

	W.Germany	France	Italy	Netherlands	Bel/Lux.	Denmark	Ireland	Greece
1972	4.8	6.4	6.0	6.9	8.1	13.2	58.3	8.6
1974	5.0	6.2	5.6	7.2	7.6	11.2	53.2	6.4
1976	5.4	6.7	6.2	8.2	9.0	10.8	52.7	5.9
1978	6.0	6.7	7.0	8.0	10.8	10.6	52.0	6.7
1980	6.8	6.7	7.2	9.2	9.3	9.9	51.6	6.6

Some manufacturing sectors have achieved striking successes. In 1980 high technology products like office machinery, telecommunications, professional and scientific instruments all showed a surplus.

Food and agriculture

Community membership has led to a profound change in the pattern of British trade in food and agricultural products. The share of imports coming from the other EC countries has increased from 28 to 45 per cent by value since 1973. In terms of volume, imports from other EC countries have increased by one half while those from the rest of the world have fallen by almost a third.

The change in the source of British food imports was of course widely predicted and is the natural consequence of membership of a common market. What was not foreseen, and indeed has still largely escaped public awareness, has been the extraordinary growth in British exports of food. In value terms such exports within the common market have increased by over ten times, in volume terms they have almost trebled in ten years. Before EC membership food imports accounted for 22 per cent of Britain's total import bill, now they are no more than 12 per cent. At the same time food exports have risen from an insignificant 3 per cent to over 6 per cent of the value of total exports. Exports of food have risen from about one eighth of the value of imports to over one half as the food industry and agriculture have made inroads into continental markets.

The indications are that the UK is very much following the pattern of the original six Community members. The initial stimulus of free intra-community trade in food greatly boosted commerce between them, but by the time the UK joined there was little capacity for further expansion and the development has since been in third country markets. British exports to other EC countries seem now to have reached a plateau (all the expansion now being with the rest of the world), while the vigorous expansion in home production has cut imports substantially.

Petroleum and petroleum products

On the non-manufactures side petroleum and its associated products continue to be of vital importance to the UK. In the six months to April 1982 the surplus on the UK oil trade with the rest of the Community came to £2.3 billion. The export/import ratio for the first quarter of 1982 stood at 359 per cent, with exports valued at £1 426 million, and imports £397 million. The export/import ratio for the industry has increased each year since 1975 when the ratio was 54 per cent.

Invisibles

In the invisibles sector there has been a surplus on trade with the Community each year since accession, figures for 1980 showing a £645 million surplus. In 1973 at the time of entry the surplus was £440 million.

Balance of Trade: Invisibles   Source - Hansard, 20 January 1982

Year	£million
1973	+ 440
1974	+ 538
1975	+ 313
1976	+ 644
1977	+ 579
1978	+ 773
1979	+1 145
1980	+ 645

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INWARD INVESTMENT AND BRITISH COMMUNITY MEMBERSHIP

Summary

The position of the United Kingdom as a member of the European Community has made the country an attractive base for new capital investment from the United States, Canada, Japan and other third countries. It provides access to a common market of 270 million people and over the last 10 years has been an essential selling point for any British development agency, local authority or government department seeking to create new jobs by attracting mobile international investment.

According to American Department of Commerce figures, nearly 59 per cent of US direct investment in the Community in 1980, excluding oil,was placed in the United Kingdom and 34 per cent of American-EC investment in manufacturing industry. Japanese investment has also been attracted; about half of total Japanese-EC investment is already in the UK and more than one third of new Japanese investment in the EC comes to Britain. It was worth $ 186m in 1980.

Anecdotal evidence suggests overwhelmingly that British membership is an important factor in the investment decisions of American or Japanese companies, but the same is true of European or indeed British companies considering new investment. For them, too, open access to the full EC market is likely to be a central consideration.

ELEC study

A study published early this year by the European League for Economic Co-operation (ELEC) (1) analysed the trend of inward investment since 1973 and interviewed leading foreign owned firms. The study confirmed the importance of EC membership.

The ELEC findings were supported by another survey (2) which found that out of 53 US electronics firms planning investment in the UK, 43 said it would be either unsuitable or less suitable for them if Britain left the Community.

But would reluctance by foreigners to invest in Britain have a significant effect on the British economy? The evidence suggests that it would.

Foreign firms and jobs

Most inward direct investment to the UK comes from Western Europe (EC and EFTA) and the USA, while Japanese investment is accelerating. The UK share of US investment declined in the 1960s and early 1970s, but has recovered markedly since Britain joined the Community, and now represents 59.5 per cent of all foreign investment in Britain (excluding oil, banking and insurance).

Manufacturing accounts for the major share of foreign investment, particularly in the modern sectors of engineering and electronics. Although representing only 2.5 per cent of all manufacturing establishments in the UK, foreign firms account for 14 per cent of jobs, 15.8 per cent of pay, 19 per cent of output, and 33 per cent of all exports.

Their importance to the British economy is therefore manifest.

In Scotland, for instance, where one person in seven is out of work, eight of Scotland's ten top export markets are within the European Community; Scottish

(1) Investment into the United Kingdom by Third Countries, by Kenneth Fleet.

(2) Electronics Location File, 17 The Green, Richmond, Surrey, TW9 1PX.

exports to the EC have increased significantly while trade with North America is in decline. Yet there is more US investment per capita in Scotland than in any other country in Europe, with 200 US companies providing over 70,000 jobs. During the last two years 15 of the US firms have announced investment totalling $ 430m in Scotland, with potential additional jobs for 6,000.

In Northern Ireland nearly a quarter of jobs in manufacturing derive from US firms. Since 1973 some 12,000 jobs have been promoted by US enterprise, and 3,000 by EC companies, particularly from Germany.

Census of production figures show that in 1978 Wales supported 132 foreign owned industrial enterprises, with 202 plants or factories providing 53,900 jobs, and on present trends the figures should be higher in 1982.

Why invest in Britain?

There is no doubt that the UK can offer good financial and other incentives to investors, particularly in the assisted areas, but an underlying reason, often repeated in interviews with management of American and Japanese firms, is that investment in Britain offers a launching pad for the Common Market of 300 million people. The high export level, mainly to the EC, is an indication of the importance of the Community connection. US firms, in particular, but to some extent also the Canadian and Japanese, find it easier too to deal with English speaking workers; they like the atmosphere and welcome the skills. But at the crunch, it is access to the Community's free trade market that counts.

'If we leave (the EC), the Americans won't come. They don't come and look only at the UK; they look at most of the EEC countries - we wouldn't be on the shopping list if we weren't in the EEC', Michael West, Economic Development Officer for Bristol, said last year.

'If the UK were to pull out of the Common Market, it would literally mean we would close this factory down and transfer the facilities to a country which was within the EEC, very probably Ireland', said Mr Ceri Evans, Managing Director of Lamplight Farms Ltd., a small, but profitable American owned firm in Wales.

For Mr Evans, and others like him, once outside the European Community, their exports could attract tariffs and their goods would cease to be competitive. The UK market alone could not sustain them.

Though most firms would not actually pull out like Lamplight Farms, managements of foreign companies settled in Britain believe that any expansion plans would be curtailed and new investment slow down. There are, after all, many countries in the rest of the Community who would welcome the footloose investor with open arms ... and no tariff barriers.

What about British investment?

British companies, of course, are also investing abroad. In 1978 and 1979 there was a marked swing towards UK investment in the US, so that for those years inward investment represented only 70 per cent of outward flows. On the other hand, more US direct investment in the UK goes to manufacturing industry than does UK investment in the US, though investment in this sector is rising, as the table shows.

Manufacturing % of total direct investment UK|US

	Inward	Outward
1962-72	82	55
1966-72	83	54
1973-79	85	60
1978-79	81	58

On balance too, Britain's Community partners invest more in the UK than the UK does in the Community.

Taking all forms of investment EC/UK together (direct, portfolio, public, etc.) between 1973-1979 there was a balance in favour of inward to outward investment of 175 per cent.

Broken down into sectors the situation varied. In manufacturing (1975-79) EC direct investment represented only 40 per cent of the outward flow; by contrast portfolio investment showed a positive ratio of 224 per cent, while forms of investment other than direct and portfolio (but including the oil industry) indicated a massive net inflow of funds from other member countries to the UK of over 9,000m ECU (about £ 5 130m) between 1973 and 1979. Main investors are Germany, France and the Netherlands.

With UK accession to the Community there was a surge of outward British investment from 1971 - 73, but since 1975 the increase in inward investment has been most noticeable. The abolition of exchange controls in October 1979 does not appear to have resulted in any increase in direct outward investment; the main effect has been on portfolio investment overseas, which has risen substantially, especially in pension funds and to a lesser extent, insurance companies.

Conclusions

British membership of the European Community has reversed the decline in the proportion of US investment in Europe coming to Britain; EC investment in the UK has increased; and the Japanese are showing an interest in the United Kingdom evidently related to their desire to gain access to the Common Market.

A special report published earlier this year by the European League for Economic Co-operation considered that the foreign investment represented jobs for tens of thousands of people throughout the United Kingdom.

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EUROPEAN STEEL POLICY AND THE BRITISH STEEL INDUSTRY

Summary

The European Community's action on steel sales to the United States has been headline news for the last few months. The negotiations conducted on behalf of the Community's steel industry resulted in an agreement with the Americans in October which led the US to drop the fierce import levies proposed on sales of European steel in return for a system of export quotas on sales to America agreed between the Community's member countries, and special arrangements for tube and pipe exports. It was a welcome relief for Britain's steel industry.

This action to protect export sales from the threat of almost total exclusion from the American market was one aspect of a Community policy for the steel industry which has developed in the last few years in the face of slumping demand, price wars and a rising tide of cheap imports.

For Britain's steel industry, the 10 years since 1973 have been appallingly difficult. Virtually half the labour force has been made redundant and plants have been closed as both home and export demand has declined. The EC's 'Davignon plan' has brought more stable pricing arrangements and substantial sums have been made available from Community funds in order to provide cash help through make-up pay and early pensions to those made redundant. This has eased, but not resolved a most difficult situation.

Up to November 1982, 102 967 people made redundant in the British steel industry had received help from Community funds. Of these, 17 922 were in Britain's private sector and have received nearly £22m, and another 85 000 were in the British Steel Corporation and have received £103.5m - total payments of £125m. Additional help has been given in the form of cheap loans from the European Coal and Steel Community for new industrial and commercial investment in steel areas.

Plight of the industry

There was a general aura of calm as the British steel industry prepared for EC entry in 1972. In Britain, the two main concerns - and how quaint they appear in retrospect - were the supply of scrap and the prospect of higher prices for steel products. The industry was profitable, growing, and offering significantly lower prices than continental producers. There were big plans for expansion.

Ten years later, the entire European steel industry is fighting for its life. Most companies have suffered unbelievable losses. British Steel Corporation, for example, has shown a pre-interest profit only three times since Britain joined the EC, and in the last four years the private sector has also had to conduct massive surgery.

Yet steel industry officials argue that things would be a lot worse if the Community were not there and Britain were not a part of it. One may also ask whether the Community itself would have held together if the member governments and the European Commission had not come to grips with the steel crisis under the powers given by the European Coal and Steel Community (ECSC) Treaty.

The crisis is not confined to Europe. The United States industry has been badly hit, as have other steel industries, as newly industrialised countries have stepped up output and demand has slumped.

The Crisis of the '70s

Britain's entry into the ECSC meant raising steel prices - achieved by November 1973 - and opening up exports of scrap, which it was feared would add to the industry's costs. The price increases were accepted relatively painlessly and by mid-1975 the prices for scrap had collapsed, proving these fears transitory. The steel crisis had begun.

Although it is now clear that the steel crisis began following the rise in oil prices in 1973, this was not clear at the time. Analysts recognised that higher oil prices would have an impact on demand for steel, but it was thought that energy conservation would offset some of the drag of dearer oil while increased investment in energy conservation would provide new outlets for steel. And for at least two years after 1973, analysts were soothed by the fact that GDP continued to rise, albeit more slowly than before.

Untimately, it was noticed that steel demand was more closely related to capital investment trends than to GDP trends and that the first and major casualty of lower GDP growth was capital investment, and with it, steel consumption. So, assuming that Britain had remained outside the ECSC, the argument for BSC's ambitious expansion plan would probably have sounded at least as compelling in 1973 and 1974 as it had in 1972, except for the £60m Hunterston iron plants which were designed to cope with an anticipated shortage of scrap but which have never opened.

Many producers, BSC among them, opposed intervention because they thought the usual steel consumption cycle was still functioning and that demand was beginning to improve. Later, in 1976, when things got worse, the outgoing Commissioner, Henri Simonet, put forward a new comprehensive plan blaming an increase in Japanese exports for the industry's difficulties.

The Simonet plan, under which producers would stock to suggested production quotas, went into effect in January 1977, on a four-month trial basis. By March, 51 of the 68 ECSC producers, representing 92 per cent of capacity, had agreed to participate but the plan was ineffective because most producers lobbied successfully for higher quotas.

The new commissioner, Viscount Etienne Davignon, called a summit meeting in March 1977 and said publicly for the first time that the problem was long-term and structural in nature and that imports were a marginal issue. European producers had no choice, he said, but to cut capacity and modernise remaining plant if they were to survive. Capacity utilisation had dropped from 87.6 per cent in 1974 to 64.5 per cent in 1977. Over the same period, steel consumption in the Community had dropped from 121.6m tonnes to 104.9m tonnes, but companies were still expanding.

Viscount Davignon proposed mandatory minimum prices for reinforcing bars, voluntary minima for other products and sought to combine Commission approvals of new investment projects with undertakings to close obsolete plant. The Commission made clear, for example, its opposition to BSC's planned £835m expansion at Port Talbot in South Wales unless BSC committed itself to offsetting closures. But within months, BSC, swamped with losses, abandoned the Port Talbot scheme and many others as it began its desperate retrenchment.

'Manifest crisis' and rationalisation

The Davignon plan met with mixed results over the next three years depending on the state of the market, but from the time he arrived, the Commission was always on top of the situation if not ahead of the understanding of some companies and governments of the seriousness of their plight. Conditions took a sharp turn for the worse in late 1979 as a result of the second oil crisis but the impact was camouflaged in the early part of 1980 by the three-month strike at BSC. However, by the autumn of 1980, demand had slumped so badly that prices collapsed and a 'manifest crisis' was finally declared in November. Total consumption in the ECSC countries fell 8 percent in 1980 to 103.6m tonnes and a further 8 per cent in 1981 to 95.8m tonnes, the lowest combined level by these nine countries since the sixties.

Article 58 of the Treaty of Paris provides the ECSC authorities with the power to declare that a 'manifest crisis' exists and thereafter to set mandatory production quotas. Article 61 adds the power to fix minimum prices for any product covered by the Treaty if a manifest crisis exists or, in the view of the authorities, is imminent. Production quotas were introduced in November 1980 but the market was so depressed that this proved inadequate to bring about some recovery of prices. In July 1981, price discipline was added to the production discipline. Since then, prices have risen by about 25 per cent and were slightly ahead of their 1979 levels until a further deterioration in demand occurred last summer.

Until 1979, Britain was regarded as reluctant to effect the cutbacks. The Labour Government put great pressure on BSC not to close old, obsolete plant, notably the Shotton works in North Wales, and it refused to adopt the proposed Aids Code, under which governments would agree to phase out subsidies by 1983. The French, who had embarked on a vigorous programme of closures in the Lorraine, resented the lack of commitment from Britain.

However, the Conservative Government which came to power in May 1979, took a more cold-headed view than its predecessor and the dramatic rundown of BSC began. Since mid-1979 90,000 jobs have been shed from the Corporation and manned capacity has dropped from 24m tonnes to 14.4m tonnes. Today, it is the British who accuse the French and Belgians in particular of dragging their feet on closures. The British Government, BSC and BISPA are among the strongest supporters of the Davignon Plan, not only of its current support measures but especially of its medium term goal of eliminating all government subsidies and seeing the companies restored to viability by 1985.

There seem to be only two significant areas of dissatisfaction in Britain with the European steel regime. These arise from the decline of the UK special steels sector and the increase in imports of all steel products from countries outside the Community.

Based in Sheffield, Britian's special steels industry has a long and proud tradition as a major world supplier of high speed, tool and stainless steels. However, in the past decade, it has been decimated as low-price imports from other producing countries have flooded into the UK market. In 1972, imports accounted for 13 per cent of UK consumption of these products, today they take about 60 per cent of the market.

The main UK producers, Firth Brown, Aurora, Sanderson Kaiser and others, have had to carry out substantial rationalisation. When the problem first emerged, the fiercely independent Sheffield producers were criticised for being too small and inefficient to compete with the Europeans. A few attempts at consolidation have occurred, the most notable being the bringing together by Aurora in 1978 and 1979 of Samuel Osborn & Company and Edgar Allen, Balfour & Company. However, either this was too little too late or the complaints of dumping and unfair competition from allegedly heavily subsidised French, Austrian and Swedish producers have some foundation (Under their Association agreements with the EC, both Austria and Sweden are subject to Community steel policy). In any event, attempts by BISPA to get the Commission to intervene have never yielded results.

Since the manifest crisis measures were introduced in 1980, the Sheffield special steels producers have been lobbying to have their products included in the list of those for which production quotas and minimum prices are set. But this has been rejected, partly because of the difficulties for the Commission of keeping track of the relatively small tonnages made by a large number of producers and partly because only some special steel products - the hot rolled ones - come under the Treaty of Paris.

Imports and exports

The problem of imports of all steel products from countries outside the ECSC goes back to 1976 when the first orderly marketing arrangement (OMA) was negotiated with Japan. Gradually, OMAs were concluded with virtually every important importer into the ECSC, but controversy developed in early 1978 when the Commission was promoting price increases as a result of improvements in market conditions.

The British were concerned that the increases would suck in more third country imports and so made a deal with British stockholders whereby the stockholders would buy 95 per cent of their steel from ECSC sources and sell everything at UK producers' list prices. However, the Commission ruled out the deal as 'clearly illegal'.

Since then, the issue has festered occasionally, breaking out again this year as the volume of third country imports into Britain has again swelled because of the recovery of prices in the Community.

The problem, according to BSC, is that the Commission's tonnage quotas for each third country are negotiated only once a year and are extremely difficult to renegotiate if conditions change. The 1982 quotas are generally higher than last year's because markets were improving late in 1979 when they were negotiated.

In the third quarter of this year, ECSC producers were ordered to cut output by about 30 per cent because of falling demand. But import quotas have not been revised downwards and so importers have been able to icnrease their market share.

Exports to America

When the United States steel producers laid charges of dumping and subsidisation against European steelmakers in January, the European Commission began discussions with the American administration on a scheme for limiting European sales to the American market. Agreement was finally reached in October, with a formula which cut back European exports to the end of 1985 to an average of 5.46 per cent of the US market in 1981. There was also an exchange of letters on pipe and tube exports.

The British Steel Corporation was deemed by the Americans to be among the most heavily subsidised, and if the action had been pursued through the full American procedures, British steel might have been almost excluded from the United States market. Following the negotiations, the cutback was rather less severe and was shared by all steel producers in the Community including the West German industry, which had not been subject to complaints.

Conclusion

Despite the irritants, there is not much doubt that the United Kingdom steel industry is better off than if it were outside the ECSC, or at least not as badly off. Even steel consumers, who have had to bear artificial movements in prices and supply, have been patient. The British Iron and Steel Consumers' Council has been complaining recently that the sharp price rises of the past year came at a particularly difficult time for manufacturing industry. Many manufacturers have not been able to pass on the full effect of the increases to their customers. But BRISCC understands the gravity of the steel crisis. It is not arguing for lower prices, only that the Davignon Plan be pursued faithfully, so that the panoply of controls can be removed and a free, competitive market restored as quickly as possible.

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BRITAIN'S TEXTILE INDUSTRY AND THE EUROPEAN COMMUNITY

Summary

Britain's membership of the European Community has provided a totally new framework for the British clothing and textile industries. Accession to the common market has given these industries more open access to continental markets - which the clothing industry in particular has exploited - but by the same token the strength of import competition on the UK domestic market has intensified. In 1972 less than 30 per cent of Britain's textile and clothing exports went to the other member countries; by 1980 it was virtually half.

In the last 10 years the Community as a whole has developed a complex textile trading policy towards the rest of the world. The Multi Fibre Arrangement with developing countries has now been negotiated for a third five-year period (although doubts remain over the subsequent negotiations with individual suppliers), providing a predictable level of imports from low-cost suppliers in the face of the far-reaching changes and high level of redundancies in the European industry.

Trade relations with developed countries such as the United States are also managed on a Community basis, particularly through the Community's anti-dumping arrangements - applied last year on various American products.

Clothing and textile trade since 1972

Total UK exports of textiles and clothing stood at £590m in 1972. By 1976, this had grown to £1 356m. Imports in 1972 were £589m and by 1976, had risen to £1 595m. By 1980, total UK exports had risen to £2 171m of which £808m was clothing, but imports were up to £2 775m of which £1 231m was clothing.

Britain's trade with the Six in 1972 was £175m for total UK textile and clothing exports compared to £189m of imports. By 1976, Britain was exporting £538m to EC countries and importing £577m from them, but by 1980, the figures were £1 071m for exports and £1 103m for imports - almost in balance.

British textile producers had initially been very enthusiastic about the new large home market offered by the Community and a number of UK companies invested heavily to take advantage of it, but by the late 1970s many were finding it hard to exploit opportunities in the Community. Exports of British clothing to other Community markets were doing much better than exports of textiles, but they were not as successful as had been expected. Nonetheless, the trade statistics show the growing importance of the Community market. The growth in business has been remarkable. Two-way trade in textile fibres more than trebled between 1972 and 1980. Trade in actual textiles was up five-fold and trade in clothing up more than seven times in money terms. Exports of fibres grew more quickly than imports (an export : import ratio of 127 in 1972 and 165 in 1980); on the other hand actual textile imports grew faster than exports, with an export:import ratio of 92 in 1972 and 80 in 1980.

It is in clothing that the growth of exports has been fastest; in 1972 British exports to other member states were worth 94 per cent of imports. By 1976 exports had overtaken imports, at 112 per cent, and by 1980 were up to 138 per cent of imports.

In industries as politically sensitive as clothing and textiles, the importance of Britain's place within the Community, with access to the whole common market, is plain enough. This market now accounts for half total exports of textiles and clothing. Recession has, of course, hit business in the last two years and the trade figures have deteriorated, but British exporters have proved the potential is there.

British textile trade in the common market 1972-1980 (£million)

Commodity	1972			1976			1980		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Textile fibre	37	29	+ 8	97	79	+ 18	147	89	+ 57
Textiles	126	137	- 11	368	416	- 48	625	780	- 155
Clothing	49	52	- 3	183	163	_ 20	446	323	+ 123

Source: United Kingdom Trade with European Countries
Department of Trade

The possibilities are illustrated by the knitwear sector, which did well between 1978 and 1980 in increasing its sales to Germany by a major export campaign. In spite of a strong £, it was able to double its exports. Loyalty to home produced goods and lack of large distributors had made it difficult to break into the German market at first, but in recent years, more large distributors have appeared in Germany, making it easier for British exporters.

In addition, as part of its international expansion, Marks and Spencer has set up a number of stores in the Community, a sizeable part of whose stock is still produced in the UK. This group sold just over £27m of textile products through its French and Belgian stores, nine-tenths of them made in the UK. Some believe M & S may be keeping as much as 20 per cent of Britain's clothing industry alive.

The UK has always had an open market and the distribution system for most textile goods and for clothing consisted in 1973 of a few large retailers with networks throughout the country, so it was relatively easy for producers from other EC countries to break into Britain's domestic market fairly quickly. Most other member states had and still have more protected markets; this is why moving into the continental market has proved more difficult than many British firms had expected it to be. Consumers in France and Germany, the two most important markets of the Nine,tended, even without regulations to encourage them, to buy goods produced at home in preference to foreign goods. The British, on the other hand, with their long tradition of free trade and familiarity with goods made abroad, often in the Empire, tended to buy whatever seemed to them the best value for money or most attractive.

Falling employment

In June 1971, the clothing and textile industries in the UK employed well over a million people. By June 1980, these industries together employed only 667 000 and by June 1982, they employed fewer than 560 000. In terms of numbers employed, the industries have almost halved during the past ten years. This reflects various factors, such as the development of outward processing (where a product involving a high labour charge is made up outside the Community and then reimported for sale), increasing imports from low-cost producers and technological change.

Import penetration: During the 1960s, the British textile industry presented an example of successful concentration and it expanded faster than did the textile industries of the Six as a whole, though only at about half the rate of the German textile industry. Since then, however, British producers have lost out at home and in other EC markets both to low-cost producers from developing countries and, particularly since 1975/76, to cheap American imports of goods such as bed linen, man-made fibres and denim. This temporary surge in US imports, due to cheap American energy, seriously damaged a number of British companies which were forced to close down plants, as were continental producers.

By the time the US threat had receded, this producing capacity had been lost, leaving a vacuum which has since been partly filled by exports from other member states and partly by exports from third countries. For British producers, 1980 was a year of extreme destocking. Overall production fell well below what it had been in 1975 - previously considered a bad year. Import penetration of the British market for textiles and clothing together rose from 54 per cent in 1979 to 59 per cent in 1980. By 1981, it had reached 65 per cent.

Man-made fibres: Unfortunately, Britain joined the Community just as the first major oil price rise was about to occur. In the early 1970s, the demand for man-made fibres was growing rapidly and several major UK companies invested heavily in this sector to take advantage of the new large home market that EC membership was expected to bring. Much of this new investment was based on the assumption that energy prices would rise only gradually. Both feed stocks for man-made fibres, and the energy to run capital intensive plants became very expensive almost overnight when the price of crude oil soared. As the recession set in and gradually deepened, people had less spare cash, both in the UK and in other member states, demand declined, and consumers often bought cheaper goods from third countries. Between 1976 and 1977, there was a mini-revival in UK exports due to the very low value of sterling vis-a-vis other Community currencies; however, when the pound rose, exports began to decline again.

Courtaulds, one of Britain's largest textile companies which had invested heavily in worsted spinning at Spinnymore and in the highly integrated Campsie Project in Northern Ireland, has had to close down not only both of these, but also parts or all of other plants as well. The company believes the UK's tight money policy, a high value £ and increasing imports from all sources have caused more of their problems than EC membership.

Early efforts by Courtaulds to sell acetate yarn in Community markets paid off well at first but, as the recession continued and began to affect other member states, sales fell.

The need for rationalising the production of man-made fibres on a Community basis is well recognised and manufacturers have got together under the auspices of the European Commission to discuss a cutback in their capacity.

Dealing with low-cost suppliers

Until 1970, the United Kingdom had a positive balance of trade with the whole world in textile and clothing. The only real problem for the textile industry before 1973 was the cotton sector; the Long Term Cotton Agreement (LTA), concluded in 1962 and renewed in 1967, was expected to gradually solve that. In addition, the UK Government had made a major effort to modernise and rationalise the British cotton sector in an attempt to adjust to the development of cotton industries in a number of developing countries.

On the other hand, the markets of the original six EC member countries were well protected by a wide range of long-standing national restraints in 1973, so when later bilaterals came to be negotiated under the Multi-Fibre Arrangement, all Community members except Germany and Denmark, began with low base levels for imports. These base levels became very important when, in 1975|76, agreements for import quota levels for various products were being drawn up based on an annual growth rate of six per cent. Six per cent of 1 000 shirts is not a large increase, six per cent of 900 000 is.

As the 1970s progressed, the world recession grew worse and it became clear that for textile and clothing imports, the old British free trade policy would have to be somewhat modified. The halving of the workforce accentuated this necessity.

The Community took a much tougher line in 1977 when it negotiated its second round of bilateral agreements with its many low-cost suppliers. At first, these new agreements which reduced imports from main suppliers such as Hong Kong, South Korea, etc. seemed to be working well from the British industries' point of view. There was no pretence that all low-cost developing country suppliers would be allowed six per cent growth rates for all exports to the UK. However, by 1981, when it was time to prepare to renew the Agreement, UK producers were less pleased about how the bilaterals had been implemented by the Commission.

The industries hoped, when the MFA was renewed, that it would be possible to put in an automatic 'anti-surge' mechanism to cope with sudden influxes of goods, from low-cost suppliers, which had been a problem in the past. They also wanted to be sure the next round of bilaterals to be negotiated within the framework of MFA III would use 1980 trade levels as the base year levels for growth rates. The Commission and the supplier countries wished to use the 1982 quota levels from the previous agreements, and it was on this basis that the new MFA was finally agreed in Geneva in December 1981.

The Commission is acutely conscious of the needs of the developing countries concerned, especially since textile production is the simplest path to development. It is also aware of the wider importance of maintaining imports from countries which will offer future markets for European exports. Last year's action by Indonesia, which cut back purchases of British industrial goods by up to £150m in reprisal for import limitations on Indonesian textile sales to Britain, pointed up the dangers.

The new MFA agreement will not be ratified by the Community until the European Commission has successfully negotiated bilateral terms with individual developing country suppliers in a series of talks which have proved most difficult with those more industrialised suppliers such as Hong Kong. The difficulties arise because the Community intends to limit exports from these countries more stringently than from poorer developing countries and the negotiations have continued well into the autumn.

Grants and subsidies

The textile and clothing industries have received some financial help from the European Social Fund and some companies have benefited from the Regional Fund, but the amounts received have been relatively small and the unions believe a revamped Social Fund could possibly be of real use.

The European Commission has just proposed special help for textile regions under the non-quota section of the European Regional Development Fund. This aid would amount to about £147m throughout the Community, of which £57m would be devoted to UK regions. The aid would be designed to encourage the development of small and medium sized enterprises and foster industrial innovation in the textile regions. The UK areas eligible would be Northern Ireland, parts of Tayside, of West Yorkshire and Lancashire and around Greater Manchester.

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BRITISH SHIPBUILDING IN THE EUROPEAN COMMUNITY

The industry

Although it has shrunk in the last few years, the shipbuilding industry is still an important one both for the United Kingdom and for the European Community as a whole. The European Commission estimated that at the end of 1981 125,000 people were directly employed in the new building of merchant ships, 25,000 of them in the UK. About half the value of a ship represents the cost of bought-in materials: accordingly almost as many workers again must be dependent on the industry for their livelihoods, apart from those engaged in warship building and ship repairing.

World output of merchant ships is currently worth perhaps £10-15bn annually. Some 20 per cent of it is built in the EC, and between 2 and 3 per cent in the UK. With the accession of Greece to the Community, 26 per cent of the world fleet in terms of gross tonnage is registered in member countries; but the Greek fleet accounts for 10 per cent. The fleets of the other members normally place about 70 per cent of their new building orders with EC shipyards, mainly with those in their own respective countries, and these orders make up a similar percentage of the total placed in EC yards, though in UK shipyards over the last few years, around 65 per cent has been for export. A further 5½ per cent of the world fleet is owned by EC residents, though registered in Liberia, Panama and other open-registry countries.

The Community has always recognised the strategic importance of the shipbuilding industry. It also acknowledges its importance as a customer for other industries, including those involving the use of advanced technology, and as an employer, often in regions with a high level of unemployment.

The industry in Great Britain was nationalised in 1977. British Shipbuilders, and Harland & Wolff in Northern Ireland, also state-owned, together account for over 95 per cent of shipbuilding in the UK.

The industry's problems

Shipbuilding is often regarded as an industry in decline. This is not, in general, an accurate description. World seaborne trade, and the world fleet, are expected to continue growing. It is true, however, that the EC shipbuilding industry is currently faced with serious problems, some temporary, some secular, some inherent.

The recession: The market for new ships has always been highly cyclical. At the time when the UK joined the Community its shipyards were positively booming. The order book, for example, rose during 1973 from 4m to over 7m gross tons - a level not previously reached since 1957. Following the increase in OPEC oil prices early in 1974, it collapsed. There was a slight recovery in 1979-1981, but it is now once again in a trough, as are those of other manufacturing industries, and is not expected to improve before the end of next year.

World overcapacity: The years of rising demand around 1970 saw a massive increase in shipbuilding capacity around the world, particularly in Japan. This has proved to have been quite excessive. A large number of facilities have since been taken out of use or closed altogether - British Shipbuilders has lost 38 berths out of 66 since 1977 - but too many still remain around the world, and some large new yards are even now being brought into operation in South Korea.

The rise of the Far East: In shipbuilding, as in other industries, Western Europe used to enjoy a clear predominance. Just after the Second World War, the UK accounted for half the world's output. The subsequent rise of the Japanese shipbuilding industry, which now has 40 per cent of the world market, is well known. Korea is now following Japan's example, and China has similar ambitions.

The international character of shipping and shipbuilding: These developments have been made all the easier by the mobility of shipowners and the virtual absence of tariff protection for shipbuilders. There are few industries so exposed to international competition, fair and unfair.

Community policy for the industry

The essentials of the EC's policy towards the sector are set out in the Council Resolution of 19 September 1978. This stressed 'the need to maintain within the Community a healthy and competitive shipbuilding industry whose scale of activity should be consistent with the size of the Community's maritime trade and respect its economic, social and strategic importance', and called for 'structural adjustments', taking into account medium and long-term market prospects, for efforts to improve the industry's competitiveness; and for the creation of new jobs in the areas affected, to replace those the industry was losing.

In support of these aims the EC Commission has made a number of attempts to introduce positive measures to help the industry. There have been proposals for investment aid - in 1973 for shipbuilding itself, and in 1979 for diversifying shipyards. Various suggestions for stimulating demand for ships have been put forward, including in particular a 'scrap and build' scheme (1979). However, it has so far proved impossible to gain the agreement of all the member states and other interested parties to any specific measure on these lines. The Commission is currently supporting a pilot study into the scope for further standardisation of components and equipment for ships, and possibilities for sponsoring research and development are being explored.

Competition policy

With tariff protection impracticable, some member countries have traditionally resorted to direct production subsidies, and all have supported their shipbuilders in one way or another in recent years. The EC is in general inclined to discourage those subsidies which might distort trade and competition, but has recognised from the start that shipbuilding is an exceptional case. The Rome Treaty provides, in Article 92, that shipbuilding subsidies should be reduced in line with the timetable for creating the customs union, subject to the common commercial policy towards third countries.

It is this part of the Treaty, governing state aids, which has had the greatest impact on shipbuilding in the UK and in other member countries. Since 1969 the EC has sought to control government support for the industry by means of a series of Council Directives, specifying the types and in some cases the levels of aid which can be regarded as compatible with the common market. This is a difficult task, in view of the many different ways in which aid is given directly or indirectly to shipbuilding in different member states, but the Directives have had an undoubted effect in restraining governments from granting indiscriminate subsidies, or in helping them to resist pleas for such subsidies.

A feature of recent Directives in this series is that they have permitted direct aid only if linked to restructuring objectives which will make the industry competitive. Under the Fourth Directive, which was in force from April 1978 to the end of 1980, the need for the adaptation of production capacity to the conditions prevailing on the market was stressed: this encouraged the closure or diversification of some shipbuilding facilities. The present, Fifth Directive, however, recognises that in most member countries this process has gone far enough, and that the restructuring required includes other measures, designed to make EC shipyards more competitive.

Thus, in default of agreement on more positive action, the EC is in effect using control over state aids as an instrument of industrial policy for shipbuilding. Though in many ways unsatisfactory for the purpose, it is probably the most effective instrument available.

Maritime policy

Although the EC has joined in recent agreements to improve maritime safety and reduce pollution, by discouraging substandard ships, and has taken an interest in a number of other matters connected with maritime transport, its policy for shipping and ports is not yet extensively developed. There is increasing recognition, though, that the fortunes of shipping and of shipbuilding are closely linked, and policies towards the two industries are likely to be more explicitly co-ordinated in the future.

Commercial policy

The absence of tariffs on ships has meant that the Common Commercial Policy has not affected shipbuilding. However, the EC has sought to use its influence over the years, in particular to persuade the Japanese government to moderate its industry's dominance of the world shipbuilding market. In 1976 the principal shipbuilding countries in OECD adopted General Guidelines for Government Policies in the Shipbuilding Industry, whereby each country was to play an appropriate part in resolving the difficulties of the industry.

The Commission has continually urged the Japanese, both in bilateral negotiations and in the regular meetings of OECD Working Party No 6 on shipbuilding, to respect the spirit of these guidelines. The industry is pressing the Commission to take a tough line with the Japanese and the Koreans and arguing that the world market situation should be reflected in the implementation of the Directives on aid.

Regional and Social Policy

In all the directives on aid to shipbuilding it has been stressed that the industry tends to be located in already economically depressed areas with high levels of unemployment. This is particularly true in the UK. It is a labour-intensive industry, with high levels of secondary employment in supplying industries.

Hence the importance of protecting employment in the existing shipbuilding and related industries has not been overlooked, nor the need to help re-employ those displaced from it. As long ago as 1974 the Commission sought to make help available to the industry from the European Social Fund, and British Shipbuilders has benefitted over the past three years from a £7½m Social Fund grant for retraining and resettlement. The European Regional Development Fund also helps. A special allocation of some £10m from the fund has just been approved, to aid local authorities and small businesses specifically in areas of the UK affected by shipbuilding closures.

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A EUROPEAN APPROACH TO NEW TECHNOLOGIES

The need for action

After a frustrating decade of battling against national and industrial conservatism, there are signs that in new technology at least, the European Community is making some progress in the demolition of national prejudices. Europe's historic failure to mobilise its major asset in the nurturing of its technology industries - namely its continental scale - has long been seen as a key factor behind the widening of the technology gap between Europe and Japan and America. The recent announcement of such schemes as ESPRIT, designed to pool European research and provide technological leads for companies to follow competitively, reflects the change in mood of many European firms.

The need for action was recognised just six months after Britain joined the European Community, when leaders Heath, Brandt and Pompidou agreed on the need to provide a new impetus for the development of collaboration in a range of activities - from environmental protection to the development of Europe's technology.

A decade of failure

However, by the end of the 1970s, there was little concrete achievement to show for the continual work being carried out by the European Commission in Brussels and the plight of Europe's technology industries was clearly graver than ever. European-owned computer companies accounted for a mere 16 per cent of the world market, against 73 per cent for the US industry (the rest being Japanese). In the important peri-informatic area (terminals and mini computers) the share of European companies fell from a third in 1973 to a quarter in 1978. With the European market accounting for one third of the £17 billion world telecommunications market, a quarter of the £35 billion market for data processing systems and a fifth of the £3 billion world integrated circuit market, sales by European manufacturers have failed dismally to match European demand.

The financial crises of major European technology firms, widespread redundancies in what should be growth businesses, and Japanese and American strategies for the coming decade have at last prompted most European firms to reconsider their traditional reluctance to communicate ideas and collaborate on projects.

The US and Japanese threats are seen to be so ominous and the dangers so real, that companies and governments alike are seriously looking to the Commission as a vehicle for organising a more effective response than achieved by national policies.

Part of Europe's technology problem lies in the sheer scale of US and Japanese R & D investment. Bolstered by US government procurement, two wars, the NASA space programme and a healthy tradition of venture capital, America's R & D expenditure outstrips the whole of Europe's put together. Japan, meanwhile, probably devotes 50 per cent more than the largest European spender. So it is hardly surprising to find that 80 per cent of European R & D is catch-up. America has the advantage of having invented many of the new technologies in which Europe now lags behind - notably in micro-electronics, where in production of MOS-technology integrated circuits, the building blocks of the new technology age, Europe is two to four years behind the US. As a result, a mighty 80 per cent of Europe's integrated circuits is imported.

An attempt to co-operate

In 1974, the Council of Ministers adopted a resolution for the development of a Community policy for data processing. Priority projects were established, such as feasibility studies on applications, and there was some collaborative research;

however, the scale was minute - but they did help to establish the Commission's credibility in this area, while there were also some interesting spin-offs: for example, CADDIA, a feasibility study on the application of the information to imports/exports and agricultural markets throughout the Community, and STELLA, a joint project for high speed data transmission.

The progress of the priority projects encouraged the Commission in 1976 to propose a four-year programme for Community informatics development. The first phase covered standardization, coordination of procurement policies and some joint research. The second was a scheme for supporting collaborative studies and developments of commercial products in the applications and software, peri-informatic and micro-electronic component sectors.

The history of the four-year programme is typical of the problems the Commission has faced over the past decade, with differences over budget and over the various phases of the programme. Between the time the Commission had conceived and decided upon a programme, both France and Germany had implemented major national support schemes, so peri-informatics was dropped, as was a modest scheme for supporting current micro-electronic products - in return for a wider Resolution on this subject. Thus, what emerged from the four-year programme was so emasculated that it could not be expected to have the major strategic impact the Commission had hoped for. In the meantime, IBM had conceived and launched a whole new range of peri-informatic products.

Subequent programmes have proved equally frustrating. In the mid-1970s, the French and Germans looked willing to pool their micro-electronics resources, at a time when the Japanese were just launching their first, ambitious VLSI (Very Large Scale Integration) programme. The nine leading European semiconductor manufacturers gathered together, and hinted at their acceptance of a common programme. Objectives were defined - but agreement was hard to reach, as individual companies each made their own demands.

Siemens and Philips, for example, were unwilling to share R & D of current generation micro-electronic technology with competitors - notably weaker ones, like Thomson CSF. Siemens wanted to buy in current technology from the US, while German officials suggested, instead, a merger of the components divisions of AEG-Telefunken, Thomson CSF and Plessey. The French government, suspicious of the German approach, meanwhile backed its own idea - for a research club. Once again, the European strategy foundered, and companies and governments reverted to the acquisition and development of national support programmes.

Airbus Industrie

The broad picture of failed attempts at collaboration is contrasted, more optimistically, by some collaborative successes such as Airbus Industrie, which has seen its market share spiral from 3 per cent in 1976, to 32 per cent in 1980.

The aircraft industry in the early 1970s provided the clearest example of a European technology industry requiring economies of scale in research, development, marketing and production. The Commission's role was important first in the harmonization of export credits (of which Airbus Industrie is a beneficiary) and basic research; and second, in proposing the establishment of a programme to develop a European family of aircraft, and for a European Armaments Agency to govern procurements.

While highly controversial, these proposals did have some return. In 1975, the Independent European Programme Group was set up, uniting France with her European partners in planning arms procurement. The concept of a family of aircraft was also agreed to (and produced Airbus Industrie). Perhaps more important, the Commission's presence was influential in helping British Aerospace, thwarted in its attempts to sew up deals with Boeing and McDonnell Douglas, to join Airbus Industrie.

The challenge grows

Such an example of the contribution the Commission could make in the stimulation of technology industries may have encouraged companies to think more constructively about collaboration. However, the direct impetus came rather from the recent realisation of a number of diverse threats from America. Certainly, the widespread problems in firms like AEG-Telefunken and ICL have caused concern. The major anti-trust cases in America, involving AT & T and IBM, have effectively given these two companies a free rein to expand their interests into formerly exclusive areas - like data processing (for AT & T) and telecommunications (for IBM). Meanwhile, the GATT agreement, effectively prohibiting much procurement policy, by opening up tenders internationally, has seen US corporations like Burroughs take on national champions in former 'closed' contract races - like ICL (which has also been challenged recently by IBM over a £14 million contract from the Severn Water Authority).

The biggest stimulus to collaboration has come from Japan - and its revelation last November (1981) of its plans for Fifth Generation computers. The plan is more conceptual than realistic, envisaging a computer with powers that emulate human speech, sight and hearing - and even decision making. However, the fear is that in reaching for the moon, the Japanese will produce concrete results along the way: and after years of catching-up, Japan is now setting about innovation. 'The Fifth Generation was a spur', says Richard Nobbs of the Commission's Information Technology Directorate. 'It has made people realise that nibbling round the edges is a waste of time'.

'Companies were at a crossroads', he adds. 'They were aware that with both the scale and size of the market, they could only devote themselves to catching up. They could probably look after the short term by licensing agreements (such as that concluded between ICL and Fujitsu), but for the long-term they had to sit down and talk together, which in the past they hadn't done'. Some real progress had been made by Viscount Davignon as Commission member for industry, who, in the aftermath of the four-year programme for informatics development, sketched out a broader strategy for information technology in 1979. Davignon succeeded in placing IT on the Community's political map. His most important innovation, however, has been the creation of Round Table discussions for heads of the electronics industry. The fact that company heads were willing to sit and talk together reflected the changing mood, and there have been positive results - first in micro-electronics.

A new strategy: the ESPRIT programme

The emergence of a strategy for the European micro-electronics industries after nearly eight years of groundwork, marked a major turning-point in the future of Community collaboration on technology; not only was it the first time for a number of years that a positive strategy had been formulated, but it also pointed the way to the value of discussion. The aim of the four-year £24 million scheme is to promote not components, but the infrastructure of the industry, through the development of key equipment and Computer Aided Design techniques needed for the manufacture of submicron VLSI circuits needed in the late 1980s: the scheme allows for a contribution of up to 50 per cent of the cost of a specific project, over the course of two to three years.

From the discussions centring on micro-electronics, it was but a small step to the much wider implications of Fifth Generation technology - and the ESPRIT programme launched last July. 'The companies involved in the discussions on micro-electronics were the same as those involved in ESPRIT', says Giulio Grata, head of the micro-electronics programme. 'It was a logical continuation'. The name - standing for European Strategic Programme of Research in Information Technology points to the breadth of the scheme.

Twelve major European companies are involved in this project - GEC, ICL, Plessey, Siemens, AEG, Nixdorf, Thomson CSF, Honeywell-Bull, CIT-Alcatel, Olivetti and STET.

The pilot scheme, costing £25 million, aims (like the micro-electronics scheme) to develop the necessary infrastructure for semiconductor chip manufacture - through the development of advanced manufacturing tools like electron beam machines, plasma etching, computer-aided design and so on. A more ambitious full-scale project, planned for 1984, has Fifth Generation targets in mind, aiming to raise the level of European technology to that of Japan and America by 1990, and requiring participating nations to commit their national R & D programmes to a high degree of common objective.

The aim is to pool research, and for companies to compete in the development of the brightest ideas. 'Previous attempts at product development have been difficult to manage', says Nobbs, 'when they got to the point of what to do with rival products. ESPRIT is pitched at the pre-production development'.

For that reason, it might prove more successful than past efforts. At the same time, as Nobbs says, another key difference is that 'the companies themselves have done all the hard work'. What seems clear is that the political climate is right, with governments increasingly stuck for cash and unable (save perhaps in the case of France) to plough more money into national programmes. The scheme's success thus probably depends on the commitment of the companies alone (and it is hoped that many more will join other than the majors).

There are plenty of hurdles yet to clear - such as the problem of rights to intellectual property, and the ever-present snag of funding levels. But firms like Britain's ICL, though wary of the idea of an umbrella organization, are now wholly committed to the idea of European collaboration. 'The Commission has got to demonstrate to us that it can deliver', says ICL's technical director Mike Watson, '... but I think collaboration will happen anyway. National programmes have done nothing other than maintain the status quo. We have to share our capabilities'.

The Commission's progress with the micro-electronics and ESPRIT programmes are the highlights of a decade's struggle to promote closer co-operation between governments and companies in new technologies. Characteristically, it has been born out of crisis - and there is a real danger that Europe is simply too late to catch up now. However, more optimistically, it is quite clear that attitudes have changed - reflected in the simple fact that 12 companies, for the first time, are now willing to meet and discuss strategy.

The achievements of ESPRIT are symptomatic of a whole raft of comparatively recent joint programmes and collaborative efforts emanating from the Commission. For example, in telecommunications, INSIS, a project funded through the Community budget aimed at supplying information technology to European institutions - with ulterior objectives of widening standards; and also Euronet, a network linking technical information databases throughout Europe - again, with the motive of widening of telecommunications standards. Elsewhere, there are attempts to harness, co-ordinate and apply European university research resources. Cyril Silver, for example, heads the Development and Application of New Technologies Division, whose main concern is basic technological research, extending to applications throughout industry - in areas like corrosion and fatigue research, adhesive and membrane technology.

Thus, while ESPRIT provides probably the most bold and exciting experiment in collaboration, it is merely the tip of the iceberg - in terms of both the Commission's activities in the field, and possible solutions to Europe's technology problems. Ultimately, all such schemes will depend on the willingness of individual governments to commit themselves fully. Just as ESPRIT was being announced, the French government announced its intention to pump some £11 billion into the French electronics industry. What chance is there of any of that finding its way into the Commission's collaborative projects? As Nobbs says, 'We've yet to see whether people have learned any lessons from the past'.

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BRITISH AGRICULTURE AND THE CAP

Summary

Of all sectors of British economic life, agriculture has been the most directly affected by Community membership. The jointly managed, jointly financed common agricultural policy replaced the system of agricultural support as laid down in the UK Agriculture Acts and transferred the costs of agricultural guarantees from the national budget to the Community's budget.

The aims of the common policy were substantially the same as those set out in British agricultural policy - to improve farming efficiency, ensure a reasonable return to producers and see that food is made available to consumers at reasonable prices.

However, the 1973 accession did mean major changes: the level of support prices for most products was somewhat higher than had been applied under the deficiency payments system; new machinery had to be set up for applying the policy; and sources of supply for many British food imports switched to Europe away from the Americas and old Commonwealth countries like Australia. Special import arrangements have been negotiated since 1973 to ensure continuing access for food imports from Commonwealth countries, including New Zealand lamb, Caribbean sugar and Cyprus sherry and potatoes.

During the 10 years of membership, home food production has expanded rapidly and the food manufacturing industry has boosted its exports. Before 1973, food imports accounted for 22 per cent of Britain's import bill; the figure is now about 12 per cent. In 1982 Britain became a net exporter of grain for the first time since the repeal of the Corn Laws.

Price and supplies

The abundant output of Community agriculture does cause its own budgetary and political difficulties, but the policy has provided secure supplies of foodstuffs, most importantly in the mid-70s when world food supplies soared in the face of poor harvests worldwide, when extra sugar was provided for the British market and when - for a period of two years - prices within the Community were well below world levels. The years of recession and rising farm outputs throughout the world (except in Russia and Eastern Europe) have led to a period of depressed commodity prices, but the growth of world population still raises the spectre of food shortages and the benefits of ample supply.

A decade of high inflation and volatile currency values makes it almost impossible to evaluate the real impact of the CAP on British farmers' incomes and on food prices since 1973. Retail prices of food reflect in only the most shadowy way the prices guaranteed to the farmer, whose returns are a small proportion of the final price of food in the shops.

Since 1973, retail prices of food have gone up by less than the general rate of inflation. The biggest increases were concentrated in the transitional period 1973-77, when UK farm prices were being aligned on higher EC prices. Even so, only 10 per cent of the increase in food prices during these early years of British membership was due to the 'Community factor', according to Mr John Silkin, then Minister of Agriculture. The rest was due to rising world prices, a falling pound and a general rise in processing and marketing costs.

A change of policy

Britain's entry into the Community meant far-reaching changes in the system of agricultural support. Britain's pre-1973 policy was characterized by deficiency payments. Under the common agricultural policy there is more reliance on a managed market, where internal prices are maintained by various mechanisms (intervention buying, export subsidies, import levies and duties) high enough to enable the farmer to obtain an adequate return from the market.

The cost of this policy is met by consumers through prices which are higher than they might be on the world market.

But what appears to be a clean break is, on closer insepction, not so cataclysmic. Increasingly before 1973 successive British governments were moving away from a deficiency payments system because of the high and uncertain level of Treasury spending involved, while under the CAP the support arrangements for several important commodities in the UK (beef, sheep, oilseed rape) are forms of deficiency payments. For other foods - eggs, poultry, bacon, fruit and vegetables - there are no guaranteed prices: producers get their returns from the market.

Adopting the new policy meant establishing a new body, the Intervention Board for Agricultural Produce, which is a Government department responsible to UK agriculture ministers and whose job is to operate the machinery of the agricultural policy in the United Kingdom.

The Board runs the intervention system, which gives farmers or traders a guaranteed floor price for certain commodities like grains and milk products; it organises payment of production subsidies or premiums to farmers, for instance on seeds or on beef; it subsidises the use of skimmed milk powder in animal feeds; it administers and pays the consumer subsidies on butter and on school milk; and it is responsible for paying export refunds that may apply to certain foods or commodities. It also collects levies on imports or exports.

In 1981 these operations in Britain cost the guarantee section of the Community farm budget about £600m, roughly a tenth of such spending throughout the Community. The main elements of this expenditure were as follows:

Main items of EC agricultural guarantee spending in Britain 1981

Cereals			221.5m (£ 124m)
Milk products			290.7m (£ 162m)
of which	export refunds	120.9m (£68m)	
	skimmed milk intervention	82.0m (£46m)	
	butter intervention	118.6m (£66m)	
	other (butter, school milk subsidies)	59.5m (£33m)	
less	co-responsibility levy	- 88.3m (£49m)	
Oilseeds			103.6m (£ 58m)
Sugar			53.0m (£ 30m)
Beef			138.6m (£ 78m)
Lamb			187.5m (£ 105m)
Other			63.0m (£ 35m)

(Source: European Commission)

Marketing boards

Accession raised questions about the future of the United Kingdom's marketing boards for milk, potatoes and hops, which it was feared would be under threat from Community legislation.

Over the 10 years since 1973 major changes have taken place in this field; the EC milk regulations have been changed to allow the milk marketing boards to continue, although with somewhat diminished powers: the Potato Marketing Board still operates, but is currently subject to a challenge in British courts from certain British producers; and the Hops Marketing Board has been wound up and replaced by a voluntary producer organisation.

The level of agricultural production

The figures for farm output in the UK reveal a considerable rise in the production of most agricultural commodities. This is particularly noticeable for cereals (51 per cent increase since 1970-72 according to latest estimates of 1982 production) ; and milk (24 per cent increase). Britain's share of milk production has been more or less constant since 1973, at 14 per cent of the total, but the share of Community cereal output is up from 12 to 15 per cent.

For certain other commodities production has stagnated or even declined. This is true of eggs and bacon and some horticultural products, notably apples and pears, where the opening up of the common market has brought intense competition to British producers.

The overall increases in farm output have led to a dramatic improvement in Britain's level of self-sufficiency. Taking all foods this has increased from 49 per cent in 1970|72 to 60.5 per cent in 1981. Taking only those temperate foods which Britain's farmers are capable of producing in this country, the increase has been from 61 per cent to almost 75 per cent. For certain individual commodities the growth of self sufficiency has been particularly marked. To take two examples: 57 per cent of Britain's butter requirements are now met from British production compared with 17 per cent in the years before entry whereas in cereals in which the UK was only 62 per cent self sufficient in 1972 the country will certainly be more than self sufficient in 1982, for the first time since the early 19th century.

These developments cannot be explained by falling demand; overall food consumption has increased, albeit modestly. Where consumption of particular foods has dropped this can generally be explained by changes in consumer taste or health concerns: butter may be an exception - the big fall in sales is in part related to an increasingly unfavourable price ratio with magarine.

At the most basic level an agricultural policy must provide farmers and growers with a reasonable degree of confidence about the future. Most farming enterprises are of a long term nature and a farmer will not, for example, be willing to keep more of his calves for breeding, even if current prices appear favourable, unless there is some prospect of stability and therefore confidence that the market in three or four years time will not be disastrously unprofitable. In this respect the CAP must be judged a success.

A second factor which affects the volume of production is the level of prices. The evidence on this is inconclusive. For some crops relatively high prices have undoubtedly stimulated production; a prime example is oilseed rape. Before 1973 farmers regarded this crop as extremely risky and only grown by the most speculative; now it has become a most valuable break crop and fields of its brilliant yellow flowers have become an established feature of the English landscape - production over the period has risen from 11,000 to over half a million tonnes.

In some other commodities the position is far less clear. Milk has shown an impressive growth over the period as guaranteed prices have been introduced for milk products, but still liquid milk **commands a higher price than milk for** manufacture (into butter, cheese etc.) and it is the British government which sets the price of the former and not the Community. Taking all commodities as a whole the inflation of costs has outstripped the rise in output prices since 1973. Taking the years 1970-72 as equalling 100, the index of the costs of farm production had reached 402 by 1981, those of farm labour costs 508 while producer prices of all agricultural products stood at only 335.

In the UK there is obviously no scope for increasing output by bringing new land into production - indeed each year the national farm loses some 60,000 acres to urban development. This means that extra production must essentially come from increased intensification and efficiency, probably stimulated by favourable prices which have encouraged farmers to invest in extra inputs (fertilizers, sprays etc.) in order to achieve a higher volume of output.

The balance of UK agricultural production

Since Community entry the pattern of the 'national farm' has perceptibly shifted (see table below). The decline in the importance of horticulture is directly attributable to Community membership. Before 1973 this sector enjoyed considerable protection against imports and it was widely and accurately predicted that exposure to European competition would cause competitive problems for the British industry. In fact the weak pound provided an element of protection until 1979 but since then there has been a marked decline, which may become aggravated if Spain and Portugal become members.

Area of crops and grass in the United Kingdom (000ha)

	1970	1973	1976	1979	1982
Wheat	1 010	1 146	1 231	1 372	1 664
Barley	2 243	2 267	2 182	2 347	2 221
Oats	376	281	235	136	130
Total cereals	3 712	3 751	3 684	3 878	4 030
Potatoes	271	225	222	204	191
Sugarbeet	187	194	206	214	204
Oilseed rape	4	14	48	74	174
Horticulture	304	280	289	284	253
Total tillage	4 593	4 539	4 531	4 740	4 915
Grass and fodder	13 118	13 018	12 910	12 500	12 151
Total area*	17 999	17 863	17 861	17 725	17 568

* excluding common rough grazing

The second major change has been the shift from livestock to arable production or as the farming adage has it 'up corn, down horn'. Taking a longer historical perspective, cereal acreage and production have been increasing steadily since the Second World War, which to a large extent reflects the fact that cereal acreage fell to its lowest level ever in the 1930s as a result of the relative ease and cheapness of importing cereals, particularly during the world depression.

Most of the expansion since 1973 in cereals has been in yields (up 31 per cent since 1969/71). The price structure has clearly had an influence and it is often asserted that the relative price of cereals to livestock has been set too high since the inception of the CAP. Indeed, the European Commission is committed to bringing cereal prices closer to American levels. But much of the increase has been the result of improved plant breeding and crop management which may have occurred inside or outside the Community. It should perhaps also be noted, in answer to those who believe that the UK is not naturally suited to cereal production, that British wheat yields are now among the highest in the world - nearly three times those of the United States, for example.

Although it is true that British grain production has come to dominate large areas of eastern and southern England, other parts of the United Kingdom have accounted for an increase in milk output, and the potential export market for lamb which has opened up in other member countries coupled with an EC-financed price guarantee system has put new profitability into sheep farming. Flocks are expected to expand considerably in the coming years.

Agricultural trade

Community membership has led to profound changes in the pattern of British agricultural trade. As more food is produced at home, so imports have fallen. Before 1973 food imports accounted for 22 per cent of Britain's total import bill; now they are no more than 12 per cent. At the same time exports of food and agricultural products have risen from 3 per cent to more than 6 per cent of the value of total exports. The balance of trade in this sector has thus improved substantially.

The proportion of total food imports that come from other Community countries has risen 50 per cent in volume terms since 1973, while supplies from the rest of the world have fallen back by about a third - a change in sources of supply which was widely predicted and is the natural consequence of membership of a common market. Western Europe was always a major source of supply for livestock products - indeed the Danish and Irish economies had long been based on this trade - but over the last 10 years other member states have increased their sales of sugar, milk products and meat products in particular.

But this has been two-way traffic. Imports from the other countries of the Community have doubled in money terms since 1973, yet exports from Britain to other members have trebled. The table below shows the development in the last few years. The very large increases in UK production of milk and cereals in the second half of 1982 are certain to cut the import bill further:

UK trade in food and live animals with other EC countries

(£million) *

	exports	imports	exports:imports %
1975	566	2 101	27
1977	829	2 318	36
1978	1 132	2 487	46
1979	1 118	2 688	42
1980	1 283	2 624	49
1982 Jan-June	685	1 628	42

Farm income

The great majority of farmers undoubtedly support the Common Agricultural Policy. It has given them a reasonably steady policy framework and some security in alliance with continental farmers who in many countries still form a significant electoral bloc.

It is now becoming clear that agriculture entered the general economic recession much earlier than other industries, but is now one of the only industries to be emerging from it. Farming's recovery was first evident in 1981; 1982 is likely to show a very significant improvement in income. Taking a longer view, it will undoubtedly emerge that farming has been sheltered to a very considerable extent from the worst effects of recession through the mechanisms of the CAP.

The impact of Community prices on farm incomes depends on the exchange rate. The CAP is founded on a system of common prices, expressed in a notional common currency - now the ECU. The exchange rate which is used to convert prices from ECUs to pounds sterling is therefore a vital factor. In the early years of Community membership farmers, attracted by prices which seemed high in UK terms, over-invested in increased production and found themselves financially exposed when interest rates

* 1981 figures not available

climbed and growing rates of inflation eroded the real value of the support prices. The position of farmers was further weakened by an artificially high exchange rate (i.e. the green pound) to convert European farm prices into sterling, which meant that farm prices in the UK were lower in real terms than in the rest of the EC.

By 1980 the rise in the commercial value of the pound and successive devaluations of the green pound had entirely reversed the position and the green pound actually became undervalued. Yet the position of the agricultural sector at this time was at its worst ever because the British inflation rate was considerably above the EC average. In 1980 for example an EC price increase of 7.5 per cent, while sufficient for German farmers, was totally inadequate for UK farmers facing an inflation rate of 18 per cent or more. There are now clear signs that the position is again changing, and the greatly improved income position in 1982 is clearly associated with a fall in the UK inflation rate. Britain's agricultural prices are now the highest in the Community; in mid-November they were 10 per cent above the EC common level and about 16 per cent higher than French prices.

Aid for the hills

Just before Britain joined the Community a co-ordinated EC policy was agreed for modernising farm structures. This laid the groundwork for a most important aspect of the CAP in Britain: the Less-Favoured Areas directive.

This measure acknowledges that there are certain regions within the Community which could not sustain agriculture without special cash help, simply because the climate or topography are so difficult. The British principle of hill farming subsidies has therefore been adopted by the Community as a whole, so that in large areas of Scotland, Wales, Northern Ireland and in the English hills - and also in the most difficult farming areas of other member states - direct assistance is given in the form of headage payments on breeding sheep and cattle.

This assistance, 25 per cent funded by the Community budget, is crucial to the well-being of farming in Britain's hill areas. The qualifying regions may well be extended shortly to cover certain marginal farming areas.

The payment to the United Kingdom under this scheme amounted to £18 million in 1981.

Aid for investment

Further Community measures applied throughout member states are the Agriculture and Horticulture Development Scheme for farmers wishing to modernise their holdings for which a quarter of the cost is met through the Community budget, and funds to improve the marketing and processing of agricultural products which provide grants for capital projects.

These Community measures provide a relatively small proportion of the finance going into agricultural modernisation; it is the member states which contribute the lion's share, but the Community policy is intended to ensure a consistent approach to the problems of farm structure and to put ceilings on the level of aid given.

Outlook for the future

The common agricultural policy has helped to maintain the viability of agriculture in the last few years, while other sectors of the economy have been suffering from recession. However, it is clear that the high level of production, pressure from the Community's world trading partners and growing financial constraints will all affect the value of support provided to farmers through the common agricultural policy in the coming years.

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BRITISH FOOD PRICES AND THE CAP

Summary

Britain's accession to the European Community and introduction of the common agricultural policy over the agreed transition period between 1973 and 1977 was expected to have limited impact on consumers. Food prices in the shops were forecast to rise by about 2½ per cent a year, but to compensate there would be a greater variety of foods as other member countries stepped up their food marketing effort in Britain.

The actual impact became lost in the turmoil of volatile world commodity markets and rampant inflation. In the first five years of membership the price of food in Britain more than doubled, rising faster than the retail price index as a whole; the Minister of Agriculture reckoned that about a tenth of this could be ascribed to Community membership with the adoption of the higher level of price support under the common agricultural policy.

In the last five years, from 1978 to 1982, food prices have risen by less than the retail price index, up 45 per cent compared with an r p i increase of 64 per cent.

Adopting the common agricultural policy

Adoption of the common agricultural policy meant switching from a policy where some of the farmer's returns came direct from the taxpayer as deficiency payments to one where the market - that is the consumer - provided the farmer's full return. Since the Community's support price was higher than the British guarantee level for most products, this meant a step-by-step movement over five years to the full Community level. The 1971 White Paper, The United Kingdom and the European Community, estimated that retail food prices would rise by about 2½ per cent each year for five years.

However, in the very year that Britain joined the Community, world agricultural prices began to move upwards, taking British prices with them, and in those early years up to 1975 it was only the abundance of foodstuffs within the Community that kept British prices below world levels. As the surge in world prices receded, so the increase in food prices might have been checked, but a collapsing £, reaching its nadir in 1977, cheated the British consumer of any relaxation. The impact of Community membership during this period was almost nullified by the use of a high 'green £', the artificial exchange rate which is used for calculating EC agricultural support prices in national currency. The pattern of general inflation and food price inflation during those five years and the subsequent five years is indicated in the table below:

The rise in British prices 1973-1982

	all items index	% p.a.	food index	% p.a.
1973	100	-	100	-
1974	116	16	118	18
1975	144	24	148	25
1976	168	17	178	20
1977	195	16	212	19
1978	211	8	227	7
1979	239	13	254	12
1980	282	18	284	12
1981	315	12	308	8
1982 (Sep)	345	10	330	7

Not all foodstuffs are affected directly by the common agricultural policy. Margarine is not covered, nor are tea, coffee or other tropical products imported from developing countries. The price of the 'pinta' is fixed by Government. Furthermore, the price guaranteed to the farmer is usually a relatively small proportion of the final retail cost of food.

The system of support varies widely between products, so the impact varies widely from one food to another. On <u>butter</u> a system of intervention or floor prices has pushed up retail prices in line with the general inflation rate; the price would be higher still without the direct consumer subsidy of 13p per lb financed from the Community budget.

<u>Beef and lamb</u> are supported in a different way: the farmer is guaranteed a certain return, but part of this is met by a direct 'premium' payment, allowing market prices to settle at lower levels in response to supply and demand.

For <u>pork, ham and bacon</u>, <u>eggs</u> and <u>poultrymeat</u> there is little support for the producer and prices are determined by supply and demand. The Community can meet all its own needs from home production and competition is intense, so prices are relatively low in real terms compared with their levels in 1973.

<u>Canned foods</u> were subject to increased import duties and levies when Britain joined the Community, but for <u>fresh fruit and vegetables</u> EC membership meant greater supply and the end of the import quotas which had been applied by British governments to keep domestic prices relatively high, especially for apples and pears.

Other products subject to the intervention price system are <u>sugar</u> and <u>grains</u>, so they are directly affected by increases in the support prices of the CAP. The European Commission is committed to reducing cereal prices in real terms over the next five years.

<u>British price levels</u>

The guaranteed prices for British farmers are held somewhat above the Community rate through the green £ system. Whereas in the mid-seventies this artificial exchange rate was overvalued, setting prices in Britain lower than in other member states, it is now undervalued, so British guaranteed prices are about 10 per cent above the normal rate. Proposals for a higher exchange rate have been put by the European Commission but not accepted by the British Government.

Furthermore, the British restrictions on imports of poultry products and eggs which were introduced in 1981 and lifted in November 1982 following the judgement of the European Court helped to maintain prices of these products, as does the ban on the importation of long-life milk, which is currently being considered by the Court.

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2./ Food Prices

IMPACT ON BRITAIN'S CONSUMERS

Summary

The United Kingdom and the other countries which joined the Community in 1973 had strong traditions of consumer protection which they brought to the enlarged Community. In 1975 a consumer protection programme was adopted and since then EC legislation has helped the cause of Britain's consumers.

Thanks to the common market, trade in consumer goods and foodstuffs has expanded rapidly over the 10 years, bringing wider choice for the shopper and more competitive pricing. Food prices have been pushed up marginally*(although they have risen less quickly than the non-food index over 10 years), but the range of foods in Britain's shops has increased, particularly of cheeses, processed meats, fruit and vegetables. For other consumer goods the elimination of tariff barriers has greatly increased the variety of goods on offer.

Under rules agreed by all the member countries, the Community tries to ensure as much information as possible for consumers when they do their shopping and where possible tries to protect them from products with hidden dangers. At the beginning of 1983, for example, new legislation will be introduced in Britain and other member countries on the labelling of pre-packaged foodstuffs; Community laws are already applied to ensure that harmful additives are not used in food processing; cosmetics sold within member countries must give details of their ingredients; and consumers must be free to buy their requirements where they choose within the Community and not be denied access to certain markets by manufacturers who wish to maintain higher prices in one country than in another.

Food labelling

Someone buying a tin of soup, a frozen pre-packaged meal, a jar of pickle or a bar of chocolate from the beginning of 1983 will find a list of ingredients on the label and a date which indicates the shelf life of the product or the date by which it should be eaten. This information results from European Community legislation. With a few exceptions, labels will show a 'best before . . .' date and any necessary storage instructions. They will also list the ingredients in descending order of weight so that anyone on a particular diet or with allergy to a particular product knows exactly what he or she is buying.

If more than 5 per cent of the weight is added water then, with some exceptions, water too must be included in the list. The manufacturer must say if a food has been treated in a particular way that might mislead the consumer - as in the case of meat which has been frozen and subsequently defrosted. And where special emphasis is given to a particular ingredient, a declaration of its content in the product must be made. The directive has been given a warm welcome by Consumers in the European Community group, which represents the UK consumer movement (see their brief, New Laws on Food Labelling).

Labelling also extends to fruit and vegetables; these must now be carefully graded and labelled in the shop or on the market stall.

Eat, drink and be merry?

The safety of the food we eat is a high priority. Food purity has hit the headlines in recent years, with the controversy over the use of hormones as growth promoters in calves, where some Community farmers had been injecting with possibly dangerous synthetic hormones, traces of which had found their way into baby foods in Italy.

* See page 37

The Community acted with speed, introducing a clear ban on the sale and use of the offending hormones - stilbenes, used as growth promoters, and thyrostats used to increase water retention. This has now been enacted into UK legislation and further action is under discussion.

Positive vetting

In the case of chemicals added to foods by the manufacturers - colourings, preservatives, anti-oxidants, emulsifiers etc - the Community has confirmed the system of positive lists towards which the UK had been working before 1973. This is an important principle for consumers. It means that, rather than banning additives once they have been found unsafe, additives may not be used unless they have been tested and approved.

The original fears - that sausages or kippers could no longer be produced in traditional colours, for instance - have proved unfounded and the current lists provide for the needs of the food industry in all member states. These lists have been drawn up over the years since 1973 on the advice of a scientific committee.

Meat, especially poultrymeat, presents particular safety problems. EC directives lay down detailed standards for poultry slaughterhouses and for the meat itself. Standards also apply to much red meat. One of the checks is for the bird's giblets to be examined at the slaughterhouse for traces of infection. But an exemption in the case of New York dressed poultry - birds sold intact, and especially popular with Christmas turkeys - allows these birds to be sold until March 1984 whilst alternative hygiene rules for them are discussed.

Textile labelling

It is Community law which normally makes it compulsory to label textiles with the fibres from which they are made. Labels on clothes, carpets, linen etc. must show the fibres contained in descending order with the actual percentages they represent for example, cotton 85 per cent, polyester 15 per cent. This ensures that consumers are not misled and helps them to decide how to care for their purchase.

Dangerous substances

Particularly dangerous substances are also covered by EC rules. A register of such substances is kept and products which contain them must be suitably packaged and labelled with both warnings and instructions on correct use. The regulations were adopted in the UK in 1978 and are likely to be followed soon by EC rules covering individual products - detergents, pesticides, paints and varnishes, inks and adhesives.

Cosmetic action

Accidents have unfortunately been known to happen with toiletries and cosmetics. Hexachlorophene was queried after the death of some French children who had been treated with a batch of talcum powder that accidentally contained too much of the chemical. At the other end of the scale, rashes and other allergic reactions in response to the chemicals in cosmetics and toiletries are quite common. EC legislation, enacted in the UK, bans numerous chemicals from cosmetics and has cleared others.

Not only must cosmetics and toiletries not be liable to damage human health; the manufacturer must also give minimum information on the packaging - his name, the batch number, the nominal content, the expiry date if the product lasts less than three years and any precautions. The regulations also outlaw misleading claims as to the product's characteristics.

A common market for cars?

British membership has had important consequences for British car buyers. Car imports have increased, of course, both from other member countries and from Japan, and the strength of the home industry has declined sadly over the last 10 years. Showroom prices before tax remain rather higher in the United Kingdom than in other member states and latest estimates suggest that this year between 60 000 and 70 000 cars will be bought by British consumers from other member countries under personal import arrangements.

Car manufacturers have used various devices to try to check these parallel imports, but in September the European Court of Justice ordered Ford Werke of West Germany to resume sales of right-hand drive cars in a case brought by the European Commission. The Commission is considering further action against other makers.

This problem arises partly from differing standards between member countries. The groundwork is now laid for a system of EC 'type approval', specifications for components accepted throughout the Community and covering everything from brakes to exhaust sound levels, from seat belts to defrosting systems. As yet, however, 'whole vehicle' type approval has not been agreed by the Council of Ministers, so there is no commonly agreed standard for the finished motor car. Type approval has therefore to be given by government (as in the Netherlands) or delegated by government to the manufacturers (as in Britain).

Myths and misconceptions

In the last 10 years many myths and rumours have taken wing suggesting that Community membership would destroy traditional British products or traditions. Here is a small selection of such misconceptions; all are unfounded:

'No more Bramley apples': Bramleys, which are Britain's best known cooking apples, are freely available in the shops and will continue to be so.

'No more doorstep milk deliveries': The whole Community is anxious to maintain a high level of milk deliveries in Britain. The alleged threat to the daily pinta is based on the fear that if Long Life milk were imported from other member countries it could be used as a loss leader by supermarkets and cut down doorstep sales. In fact it would serve a different market.

'Vegetable seeds banned': In the past a single variety of vegetable seed could be sold under a dozen different names. Under the EC seed list these different names are replaced by a single name; it is duplicate names that have disappeared, not varieties. A seedsman may decide that a particular variety is not worth continuing but that reflects lack of demand or introduction of a better replacement.

'No King Edwards in the garden': British Government measures banning the growing of certain potato varieties in gardens were withdrawn by the Government after one season.

'No more brown vinegar with fish and chips': There are no proposals for banning the use of acetic acid (non-brewed condiment) in fish and chip shops.

'Metrication forced on Britain': The UK programme of metrication was decided long before EC entry, in the mid sixties.

'End of duty-free sales': There are no proposals to end sales of duty-free goods at airports or on board ship, nor are any such proposals planned.

Harmonisation

The Community is gradually adopting generally agreed standards for a large range of industrial and consumer products under so-called 'harmonisation' legislation. This covers the motor industry, for example, where the type approval scheme now covers a wide range of components, many industrial goods where member countries might otherwise use technical standards at the national level to restrict imports, and consumer goods where safety standards are needed.

Where harmonisation of standards is effective, it allows manufacturers to sell their products throughout the Community and offers the consumer wide choice without added risks.

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ENVIRONMENT AND POLLUTION POLICY

A new policy

It was entirely coincidence that Britain joined the Community just when it was recognised that the environment was a major subject for attention at an international level. The seal had been set by the United Nations' Conference on the Human Environment held at Stockholm in 1972, and it was shortly afterwards that a Community Summit Meeting in Paris - attended by Britain as one of the applicants for membership - called on the Community institutions to establish an environment policy. Britain has been involved from the start.

In the ten years that have followed, environment policy has proved to be one of the success stories of the Community, demonstrating that when the political will exists and the circumstances are right, the Community has the ability to take on new tasks and to carry them forward even in the absence of a specific mandate to do so in the Treaty of Rome. While other areas of Community policy specifically provided for in the Treaty have been running into difficulties, the Council of Environment Ministers has been able to make solid progress and with surprising regularity has produced legislation of considerable importance. For some countries indeed Community legislation has now come to provide the basic framework for national legislation which previously may have hardly existed. For Britain the picture has been rather different, although the impact of Community policy has been considerable.

1. British environment policy

Britain, as the country that first experienced the industrial revolution, can count industrial pollution as one of its inventions, and it is no surprise that Britain was early in the field with measures to counteract pollution and protect the environment. Because the 'environment' has only recently been thought of as a single subject - acquiring a new meaning in the process - it is easy to forget that the great bulk of modern British legislation on many aspects of the environment predate growth of public interest in the 1960s and naming of the new Department of the Environment in 1970.

Thus the present powers to control river pollution are to be found in an Act of 1951; air pollution in major Acts of 1906 and 1956; noise in an Act of 1974 which largely repeated measures in an Act of 1960. The Control of Pollution Act of 1974, remarkable as it is for its potential to remove the excessive secrecy that has prevailed over industrial emissions, is in surprising measure a consolidation of previous legislation. The fact that it is still not fully in force is both an indictment of successive Governments since the early seventies but also a tribute to the effectiveness of the earlier legislation that is still being relied upon.

No new major legislation has had to be introduced to implement Community Directives. Even outside the narrow field of pollution control we find that environmental legislation is hardly new. Thus it was the great Town and Country Planning Act of 1947 that introduced the need for planning permission and it was an Act of 1949 that allowed the creation of national parks.

2. The conflict of 1975

So when Britain joined the Community in 1973 there was general confidence that this was a field where Britain would be able to make a significant and constructive contribution. Reality turned out to be different, and within three years a major row broke out when Britain alone refused to agree an important Directive concerned with water pollution. Britain, which had hoped to be a leader, found itself accused not only of preventing the cleaning of Europe's rivers, but almost at times of being the dirty man of Europe. The scars of that conflict are largely healed now that the reasons for it are better understood, and there are certainly substantial areas where no problems of this kind have arisen and several where Britain has indeed been the leader.

More than one reason underlay the conflict that erupted in 1975 and there was at least some justification for the charge that Britain was simply being obstructive for reasons of economic self-interest. But a more complicated reason was the quite distinctive tradition of legislation in this country compared with that of many other countries.

The importance of legislative tradition has to be emphasised because of the central role played by legislation in European Community affairs.

Perhaps because financial aspects of the Community command so much attention, a central fact about the Community is often overlooked. This is that, unlike any other international organisation, it has the ability, by reason of its own institutional structure, to create legislation that is binding on its member states and that can be enforced by the European Court. Unlike other inter-governmental organisations which may reach general agreements of principle and make declarations of intent, the decisions of the Council of Ministers of the European Community have to pass the acid test of being capable of being put into practice by the member states. Hence the importance of Community legislation being compatible with domestic legislation and hence the difficulties created by differences between British and continental styles of legislation.

One characteristic of British legislation, at least in the environmental field, is that it is normal to place a duty on an authority (perhaps a local authority or a central government agency) to achieve certain ends, to give to that authority powers to carry out the duty, but then to leave to that authority a great measure of discretion as to how that desired end is to be achieved. British environmental legislation also has a tendency to caution, with only small steps being taken at a time, and with care being taken that demands are not made that cannot be realised. At its best this pragmatic approach (the word is much used) can be very successful; at its worst it is open to the charge of being unprincipled and of allowing vested interests to dictate the pace of change. For the system to work well there has to be a consensus between government and governed about what is desirable and therefore close collaboration between them: this has been the essence of the British tradition. In other countries it is much more common for legislation to be used to force the pace, sometimes making demands that cannot immediately be achieved, but with timetables for doing so and with pollution levels centrally specified.

3. Water pollution

It was precisely on this point of legislative flexibility that the dispute between Britain on the one hand and eight member states and the Commission on the other hand, broke out over the Directive on the discharge of dangerous substances to water. Should emission limits be set centrally so that a minimum standard would apply throughout Europe and industrialists and the public would know where they stood, or should local regulatory bodies have discretion to relax these depending on local circumstances? With the Rhine and other rivers crossing national frontiers, centrally fixed limits seemed the only solution, but Britain would not accept them. In the end a compromise was agreed, but the result has been that

Britain has been forced to be much more explicit about its methods. After the compromise all the Water Authorities in Britain published river quality objectives for each stretch of river and it is by reference to these that emissions are now to be controlled. Local discretion is therefore still permitted but there is now a more explicit framework within which that discretion is exercised. There can be little doubt that the drawing up and publication of these river quality objectives was a direct result of the stimulus of Community legislation: a little more principle has therefore been superimposed on British pragmatism. What started as a row has proved to be beneficial to Britain and in the long term perhaps to other countries too who have begun to learn how the British have approached a problem which is causing difficulties everywhere. A row can be a sign of vitality and if it is contained and properly handled can prove productive.

Beneficial effects in Britain have also resulted from a Directive on the quality of bathing waters. The Directive in question has quite properly been much criticised for technical and other reasons and the British Government has also been criticised for naming very few beaches whose waters have to conform to the standards of the Directive. They have justified this because of the tendency for the British holiday maker to sit on the beach rather than venture into the water in contrast with Mediterranean practices. But despite criticisms the overall effect of the Directive is positive, since for the first time local authorities and Water Authorities have an objective yardstick against which to judge the quality of bathing waters (whether identified for the purposes of the Directive or not) and a yardstick which they can use when planning their future investments in sewage works and sewage outfall pipes.

Much of the other Community legislation on water pollution - and it is an area where the Commission has been particularly active - will be likely to have rather little effect in Britain, with the possible exception of a Directive specifying standards for the quality of drinking water which is only just coming into force.

4. Air pollution

Community legislation has introduced a wholly new principle into British Air pollution control - a principle which had previously been recommended by the Royal Commission on Environmental Pollution but which the Government had failed to act upon. Major industrial emissions are controlled in Britain by the Alkali and Clean Air Inspectorate who have to ensure that individual industrial plants use the best practicable means for reducing emissions. Local authorities also have responsibilities for some industrial emissions and are wholly responsible for implementing domestic smoke controls. But air quality standards or guidelines had never previously been agreed so as to provide a coherent framework for particular abatement measures. A Community Directive now lays down maximum concentrations of sulphur dioxide and smoke in air and another lays down maximum concentrations for lead in air. The Directive on smoke and sulphur dioxide will act as a spur to the completion of the smoke abatement programme that was started following the Clean Air Act of 1956 and the great London smog of 1952. Not all parts of the country which need it are yet covered by orders effectively banning the burning of raw coal in open grates, and the Directive will help to ensure an orderly completion of that programme.

Another Directive sets an upper and a lower limit to the amount of lead in petrol, thus preventing any one government from unilaterally banning the sale of leaded petrol. The upper limit in the Directive helped to ensure the reduction of lead levels by the British Government while the lower limit was deliberately introduced with the encouragement of the British Government to ensure that the common market for cars within the Community was not obstructed. The existence of the Directive means that the current campaign in Britain for lead free petrol will have to be conducted in other countries too if it is to be successful.

5. Waste disposal

This is a field where Community legislation has largely followed British models, although there are specific points where the Community in turn is forcing the pace. One of the consequences of the strengthening of air and water pollution legislation is that there is now much more toxic waste which previously would have been discharged to water or up chimneys into the air. Much more of it is consequently being transported across national frontiers, particularly as some countries have banned the disposal of toxic wastes on land. One Community Directive already requires toxic wastes to be accompanied by notification forms identifying the waste but these are not yet compatible as between countries. Growing concern about the international transport of toxic waste, including an incident when toxic waste of unknown origin was brought to Britain from Holland by a company that subsequently went bankrupt, has now led to work on a new Directive to control this problem. Whereas Britain as an island is not much subjected to air and water pollution from its neighbours, and therefore could be self-sufficient in legislation, the international transport of waste to treatment plants is being positively encouraged by the British Government and therefore demands international action.

6. Noise

The Community's noise policy has recently been fully reviewed in a report from the House of Lords (13th Report Session 1981-82 of the Select Committee on the European Communities). Existing and proposed Community legislation covers eight subject areas (vehicles, tractors, motor cycles, construction plants, aircraft, helicopters, lawn mowers and domestic appliances). All the legislation is concerned with setting limits on noise from articles in trade between member states and the prime motive has been to ensure that trade is not obstructed by different countries setting different limits. It may be a surprise to many people that there are no limits on noise from products in Britain other than from vehicles and aircraft, despite the recommendations of official committees, so action by the Community is now bringing such limits to Britain. One consequence of this Community legislation is that it is no longer possible for Britain unilaterally to fix lower limits for, say, lorry or motor cycle noise. A target set in 1977 by the Council of Ministers for lorries to achieve 80 decibels (dB(A)) - so that they would be as quiet as today's cars - will not now be achieved, but the Commission is expected to propose new noise limits in the first half of 1983.

7. Wildlife

The Directive that has won the greatest popular support has been that banning the slaughter of wild birds. National legislation has obvious limitations as a means of protecting threatened migratory species but until the Community adopted an environment policy there was never any way for northern European countries who have had their own legislation to exert effective pressure on France and Italy where widespread shooting and killing of birds has been traditional. The birds' Directive is an example of the Council of Ministers acting as a legislative forum in which pressure from northern Europe was successfully exerted on southern Europe. France and Italy were quite simply shamed into accepting the Directive with Britain playing a major part.

The Regulations banning the import of whale products followed a British initiative. Under pressure from environment groups, the Conservatives in opposition agreed to ban whale products into Britain but discovered when in office that Community rules prevented unilateral action. The British government then persuaded the other member states and the result has been far more beneficial for whales than merely a British ban. This success has now inspired a campaign for a European ban on seal products and the European Commission has now proposed an import ban.

8. Toxic chemicals - the Sixth Amendment

The most important environmental Directive goes under the name of the Sixth Amendment (to an earlier Directive). Before any new chemical is now marketed, details of tests concerning its potential dangers must be notified to the authorities of any one member state and the authorities in the other member states have access to them. The Directive is broadly similar to legislation in the USA, and the Commission is now negotiating with the USA and other chemical manufacturing countries to ensure compatability so that eventually chemicals that have been accepted by the authorities of other countries are acceptable to the European authorities, and vice versa. No single European country would by itself have had the muscle to negotiate effectively with the USA but the Community market is sufficiently important to the USA for the Community to be able to exert influence. Indeed Europe has now become the leader in chemical control. It is hard to imagine this result being achieved without the existence of the Community, and without Europe/US agreement the result could be either a system which does not work - with consequent risks to the environment - or the erection of trade barriers against European chemicals into the US market.

9. An extension of sovereignty

The instances given above have shown how membership of the Community has stimulated changes in British environmental policy. On the whole these have been beneficial but undoubtedly Community legislation prevents Britain unilaterally taking certain steps which otherwise it might wish to. Sometimes this is positive by providing a stop against backsliding, in other instances it can prevent Britain moving forward alone such as banning leaded petrol. The 'loss of sovereignty' school of Community opponents have a point but they tend to dwell only on the negative and not on the positive aspect. Nor do they dwell on the extension of sovereignty that Community membership has brought. People interested in protecting birds in Britain have suddenly discovered that Community membership has meant that they have a real means of influencing Italian practices; people campaigning to ban British imports of whale products have suddenly discovered that their campaign has been more successful than they had ever dreamed possible (denial of a market of 270 million instead of only 55 million). The Sixth Amendment has shown that European countries acting collectively can influence US environmental legislation. The idea that the environment knows no frontiers and that international action is essential has found concrete expression in the Community. The next ten years will show whether the successes can be consolidated and extended to much more intractable problems such as acid rain caused by long distance airborne pollution.

(This section is based on a study by Nigel Haigh of the Institute for European Environmental Policy on the effect of the Community's environment policy in Britain. The study is to be published shortly).

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THE UNITED KINGDOM AND COMMUNITY LAW

Summary

Community law touches many different areas of national life. Over the last 10 years it has had a significant impact in Britain: on individual rights (although the Community's Court of Justice is not to be confused with the unrelated European Commission on Human Rights*), on commercial practices and through the application of Community legislation by government. It often has a direct relevance for the judgements of national courts and tribunals in all those areas where the Community has made law. The United Kingdom is also expected within the coming months to ratify the Brussels Convention under which judgements on civil and commercial matters made in one member country will be enforceable in another. This will represent a major development, especially for British commerce and industry.

The fact that it makes its own laws distinguishes the European Community from other international organisations. Community law is not just the rules in the Treaties. It is 'Regulations' and 'Directives' and 'Decisions' and 'Conventions'. It is also the rulings of the European Court. It is enforcement and investigation, administrative practices and constitutional rules and law-making procedures. In short, it is very similar to English law or that of any other State.

But the Community is not a monolith, nor a federal system where the central government is independent; the member states penetrate deep into the Community's workings at every level and in every institution except, possibly, the Court, so the laws which emerge from the legislative processes in Brussels are essentially member-state laws. They have been approved by the governments at the highest levels as well as at the lower executive levels, and the governments are responsible for them.

The uniqueness of the Community lies in its providing a framework and an exceedingly powerful political motivation for the member states to reach agreement on such binding laws.

Community laws

The law of the Community is contained in three groups of documents:

(i) the Treaties; (ii) legislation; and (iii) case law.

(i) The EEC, ECSC and Euratom Treaties form the basic law of the Community and of its member states - in effect a binding written constitution, which is enforceable through the courts against infringing laws of member states and of the Community itself.

It was under art. 119 of the EC Treaty (guaranteeing equal pay) that the British rules on job evaluation schemes were recently held to be unlawful (detailed more fully in the section on women's rights); under art. 48 the French rules reserving jobs on French merchant ships to French nationals were also held unlawful. This 'Constitution' may be amended by the member states through a special procedure, but for the most part it remains stable and unaltered.

(ii) Community legislation takes two main forms: regulations and directives. Normally they are promulgated by the Council of Ministers, sometimes by the European Commission under delegated powers. Regulations are like ordinary laws, directly binding on citizens and public authorities alike. They do not need any action by the member state to give them legal force; they have that already, as soon as they are published in the Official Journal, although national enforcement

(*recognised by **21 European countries**) procedures and penalties may also be needed.

Thus the drivers' hours rules were binding on British road haulage operators even before the UK enacted enforcement provisions; and the many lorry owners who refused to respect the EC regulations until then were in fact already breaking the law. Regulations are only rarely used for matters other than import/export and agriculture; they do, however, cover some such important matters as social security, competition, transport and, possibly, trade marks.

For the more everyday areas of commercial and social law - company law, insurance and banking, taxation, the professions, protection of workers, sex equality - directives are used. Directives are not normally directly binding. We have to wait until the government has made them part of UK law, usually by a statutory instrument under S.2 of the European Communities Act 1972, e.g. the Transfer of Undertakings (Protection of Employment) Regulations 1981, S.1. 1974/81, which implemented the rules in the Business Transfer (Employees' Rights) Directive 1977.

Usually member states are rather slow in doing this - the UK was some three years overdue on the Business Transfer Directive. When that happens it is sometimes possible for individuals to rely on the directive directly. That may be so even if the Government has implemented it, but the plaintiff does not think that the national law is a true reflexion of the directive. That has happened with the VAT directives in Holland; and the English VAT Tribunal has said that it will always construe the English VAT law in the light of the relevant EC directives.

The Employment Appeal Tribunal has shown a similar awareness of the importance of the sex equality directives as well as of art. 119 of the EC Treaty; and Mr Justice Comyn said recently in the High Court that the British rules on immigration 'must be read in the light of the EC law which is the foundation stone of all the law on this matter' - the <u>Sandhu</u> case (1982).

One further type of Community legislation, rare but exceptionally important, is that of a <u>treaty</u> or '<u>convention</u>', for which not only the member state governments but national parliaments have to adopt the text.

Apart from the Patent Convention (not yet in force) and the draft Bankruptcy Convention (not yet adopted), both of which cover nearly the whole of the law on the subjects, it is the Convention on Jurisdiction and Enforcement of Judgments (the Brussels Convention) which is particularly significant. It has been in force in the original six member states since the early 1970s, but it will not apply in Britain until 1983 - the necessary British statute, the Civil Jurisdiction and Judgments Act, was passed in July 1982 - but when it does it will make profound changes in British business practices. It provides not only that the judgments of civil courts in other EC countries can be enforced here automatically and without going before a British court but also that the foreign courts have much greater powers to decide cases where the defendant has never left the UK.

For instance, a contract for the supply of spare parts from a British components maker to a German manufacturer, where because of a dispute over quality the German refuses to pay the agreed price, may lawfully be brought before the English courts and their decision enforced in Germany against the assets of the German defendant. The Convention does not, however, cover criminal law, administrative law, marriage, inheritance or other topics outside the field of 'civil and commercial law'.

(iii) Perhaps the most important, because most dynamic, source of Community law is the <u>case law of the European Court</u>. British and Irishmen should have no difficulty in recognising this, for it operates in exactly the same way as in our own court-based systems. The law is developed through the decisions of the higher courts interpreting texts or applying principles to new fact situations.

National courts

Enforcement of Community law is mainly for the member states. This follows the usual Community pattern. Except in the field of restrictive practices, the EC has no executive powers (it is almost exclusively a policy-making and legislative machine) - and it is the task of the member state administrations to carry out and enforce EC law. Thus, the common customs tariff on imports is applied by the UK customs officers, the pricing rules in agriculture are operated by the Intervention Board for Agricultural Produce, the transport rules are enforced by the Department of Transport.

This is so in the judicial sphere too. It is intended that disputes about the application of Community law should in the main be heard by national courts. Lord Denning, Master of the Rolls, expressed this well in 1974 in a famous passage: 'When we come to matters with a European element, the Treaty is like an incoming tide. It flows into the estuaries and up the rivers. It cannot be held back. Parliament has decreed that the Treaty is henceforward to be part of our law. It is equal in force to any statute' - Bulmer v. Bollinger (1974) Ch. 401.

In fact, the English courts adapted very easily to their task of applying Community law. In the first 9½ years of membership, some 160 English cases were reported in which issues of Community law were pleaded, and in about 30 per cent of those the final result was affected by the existence of the EC law. Of the 160-odd cases, some 40 per cent were concerned with the position of ordinary citizens (mainly social security, employment, sex discrimination, residence), the remainder involving commercial matters (mainly patents and trade marks, restrictive practices, VAT, imports, company law, transport, agriculture and fisheries); some 10 per cent of the proceedings took place in criminal courts.

European Court

Although the main burdens of day-to-day application of Community law rests on the national courts it is to a lesser extent shared by the European Court, which is also responsible for laying down binding guidelines on interpretation and development of legal principles, as well as handling major disputes between the member states and the Community organs.

The European Court of Justice at Luxembourg (which is the only Community court - and is not the International Court of Justice at The Hague nor the European Court of Human Rights at Strasbourg) consists of 11 judges (one from each member state plus one more to make up an odd-number) plus five Advocates General (one from each of the big four plus one rotating among the smaller member states). These are all appointed by the governments of the member states in conclave, for renewable terms of six years, staggered.

The British judge (from Scotland), Lord Mackenzie Stuart, was appointed when the UK joined the European Community in 1973 and is now the third most senior judge on the Court. The first British Advocate General, Mr Jean-Pierre Warner, retired from the Court two years ago and is now a chancery judge in the English High Court; his successor, Sir Gordon Slynn, was a High Court judge before his appointment and President of the Employment Appeal Tribunal. An Advocate General's status, seniority, salary and robes are all exactly the same as for the judges.

The Court has a wide range of jurisdiciton:

(a) As a labour tribunal for Community civil service disputes. Sometimes these can raise wider issues, e.g. freedom of religion (as when an English solicitor applied for a post but was required to sit the qualifying examination on a Jewish holiday - Prais v. EC Council (130/75) (1976).

(b) As an administrative court of appeal from decisions of the EC Commission in restrictive practices cases. This is the one area where the Community has its own executive powers: it may both investigate and penalise firms (and individuals) which infringe the competition rules of the Treaties by engaging, for example, price fixing cartels.

The claim by the Commission to unrestricted access to a firm's books and records, including letters from and to its lawyers, an issue which is particularly sensitive in Britain, was appealed in this way to the Court; judgment was delivered this summer, in which the Court cautiously accepted part of the British concept of confidentiality of lawyers' correspondence as a principle of Community law - A M & S Europe Ltd. v. EC Commission (155/79) (1982).

More recently still, the Commission decision attacking Ford AG in Germany for refusing to supply right-hand drive cars so as to protect the high car prices charged in the UK was appealed to the Court, which adjudged the Commission justified in its action and required Ford to continue supplying limited numbers of right-hand drive cars.

(c) The Court may hear cases brought by one member state against another, but this is very rare as governments hate litigating against other states. It has only happened once in the whole history of the Community - France successfully sued the UK over the latter's fishery restrictions in case 141/78 (1980), establishing some important principles of fisheries policy.

(d) More common is the Commission suing a member state for failing in its duties under the Treaty. Thus the French government was taken to the Court for its failure to open its market to imported British lamb (232/78) (1980) and the British government - more recently - on the measures imposed on poultry product imports (40/82), where the Court found that the health considerations that were used as the basis for the restrictions could be met in ways that would not impose such barriers to trade and instructed the British government and the Commission to agree satisfactory arrangements.

(e) It is on cases referred by national courts that the Court of Justice has developed its most original and successful techniques for binding together Community law and national law, and involves the private litigant in a way which does not scare off the member governments.

If a case brought in a national court depends on a point of Community law, the court can refer the case to the European Court for a binding ruling on the point. The European Court does not decide the case, nor is it sitting in appeal over the national court; it is a fraternal relationship, with the national court firmly in control and retaining the duty to give a final judgment in the dispute before it. The European Court gives its ruling on what the Community law means (or whether it is valid), and sends it back to the national court to apply it in the concrete case before it.

In Garland v. British Rail (1982), the House of Lords used a ruling it had requested from the European Court to interpret in the plaintiff's favour a provision of the Sex Discrimination Act 1975 in relation to concessionary travel facilities. As Lord Diplock said in that case, such rulings 'are binding upon all courts in England, including this House (of Lords)'.

It is in this way that a private person can bring a case before the European Court, for he is not entitled to go there direct (except when appealing against a Community decision). Consequently, anyone who objects to a British decision, rule or law on the ground that it violates Community law is advised to follow the example of the Equal Opportunities Commission and bring the dispute before a local court or tribunal and persuade it to refer the issue to the European Court at Luxembourg.

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COMMUNITY LEGISLATION BOOSTS WOMEN'S RIGHTS

Summary

In the 1970s the United Kingdom led Europe on women's rights, with its Equal Pay Act 1970 and Sex Discrimination Act 1975. But time has proved the legislation less effective than had originally been hoped, and the Equal Opportunities Commission (EOC) has been campaigning for some fundamental change.

Here it has been helped by Community legislation, initiated as part of the UN Decade for Women (1975-85), and fleshed out by several important judgments of the European Court of Justice. Of these, the most recent ruling, handed down on 12 July 1982, found that the 1970 Equal Pay Act fails to comply with Community legal requirements regarding equal pay for work of equal value - a matter of 'major significance' according to Baroness Lockwood, Chairman of the EOC. 'There is no doubt', says Baroness Lockwood, 'that these decisions have strengthened the rights not only of British women but also of women throughout the member states'. The November Queen's speech included a commitment to change UK law.

Community legislation

Article 119 of the 1957 Rome Treaty lays down the principle that men and women should receive equal pay for equal work, 'pay' here being defined as 'the ordinary basic or minimum wage or salary and any other consideration, whether in cash or kind, which the worker receives, directly or indirectly, in respect of his employment from his employer'.

In 1957 such legislation was more concerned with safeguarding the under-cutting of men's wages than to promote the principles of equality, but in ensuing years it has proved valuable in the women's cause.

In the 1970s, with the growth of the liberation movements, governments came under increasing pressure to legislate for sex equality at work. The European Commission responded by proposing three directives, adopted by the Council of Ministers in 1975, 1976 and 1978.

1. Equal Pay Directive (75/117) introduced the principle of equal pay for work of equal value; abolished any discriminatory clauses in collective agreements, and provided protection for employees against dismissal following complaints.

2. Equal Treatment Directive (76/207) aimed to overcome sex discrimination at the point of entry into the labour market, in vocational training, and in promotion and working conditions.

   It also outlaws discrimination on the grounds of sex, either directly or indirectly, by reference in particular to marital or family status.

3. Social Security Directive (79/7) covers statutory social security schemes providing protection against the risks of sickness, invalidity, accidents at work, occupational diseases and unemployment; and requires that there should be no discrimination in the obligation to contribute and the calculation of contributions, including allowances for a spouse and dependent person, or the conditions governing the duration and retention of entitlement to benefits. Minimum appropriate legislation has been incorporated into the UK Social Security Act 1980. The legislation does not affect the retirement age for men and women, which remains a matter for national governments.

In 1979 and 1980 the Commission monitored how the (then) nine Community countries were implementing the equal pay and equal treatment directives. They found lapses or inadequacies in all cases, including the UK, where the Equal Pay Act in particular came under criticism on the grounds that it allowed for equal pay only where a woman does 'like work' with a man, or where her work has been rated as equivalent to his under a job evaluation scheme, but does not insist upon equal pay for work of equal value.

In 1981 the Commission started infringement proceedings against the British government and on 12 July 1982 the Court of Justice upheld the complaint. The government is now required to do what the EOC independently urged it to do nearly two years ago - namely to amend the legislation.

Other court cases

Apart from the above, the Court has dealt with six other alleged discrimination cases brought by individual complainants, five of whom came from the UK, backed by the Equal Opportunities Commission.

In 1976 Mlle Defrenne, who worked for Belgium's Sabena airlines, successfully claimed equal pay with a male cabin steward under Article 119, even though the Belgian Parliament had not itself legislated for equal pay (1).

In the UK complaints have taken a number of forms, having first run the gamut of national courts and industrial tribunals. The principles at issue can be briefly summarised:

1. Macarthys vs Smith (1971/80): Wendy Smith was a manageress in a pharmaceutical company, Macarthys; she took up her post four months after her predecessor, a man, had left, and was paid £10 a week less. She argued that she should be paid the same, and the case eventually reached the Court of Appeal which was divided on the issue. The question was referred to the European Court which ruled that under Article 119 a woman can legitimately compare her pay with that of a man previously doing the same job.

2. Worringham and Humphries vs Lloyds Bank (1971/81): Two women employees at Lloyds Bank claimed that the Bank's occupational pension scheme discriminated in favour of male workers, both as regards contributions and certain other benefits. The Court found that any sums included in or which determine the calculation of a gross salary, or which are linked to salary such as redundancy payments etc., form part of a worker's pay as defined under Article 119. The concept of 'pay' applies even if these contributions are immediately deducted by the employer and paid into a pension fund.

3. Jenkins vs Kingsgate (Clothing Productions) Ltd (1979/81): Mrs Jenkins complained that as a part-time worker she was paid at an hourly rate that was 9.5 pence less than full-time workers doing the same job. The Court's findings introduced a concept of 'indirect discrimination' in that it held that the difference in the level of pay for work carried out part-time and the same work carried out full-time may amount to discrimination of the kind prohibited by Article 119 where the category of part-time workers is exclusively or predominantly comprised of women. But where the difference in pay can be accounted for by objective economic reasons, that was not contrary to the principle of equal pay for equal work contained in Article 119.

4. Garland vs British Rail Engineering Ltd (1980/81): Mrs Garland challenged the legality of British Rail Engineering's travel concessions scheme which allows special fares for the families of its former male employees, but not those of retired female employees. The Court upheld Mrs Garland's complaint that BRE's practice was discriminatory under Article 119.

(1) For full references for this and other cases see Annex.

5. Burton vs British Railways Board (1980/82): Mr Arthur Burton claimed that he was being discriminated against under a BR scheme offering an option of early retirement - five years before the normal retirement age of 65 for men and 60 for women. Mr Burton wanted to retire at 58 but was refused; he argued that this was discriminatory as a woman of the same age could benefit from the early retirement arrangement. The Court found that the BR scheme was not discriminatory. In reaching this decision it explained that it had borne in mind Community directive 79/7 on equal treatment in social security matters, which says that member countries are entitled to determine the age of retirement themselves.

The Court's findings in the successful cases have been incorporated into British case law and, in several instances, have enabled others to benefit directly from the original pioneers' long legal journey.

An Action Programme 1982-85

In May 1982 the Council of Ministers adopted a Community Action Programme on the promotion of equal opportunities for women, based on an important Resolution on women's rights adopted by the European Parliament on 10 February 1981, following an enquiry by a Parliamentary ad hoc Committee on the aspirations and conditions of women in the Community. The aim of the Programme is to encourage cross-fertilisation of ideas in member countries, establish informed data on the extent of sex discrimination and implementation of Community law, and provide impetus for further Community legislation in such fields as taxation and the employment of women, parental leave, maternity provisions, the rights of women in agriculture and so on. Progress will be reviewed in 1985.

An Advisory Committee on Equal Opportunities for Women and Men has been set up to advise the Commission on the fulfilment of the programme. The work of the Committee is supplemented from within the Commission by the Bureau for Questions affecting Women's Employment, and the Information Service for Women's Organizations and Press which publishes an informative, free periodical, Women of Europe, and useful Supplements dealing with matters affecting women in the Community.

Positive employment aids

While the numbers of women in paid employment in the Community have risen dramatically in the last 20 years, the majority of them are to be found in low paid jobs partly because, for family or traditional reasons, they have failed to qualify for the higher paid ones normally done by men.

In 1977 the Council agreed that money from the European Social Fund (ESF) (1) should be used to support vocational training programmes designed to help women improve their employment prospects. While women under 25 benefit from the special aid programmes for young people, under Decision 77/804 (modified by Decision 80/1117) assistance from the Fund is also available for training programmes for women of 25 and over who have lost their jobs, who wish to take up a job after a long break, who may be unqualified, or whose vocational qualifications may be insufficient, or who wish to return to working life. Priority is given to training programmes designed to encourage women to enter non-traditional jobs, such as carpentry, engineering, plumbing and so on. Such programmes have to be sponsored by approved public bodies and the Community pays up to 50 per cent of training costs. The East Leeds Women's Workshops created a precedent by asking for and receiving such aid towards the salary of a nursery nurse to care for the children of mothers on a training project.

Up to the end of 1981, 1,229 women in the UK had benefitted from these ESF-aided programmes.

(1) For general information on the Social Fund see dossier No.

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TRAINING AND EMPLOYMENT: THE ROLE OF THE SOCIAL FUND

Summary

The European Social Fund (ESF) now plays a central role in the United Kingdom's programmes of training and retraining. In 1981 the UK was allocated £141m from the fund. It provided the Manpower Services Commission's Youth Opportunities Programme with nearly £60m, and the equivalent programme for unemployed school leavers in Northern Ireland received £14.6m.

When the British Government's new Youth Training Scheme for all 16 year-old school leavers was announced it was made perfectly clear that prospective contributions from the ESF were so crucial that they had been costed into the programme at the planning stage.

So far this year the fund has announced grant-aid for British projects of £226m - representing about 30 per cent of total fund expenditure for the year. As to the numbers of people affected, the Commission believes that the fund financed training for 267,000 people in the UK last year, out a Community total of about 1,300,000.

Finance for change

The European Social Fund has in a sense found its time. It was designed to help cope with the stresses and strains of movements of labour within the European Community, and with the effects of radical changes in the conditions of the labour market. Those changes have occurred in ways which no one cared to predict when Britain joined the Community. They have affected Britain as badly as any other Community member states, bar Belgium, Italy and Ireland.

But Britain has at least emerged from seven years of rapidly rising unemployment with a completely refashioned and prospectively comprehensive system of vocational preparation and training for 16 year-old school leavers, and few people believe that the Manpower Services Commission would have got there as quickly or as smoothly had it not been for the ESF support available first for elements of the Job Creation Programme, and then for the far larger Youth Opportunities Programme.

Throughout that period the ESF has operated as an employment and training fund, concentrating largely on the areas of highest unemployment (including in Britain the Assisted Areas), and focussing on particular priority groups, of which young unemployed people have been the most important, but by no means the only one.

In 1981, for instance, the Manpower Services Commission was allocated £12.6m for training the handicapped, and a further £11.8m for the Training Opportunities Scheme (TOPS). Other monies went for the training and retraining of women over the age of 25, and to training (largely language training) for migrant workers.

The amount of fund money allocated depends on there being suitable proposals, where possible involving new expenditure. This is always likely to produce some tension when so much of the fund goes to government. Are the proposals really new? Could they and would they be implemented without the fund? Is the fund in danger of simply being clawed into the Treasury to pay for things which were already planned? Whatever the answer to these questions, the fund has greatly stimulated the programme of training in the UK.

How the fund works

Everyone who wants money from the ESF must apply quite specifically (and this goes for the government too), and applications have to be made through the Overseas Division of the Department of Employment, which acts as both a door-keeper, discouraging at an early stage those whose plans fall outside the fund's rules, and as a midwife for all the plans which are eligible.

Once an application has been processed and passed on by the Department of Employment it is considered by the European Commission in Brussels, which administers the fund, and is also submitted to the Social Fund Committee, composed of government, employers and union representatives from each of the ten EC member states. This committee is advisory, and the Commission can over-rule it if it feels strongly that a project should or should not be accepted (although this happens very rarely).

There are far more eligible and potentially acceptable applications than there is money to fund them. In 1982 there will turn out to be almost twice the number that can be fully serviced. This means that the priorities have to be rigorously applied, for example:

There are areas of absolute priority, of which Northern Ireland is one. Not only do they receive a high level of approvals, but they are also eligible for an enhanced contribution from the fund. The standard contribution from the fund is of not more than 50 per cent of development and running costs, with the rule that this contribution must be matched by public monies, and also that the fund's contribution cannot exceed the size of the public (usually government) funding. In the priority areas the fund's contribution is increased to 55 per cent.

In addition to the areas of absolute priority the Assisted Areas (parts of Scotland, Wales, the North-East, the North-West and the South-West) receive preferential treatment under various aspects of the fund, as a result of a decision in 1977 to concentrate the fund's resources on the parts of the EC in the most distress from rising unemployment, and also on those parts which have traditionally been the least developed. The result is that all the priority areas together now absorb as a matter of policy no less than 50 per cent of the fund's annual resources.

Projects for unemployed young people are a priority. In the rules of the fund this means young people under the age of 25. In practice in Britain this has largely meant young people aged 16-19.

Other qualifying groups are: women aged 25 or more who have few qualifications, or who want to return to the labour market, especially if they want jobs in non-traditional female employment, workers leaving agriculture, textile and clothing workers affected by industrial change, migrant workers (though in Britain this is almost exclusively confined to language teaching for special groups like Vietnamese boat people), and the disabled.

There is an increasing interest in projects which train people of all ages to accommodate technical progress, especially to train people in the new technologies, and there is a modest provision for pilot studies and projects in which new approaches to training and employment generation can be explored.

In many cases money is granted for up to three years, though the acid test in the mainstream of the fund's grants is that individuals should be equipped to acquire or retain jobs, and in the pilot projects that the activity should be properly evaluated.

Breakdown of fund operations in the UK

The major allocations to the United Kingdom for the full years 1980 and 1981 were as follows:

	£million	
	1980	1981
Young people's schemes:		
MSC Youth Opportunities Programme (G)	47.6	59.4
Department of Manpower Services YOP (N.Ireland)	12.0	14.6
MSC Training for Skills Programme	11.3	3.6
Helping to make up totals of	71.9	85.1
Regions:		
MSC Training Opportunities Scheme (TOPS)	21.0	11.8
Department of Industry assistance private companies	3.2	3.5
DMS (N.Ireland) training to avoid redundancy, incentives to employers to recruit and train the unemployed	2.2	8.1
Helping to make up totals of	50.4	33.2
Schemes for handicapped people:		
MSC rehabilitation schemes	4.6	6.8
MSC Vocational Training schemes	3.4	5.8
Helping to make up totals of	9.3	17.0
Other schemes, including those for women, migrant workers, textile workers, technical progress:	2.6	5.8
Overall totals:	135.3	141.1

There is heavy and consistent emphasis on supporting the Government's programmes for the young unemployed (for the most part in the priority area of Northern Ireland and other regions of high unemployment); relatively large amounts are allocated to other training in assisted areas; there is a very considerable increase in the amount allocated for the handicapped; and a smaller, but still growing amount allocated for the other, smaller programmes.

The picture is one of supporting the main objectives of training policy, whilst pushing an increasing amount of money to new, locally based initiatives.

This trend is illustrated in a different way by some of the detailed elements in an allocation of £89m to the United Kingdom in May 1982:

Recipient	People benefitting	£
Youth Opportunities Programme (N.Ireland)	32,170	22,185,003
MSC, Work Experience on Employers' Premises	97,000	16,549,342
MSC Community Enterprise Programme for unemployed adults	15,975	11,846,250
DMS (N.Ireland) for retraining	14,266	6,181,534
Department of Employment, for small business training	5,000	5,000,000
New Industries Ltd, Liverpool	30	60,000
Keighley Technical College	36	14,546
Engineering Industry Training Board	2,030	54,268
Harland and Wolf Ltd (N.Ireland)	373	594,000
Scottish Development Agency	100	100,000
Scottish Development Agency	1,000	231,000
Highlands and Islands Development Board	2,584	985,550
Co-operative Development Services Ltd, Liverpool	80	37,700

Local authorities

These samples omit a highly significant category of recipients, one which is rowing fast and could in theory expand to comprise a substantial proportion of the resources allocated to the United Kingdom: local authorities.

Five years ago there were no more than one or two applications a year from local authorities in Britain. Now the number is more like 70 or 80 a year.

In this single 1982 allocation, which accounted for less than half of the total funds coming to Britain for the year, there were successful applications from twelve local authorities:

London Borough of Southwark
Cardiff
Tameside
London Borough of Tower Hamlets
Cleveland
Bradford
Greater Manchester
Knowsley
Derwentside
Strathclyde
Merseyside
Ceredigion.

Significantly, seven of these local authorities were not applying for training money, but for assistance with wage subsidy schemes often within the context of employment development packages. Backing local authorities in this way has represented a substantial departure both for the ESF and for the local authorities themselves, and is a consequence quite simply of the growing conviction that positive action to improve local employment conditions can usefully include, as well as capital and infrastructure investment (with which the Social Fund cannot help), training provision both for entrepreneurs and for other workers at all levels, co-operative and other small business development agencies, and wage subsidies to encourage existing and new enterprises to take on the unemployed.

One of the most ambitious wage subsidy schemes has been developed by Strathclyde Regional Council, which includes the whole Glasgow and Clydebank areas.

Launched in February 1982, the scheme was aimed at stimulating 2,000 new jobs. In order to do this the Regional Authority offered up to 30 per cent of the wages cost of a genuinely new employee earning up to a maximum of £200 a week. In order to apply, firms have to employ fewer than 25 people, or the jobs they have on offer must go to the long-term unemployed. The subsidy is only available for six months, and there are stringent checks to ensure that firms do not simply use the money to reduce the cost of employing their present workers, nor can they add it to other forms of wage subsidies. The maximum number of grants available to any single firm in this first year of operation is 50.

The cost of the 30 per cent subsidy is shared between the Regional Council and the Social Fund, each providing up to £1,014,000. Applications for the first 1,000 subsidies took scarcely more than a week to materialise. By June 1982 2,567 new jobs had been created using £1.8m of the total fund of £2.28m. The Region was predicting that the final total created would be 3,000, and had already begun the process of applying for a further extended scheme for next year.

In July 1982 Tayside Regional Council, following suit with a similar scheme of something like half the size, had begun to publicise the facility even before the Social Fund had formally agreed the grant.

A further potential boost to the capacity of local authorities to foster new economic activity was also given during 1982 by the approval of seven pilot projects, three of them in the UK in Wigan, Tyneside and Carrickfergus, to test various aspects of the capacity of local development agencies to provide support, including training, for small enterprises. This initiative is being evaluated by a German management consultancy.

New departures: 1984 - 1989

A radical review of the operation of the Social Fund is underway, and changes in its rules and priorities are being considered, on the basis of proposals from the Commission, by the Council of Ministers representing the governments of the ten member states, and the European MPs, who in many cases are playing an increasingly important role in helping to stimulate good Social Fund applications.

For 1983, i.e. before changes flowing from the review will have been implemented, the Commission has decided to ask an overall increase of 45 per cent in the total size of the Social Fund. This would bring it up to 1,800m ECU or about £990m. Within that, for example, the Commission is proposing a 59 per cent increase in allocations to assist with training for the new technologies. A substantial increase in the amount of money available for experimental pilot projects is also envisaged.

One of the key objectives of the Social Fund in its next period of development is almost certain to be assisting member states to implement systems of guaranteed vocational preparation and training for all their school leavers. The Social Fund has already played a part in helping Britain towards such a guarantee, which is implicit in the Youth Training Scheme due to get fully underway during 1983. If the fund does continue with this objective, it can expect to continue to be seen as a valuable support to the Manpower Services Commission, especially in the areas of highest unemployment. It should also be able to expect that British experience can be used by other member states facing equally high levels of unemployment, and meeting them with new approaches to training and work creation.

Commission member Mr Ivor Richard, who is responsible for employment policy, also hopes that it will be possible to simplify the fund's operations and to put finance into 'black-spots' of unemployment under the revised Social Fund from 1984.

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Social Fund /5.

COMMUNITY SOURCES OF INVESTMENT CAPITAL

Summary

Through a number of different instruments the European Community makes available loans and grants to the Member States in order to assist and promote industrial change and to stimulate investment, particularly in the less prosperous areas. Many of these instruments are relatively recent in origin; all are considerably limited in scope and scale, but have been expanding and will do so further.

The Regional Fund has contributed to the Government's domestic regional policy spending and to public authorities. Coal and Steel Community loans have aided large scale mining and power projects and have primed new business initiatives in former coal and steel areas; grants have eased redundancy and other payments to workers. European Investment Bank lending has assisted large-scale capital and infrastructure projects, mainly by public authorities; indirect lending through agencies have helped small businesses. The Social Fund, dealt with in more detail elsewhere in this dossier*, has assisted national programmes of training and retraining and numerous small projects put forward by private and public bodies.

In all the United Kingdom had received by 30th June 1982 grants worth £3510.80 million and loans worth £4360.31 million, a total of £7871.11 million. Both grants and loans have represented considerable net savings for the tax-payer, the rate-payer and the consumer of public utilities, as well as directly benefiting the actual recipients.

The Regional Fund

Unlike the Social Fund the European Regional Development Fund (ERDF) has no basis in the Treaty but was established in 1975 by regulation, after Britain joined. In the absence of any Community or common regional policy, receipts from the Fund are simply allocated according to national quotas, the UK's share being fixed at 28 per cent from 1975-80 and 23.8 per cent after Greek accession in 1981. Funds are thus provided from the Community Budget as a contribution towards the separate regional policies of the member states subject to regulations agreed at the Community level.

Under the Fund's quota section, therefore, grants are distributed to projects submitted by national governments to the Commission. For industrial projects the money itself is received by the government, not the sponsor of the project: the United Kingdom, like all member states, regards the grants as a contribution rather than an addition to national programmes. Because regional aid in Britain is already allocated under criteria laid down in the Industry Act 1972 and its extent further constrained by the Community's own rules on subsidies, ERDF grants cannot be added to national aids. Only under the tiny (5 per cent) non-quota section is there any direct application of Community-devised criteria.

The UK received over £720 million in ERDF commitments in the seven years 1975-81, with receipts informally rationed between England (40 per cent), Scotland (25), Wales (15) and N. Ireland (15). Recent examples include £28.5 million for the British Nuclear Fuels Ltd "Magnox" project at Sellafield in Cumbria which will create 1,200 new jobs; £2.5 million to microelectronics and computer firms in East Fife; £2 million for a Hypalon plant in Londonderry; and £840,000 for a polyethylene project on Merseyside.

*** See page 57**

Regional policy is notoriously difficult to evaluate and the impact of the Fund is even harder to measure. However, receipts from the Fund in 1982 will still represent 14-19 per cent of domestic regional policy spending. The most recent study of the effects of domestic policies in the UK, when narrowly defined as incentives to investment, suggested an increase of about 6 per cent in the share of investment taken by the main assisted areas and additional employment of at least 20,000 per annum from 1966-71 and 11,000 per annum from 1971-76.

Grants to industry, therefore, have probably had no direct impact: the starting-dates of projects have, however, in some cases been brought forward and the moneys received have relieved the general tax-payer. On the infrastructure side, consuming 60-70 per cent of the grants, the money has been a windfall for public utilities and local authorities; the latter, receiving cheques direct from Brussels, have saved interest repayments on their hard-pressed revenue accounts. Both, moreover, have undoubtedly put together qualifying projects that might not otherwise have materialised. The Fund's existence, if not its resources, has therefore had an important influence on the way in which local authorities conceive such projects and perceive their needs. Central government, too, under different political complexions, has slowly had to conform to the Community dimension: even the submission of a regional development programme **can affect the shape of national policy.**

Coal and Steel Community

The European Coal and Steel Community (ECSC) lends to finance direct investment in coal and steel production (Article 54.1), to support projects which increase productivity or improve marketing (Article 54.2), to fund research (Article 55) and to ensure productive re-employment of labour redundant from the coal and steel industries (Article 56). Article 54.2 loans may cover anything from harbour installations for the transhipment of raw materials to housing for miners and steel workers; Article 56 lending can include projects in any industrial sector provided that at least some redundant coal or steel workers are employed as a result. Loans are made at fixed interest, at rates well below the market, over 8 years, with an additional subsidy over the early years of repayment. Under Article 56 grants are also made, via the Government, to assist redeployment, retraining, early pensions or redundancy payments for the workers concerned. Because of its large, though declining, coal and steel industries, the United Kingdom has done particularly well from ECSC finance. Lending towards capital investment programmes under Article 54 has included loans of £500 million in 1980 to the Electricity Council towards the financing of the Drax "B" coal fired power station in Yorkshire, which will create at least 4,000 new jobs, and £190 million to the National Coal Board for the new mine nearby at Selby which will be the largest and most productive in the Community when completed.

Article 56 loans have gone to individual projects in both the private and public sector, totalling £320 million from 1973-81: 40 large loans worth £230 million made between 1973 and 1980 are estimated to have created over 18,000 new jobs in areas affected by coal and steel closures, at least three quarters of them for redundant workers; in addition, global loans through banks and government agency have channelled start-up finance to small businesses in these areas. Grants under Article 56 amounted to £145,463,800 from 1973-81, aiding nearly 130,000 workers in both industries: Britain's share of these grants across the Community was 58 per cent over 1976-81, reaching 84 and 78 per cent in 1980 and 1981 respectively.

European Investment Bank

The European Investment Bank (EIB) was established under the Treaty of Rome as a source of medium and long-term finance to promote the balanced and steady development of the Community. Loans are provided towards the capital cost of projects which

(i) contribute to the economic advancement of less-favoured regions;
(ii) are of common interest to more than one member state or benefit the Community as a whole (eg. improving transport infrastructure) or contribute towards Community objectives (eg. reducing energy consumption);
(iii) further industrial modernisation and conversion, in regions or particular industrial sectors,

and are made to public and private sector borrowers alike.

The Bank's resources come from capital subscription by the Member States but mainly from borrowing on the capital markets in the name of the Community. Because it is non profit-making, interest rates are related closely to its own borrowing costs and not to the status of the borrower or type of project. Direct loans are made up to half the capital cost of each project, usually not less than £2.5 million at fixed rates with repayment varying from 5-12 years for industrial projects and up to 20 years for infrastructure. Agency and global loans help provide finance for small and medium-sized businesses, repayable after 7-10 years. Since accession in 1973 the United Kingdom has received loans totalling about £2,300 million. Direct loans from 1973-81 totalled £2,200 million, nearly 25 per cent of EIB lending in the member states, and are estimated to have created more than 17,000 new jobs and to have safeguarded another 20,600; in the same period global loans worth £62.6 million were extended, creating 11,500 new jobs and safeguarding a further 2,800.

In 1981, direct loans totalled £122.6 million, almost 90 per cent of which went to communications and non-energy infrastructural projects (£108.6 million) and the remainder to industrial projects (£14 million). Projects financed were located largely in Scotland, and the North and North-West of England, including water, sewage and road schemes in Fife and Strathclyde, construction of the Liverpool inner ring road, extension of a Manchester printing works and the production of micro-processors and advanced computer systems in Leeds. From global loans already operating some 46 allocations worth £10.1 million were made throughout the country, giving an average loan of £220,000: these were handled either on an agency basis through the four Industry Departments or as part of global facilities through the Scottish and Welsh Development Agencies, Industrial and Commercial Finance Corporation (ICFC) and two clearing banks.

One major beneficiary of EIB lending has been British Rail which received £69.1 million between 1977 and 1980 for the construction of high speed trains to run on the London-Scotland East Coast and Scotland-West of England lines. In 1981 and 1982 a further £30 million was made available to build 210 new sleeping cars for these routes. Both sets of loans qualified as helping to provide the infrastructure needed to spur on regional development in the three assisted areas concerned (Scotland, the North and South-West England).

Though most EIB lending has so far been directed towards the public sector in the UK and concentrated particularly on the regions already classified as Assisted Areas, the provision of reasonably cheap long-term finance to the nationalised industries, public utilities and local authorities involved is of considerable benefit to the tax-payer and the consumer. As with other Community lending, projects have undoubtedly been advanced in timing and the moneys received allocated to capital rather than current expenditure. While direct lending has dropped recently from a peak of £486.9 million in 1979 due to the decline in industrial investment generally, the increasing interest shown by smaller firms in low-interest agency and global loans, despite the cost of exchange risk cover, shows how well the Bank has adapted its priorities to needs in the member states.

New Community Instrument

The New Community Instrument for borrowing and lending (NCI) which the EIB manages on the Community's behalf was established in 1979 as a complementary source of finance, allowing the EEC to raise long-term funds on the financial markets in its own name and on its own credit. Loans are then made by the EIB towards investment projects in specified categories, including transport, telecommunications, water supplies and environmental protection, advanced factory construction and housing development in the regions and projects in the energy sector.

By June 1982 some 42 loans totalling over £560 million had been made, £86.3 million of which went to the United Kingdom: £50 million in 1979 for the construction of the Dinorwic pumped power station in Wales; £20 million in 1980 towards the Kielder dam project in Northumbria; and £16.3 million in 1979 for water supply and sewage schemes in Lothian Region in Scotland. In each case these loans supplemented finance already being provided by the EIB towards the same projects.

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IMPACT OF MEMBERSHIP ON TRANSPORT AND TRAVEL

Introduction

From January 1983, driving licences issued in the United Kingdom will be exchangeable for the national driving licence throughout the European Community. This is a measure of the increasing freedom of movement for British travellers which has developed since joining the Community ten years ago.

Article 3 of the Rome Treaty specifically requires 'the adoption of a common policy in the sphere of transport', and a motion has been passed by the European Parliament determining to bring the Council of Ministers before the European Court of Justice for failing to implement a common transport policy.

Whatever the outcome of this action, however, there is no doubt that membership of the Community has profoundly affected travel and transport in Britain. It has meant the introduction of tachographs and new drivers' hours rules; the suspension of the requirement to show green insurance cards; a type-approval system for motor vehicle parts and a rapid increase in transport of passengers and goods to and from the continent. There is a prospect of further progress as efficient and economic transportation between Britain and the other member countries grows.

Tachographs and drivers' hours

Hostility to the tachograph in Britain has now largely subsided. The device originally came under fierce attack from both sides of industry, although environmental and safety organisations strongly favoured its introduction, and in 1978 the British government was taken to the Court of Justice for not enforcing its use.

As from January 1 1978 the Regulation (1463/70) came into force throughout the EC for the whole of the vehicle fleet. At the end of December 1981, the measure was introduced in Britain.

The Community regulations on the installation and use of the tachograph apply generally to commercial vehicles over 3½ tonnes laden weight and to passenger vehicles with seats for more than nine persons including the driver, although the Commission agreed exemptions for Britain on travel within the UK for minibuses made to carry not mroe than 15 persons including the driver.

The other main exemptions are buses on regular service and public service vehicles such as police, fire, ambulance, post and refuse collection.

A tachograph is a speedometer and mileage counter. Its purpose is to ensure effective and impartial enforcement of the EC regulations on drivers' hours and to reduce accident risks.

Driving and rest periods for drivers involved in the carriage of goods and services by road were agreed by the Council of Ministers in 1969, under Regulation 543/69. The regulations are strict: they stipulate that no driver shall work more than eight hours in any 24 hour period, and that a two-man crew shall take a compulsory 10 hour break after 17 hours of shared driving. A British driver is allowed to work, on British roads, for 9½ hours in one day, depending on how his work load is spread.

A series of exemptions to these rules include agricultural operations and certain delivery vehicles.

European Community driving licence

After five years blocking the introduction of a common EC driving licence Britain finally lifted its veto and transport ministers have agreed that from January 1 1983 all national licences will be exchangeable without a further test and that by January 1986, member states will issue new drivers with a standard type driving licence, although still on a national basis.

The directive requires that driving licences shall be issued only to those applicants who have passed a practical and theoretical test, who meet certain medical requirements, and who have their normal residence in the territory of the member state issuing the licence.

Insurance - suspension of green card checks

Since May 1974 member states have not been required to make checks on third party insurance cover (green insurance card) in respect of vehicles normally based in the territory of one member state but travelling in another member state, so easing the bureaucratic complications of cross-frontier travel. Green cards are still necessary for drivers travelling to other member countries.

Duty-free shops

The allowances for duty-free goods and for goods bought in ordinary shops in other member countries have increased since 1973 and the belief that the Commission has plans to outlaw duty-free shops is unfounded. Member states are being asked to charge travellers within the Community the (relatively small) EC customs duties and agricultural levies on non-Community goods sold in tax-free shops in order to conform with the European Court's 'butterships' judgment, but excise duties, which substantially raise prices of alcoholic drinks and tobacco products, for instance, remain exempt.

Sea and air transport

The UK's sea and air transport industries have seen an enormous increase in European business during the past decade, as the proportion of Britain's total trade with the countries of Western Europe rose to about 60 per cent. Exports by sea from the UK to the rest of the Community increased from 28½ million tonnes in 1973 to 62½ million tonnes in 1980. Imports into the UK from the rest of the EC during the same period dropped from 35 million tonnes to 33 million tonnes, reflecting a fall in tanker cargo imports. The use of UK-flag ships has increased over the period.

	All cargo	UK flag	Dry cargo	UK flag	Tanker cargo	UK flag
	'000 tonnes	%	'000 tonnes	%	'000 tonnes	%
1973:						
Exports	28 450	44	17 587	47	10 863	38
Imports	35 109	35	17 047	39	18 062	31
1980:						
Exports	62 616	45	26 113	57	36 503	36
Imports	32 932	44	21 265	42	11 667	50

Source: Annual Abstract of Statistics 1982 CEntral Statistical Office.

Passenger movement by sea between the UK and the other member states of the Community almost doubled between 1973 and 1980, rising from just over 6 million trips in 1973 to almost 11½ million in 1980 (Source: ibid).

Pasenger movement by air has also seen a large increase. According to the International Passenger Survey (Department of Trade) the number of visits by air to the UK by EC residents in 1973 stood at 1 804 000 rising to a peak of 2 515 000 in 1979 and then dropping with the recession to 2 214 000 (provisional figure) in 1981. The number of visits to EC countries by air by UK residents stood at 2 747 000 in 1973. It peaked in 1980 at 3 814 000 and then dropped back in 1981 to a provisional figure of 3 708 000.

British Rail and British membership

British Rail has seen its traffic with Europe rise during the 10 years of Britain's membership, but not to the extent it would like.

Between 1973 and 1980, the international passenger traffic of British Rail to and from other EC countries grew by 43 per cent. As a result of the recession and the high value of the pound in relation to some European currencies, this figure dropped back in 1981, so that the overall increase from 1973 to 1981 was only 30 per cent. Between 1973-81 British Rail's freight ferrying service to and from the European continent increased by nearly 60 per cent. Between 1973-81, British Rail's container traffic to and from the European continent dropped by 9 per cent (having grown until 1976 and then falling back to a pre-1973 figure).

British Rail would like to see the development of a Common Transport Policy. Writing in Europe 81, Sir Peter Parker, Chairman of British Railways Board, described how the basic principles which have evolved in the Community are to allow transport to function mainly on market economy principles, while making provision for social costs and benefits to be taken into account. He questions whether these principles have been applied and argues, for instance, that heavy lorries do not pay their fair share of infrastructure costs as rail does.

Sir Peter wrote: 'I am glad to see some encouraging recent developments, particularly the initiative by the European Commission in the field of infrastructure. We hope fervently that the combined efforts of the Commission, the railways and members of the European Parliament will persuade the Council of Ministers to enact a proposal which has been lying on the Council's table for over four years: the setting up of a fund to aid transport infrastructure projects of Community interest'.

The big new success story for Railfreight is in grain traffic - only eight years after BR almost totally withdrew from the market. According to Adrian Milne, Divisional Freight Manager at King's Cross who has been seconded to British Rail Board to investigate the potential and develop the new traffic, 'the turnround in grain fortunes can be traced to the EC farm policy which now supports farmers, encouraging them to produce more - be it wheat, barley or oats. Now this year they are talking of a bumper harvest of 20 million tonnes. A lot of this is used on farms as feedstock and 75 per cent moved short distances. But this still leaves an awfully large tonnage for us to go for'.

Reciprocal medical care for travellers

Reciprocal medical care in the Community applies to short-stay visitors, e.g. those on holiday, abroad on family visits, or on short business trips. Since July 1982 the self-employed have been eligible for the first time to reciprocal cover. Treatment is usually limited to urgent cases of illness or accident, and it is free or provided at reduced cost depending on the health care schemes operating in each country for their own nationals.

The basis of reciprocity is that visitors should normally be covered by their own national insurance schemes. Up to this year there have been difficulties about the self-employed, unless they had previously paid national insurance contributions as an employed worker, but from July 1982 this condition has been removed. Although non-employed people (i.e. those who are not family members of an employed or self-employed person and who cannot give evidence of employment, such as those living on own resources) are not included in the legislation, there is ministerial agreement that the necessary measures will be taken at national level to cover such persons for emergency medical care when on a visit to a Community country.

To obtain the relevant medical care, however, it is essential to take Form E.111, otherwise the traveller could be in difficulties.

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BRITAIN AND THE COMMON FISHERIES POLICY

Summary

A new common fisheries policy will almost certainly be agreed by the European Community before the end of this year, laying down the share between member countries of available fish stocks, exclusive limits, the rights for fishermen in the waters of other member countries, the conservation measures necessary for the effective management of different species and financial arrangements to help modernise the fishing industry. The new policy will be established on the basis of Community law, enforceable through national courts.

This agreement will mark the end of negotiations which have been under way ever since British Foreign Secretary Mr Tony Crosland and his counterparts from other member countries laid down the basic principles for the new policy at the Hague in 1976.

If the new package cannot be accepted by all member countries, then the necessary conservation measures will probably be introduced on a national basis, subject to agreement of the European Commission. 'Fishing up to the beaches' is not in prospect when the 10 year transition period for fisheries policy expires on December 31 1982.

A decade of change

The last decade has transformed the whole European fishing industry. It suddenly became clear in the early 1970s that the fish stocks in the waters of Western Europe could no longer sustain the fishing effort inflicted upon them. Limits were extended to 200 miles and the European distant water fleet virtually collapsed with especially severe consequences for Britain because of its dependence on the waters of Iceland,Canada, the Faeroes, Norway and the Soviet Union, which extended their limits. The energy crisis struck an already struggling industry which had a cost structure heavily dependent on oil prices.

The consequences for Britain's distant water fishing ports are well known. There are very few vessels over 140 ft still fishing from British ports and the number of smaller deep-sea vessels has halved since the early '70s. The most severely affected British fishing towns are Hull and Grimsby, Fleetwood and Aberdeen. The story is a similar one for continental cities like Bremerhaven. Fishermen sailing from the smaller ports in smaller but more efficient vessels have substantially increased their share of the national catch, so Scotland is now the dominant fisheries region of the United Kingdom.

Up to the end of 1976 fishing in the waters of the North Sea and the North-East Atlantic was a free-for-all, with scant respect for the conservation measures put forward by the North East Atlantic Fisheries Convention. Then, from the beginning of 1977, all the member states of the Community agreed together to extend the fishery limits of all member countries to 200 miles in the North Sea and the North East Atlantic and to exclude from the waters of the Community's member states all those boats from Eastern European countries and the USSR, which had been increasing their fishing effort throughout the sixties and seventies, accounting for a high proportion of total catches. Further measures were agreed between all member states to limit catches of herring, whose stocks were in danger of total extinction. In the North Sea the herring catch has been banned for several years.

Elements of the new policy

At the heart of the new policy is the principle that fish stocks should be managed on the basis of scientific advice, so that viable stocks can be maintained and stocks that have been decimated can be rebuilt. This means setting a total allowable catch each year, which is then divided between member countries to reflect traditional fishing activities, the need to maintain fisheries in areas like Scotland and some compensation for losses sustained in third country waters. The basic quotas for catches of edible species of fish proposed are as follows:

United Kingdom	464 000 tonnes	- 36 per cent
Denmark	305 000 tonnes	- 24 per cent
W. Germany	186 000 tonnes	- 14 per cent
France	162 000 tonnes	- 13 per cent
Netherlands	92 000 tonnes	- 7 per cent
Ireland	47 000 tonnes	- 4 per cent
Belgium	25 000 tonnes	- 2 per cent

In addition to the quotas are other conservation measures, relating to mesh sizes, access to certain grounds at certain times of year, regulations on the landing of fish and in some cases a total ban on catching. Many of these measures are already applied by member countries in waters under their jurisdiction on the basis of national legislation agreed at a Community level.

The vexed question of rights for fishermen of one member country to fish in certain traditional grounds within the 12 mile limit of another member state was largely resolved in the waters off the south coasts and west coasts of the United Kingdom when the British and French governments agreed compromise proposals. They provide limited access for some French boats to certain waters between six and 12 miles of the British coast and exclusive fishing out to six miles. The area around the Shetlands was subject to special arrangements, an area reserved for Scottish boats plus a limited number of licensed vessels from other member countries.

The new policy allocates funds for the modernisation of the fishing industry amounting to about £140m for a three year programme, of which about £67m would go to construction and modernisation of boats and other facilities, £25m to temporary laying-up payments and another £18m for long-term cutback. These funds would be spent throughout the Community, but a substantial proportion would be devoted to UK needs.

A shared resource

Fish conservation cannot be managed in a purely national context. The fish which are caught fully grown in the waters of one member country may have been spawned and have matured in the waters of other member countries. Certainly the United Kingdom, with a high proportion of the Community's mature fish in its waters, is heavily dependent on conservation in other countries' waters to ensure stocks are maintained. Cod and herring are good illustrations.

Cod is a migratory fish, moving into UK waters as it matures, but normally not born a British citizen. Thus few one-year-old cod are in the British sector of the North Sea, rather more two-year-olds and three-quarters of the three-year-olds. For haddock the pattern is quite different. Almost all the one, two and three-year old fish taken in the sample were caught in UK, but spawned in Danish, waters.

Herring is another much-travelled fish. From its spawning grounds off the Scottish and North of England coasts, the young larvae drift eastwards to nursery areas off the Danish and other continental coasts, to return to British waters in third and fourth years when they are mature enough to breed. The ban which forbids the Danish fishermen from taking herring in the Skagerrak during the winter months is a vital element in rebuilding the Scottish herring stocks.

Demersal fish like plaice and sole breed on both sides of the North Sea. ICES* figures show that whitings shift into UK waters as they mature - 62.7 per cent of

 *International Commission for Exploration of the Sea one-year-olds were found in UK waters, 88.5 per cent of two-year-olds and 91.5 per cent of three-year-olds taken in the sample carried out by ICES.

It may thus be necessary to impose strict disciplines in the waters of one member state in order to rebuild and maintain stocks important to fishermen in another Community country - a strong argument for a Community policy.

An enforceable policy

Once the Council has reached and adopted regulations for a revised common fisheries policy, these regulations will have binding legal force in all member states and will be enforceable through the European Court of Justice and through national courts. However, control is an essential aspect of any fisheries policy, yet raises some of the biggest practical problems.

Responsibility for inspection and control lies with each member state for all waters under its jurisdiction. As the Commission says in its proposals, 'Each member state shall, within ports situated in its territory and within maritime waters subject to its sovereignty or jurisdiction, inspect fishery vessels flying the flag of member states'. If a vessel from a Community country breaks the rules, the member state shall take legal or administrative action against it. There must be no undue interference with normal fishing activities and no discrimination as to which boats are inspected. A standard log book is being devised which skippers would be obliged to maintain.

Landings will be checked by the member state which will draw up a list of authorised landing places accounting for at least 80 per cent of the annual average landings of quota species of fish. Skippers will be obliged to report within 15 days any transshipment made at sea or landings made outside the community of fish subject to quota.

Irrespective of the landing place, all catches of a species subject to quota would be debited against the quota of the flag country of the catching vessel. When the quota was exhausted, the country concerned would provisionally prohibit further fishing of that stock by its own fishermen.

The Commission would have powers to verify that member states implemented the regulations and it has been agreed to set up a Community inspection team.

Market organisation

Export to other member countries is an important element in the returns for British fishermen, especially in Scotland and the South West of England, but there is also a steady flow of imports, especially when the pound is strong. The industry has to depend on the strength of these export markets and on the home market to make its living; the only market support measures provided under the common fisheries policy are those which provide compensation when fish must be withdrawn from the market.

This compensation, worth about 60 per cent of the price at which the fish is taken from the market, is paid through the fish producer organisations, which are co-operative bodies set up under Community legislation responsible for marketing a high proportion of the fish landed in Britain. There are 14 such bodies registered at present, based on ports or regions all round the British coast.

Agreements with third countries

The European Commission has been responsible for negotiating with non-member countries on behalf of the Community as a whole since the 1976 Hague meeting. The most important of these agreements have been with Norway, Sweden, the Faeroes and Canada, where there were mutual benefits to be gained for the fishermen from the Community and from the third country concerned.

As well as a negotiation of fishing rights in the waters of non-member countries and in EC waters, these agreements have provided a degree of joint management of fish stocks, especially in the North Sea, although it has proved difficult to put them on a long-term basis until the common fisheries policy has been established on its new basis.

Developing policy

At the time of going to press, a new fisheries policy had still to be finalised in time for expiry of the transition period laid down in the Treaty of Accession. Nonetheless, progress has been made over the last few years. Principles of conservation have been adopted through the action of the European Commission and member states and a case law for the application of conservation measures has been established through the European Court of Justice. The basis now exists for a policy which will ensure that fish stocks are sustained for the future of Europe's fishing industry.

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INTERNATIONAL TRADE NEGOTIATIONS

Summary

The European Community is the world's largest trader, accounting for 23 per cent of gross world product, one-third of world exports and 45 per cent of world manufactured exports. As an external trader it is responsible for 19 per cent of world exports, more than the United States (13 per cent) or Japan (8 per cent). Of the member states Britain is the most export-dependent, and membership strengthens the country's traditional commitment to the preservation of an open world trading system.

Through the Community are conducted all major multi-lateral and bilateral commercial relations, of vital importance to the United Kingdom. The 'clout' of the Community in these negotiations has benefited Britain and all the member countries - as for instance over the Siberian pipeline.

The Community is now responsible for ensuring adherence to the GATT rules forbidding direct and indirect protectionism. It is the Commission that investigates complaints of 'dumping' and its procedures, necessarily time-consuming, have worked in Britain's interest.

Trade and commercial relations with 'third' countries are now the responsibility of the Community. British membership accelerated the development of these relations with countries outside Europe, especially with members of the Commonwealth.

Britain's trading position

Today Britain accounts for around 4 per cent of world trade, small by comparison with the United States (11 per cent) or the European Community as a whole (16 per cent). But that external trade represents for the British people a much higher proportion of economic activity or gross domestic product. Some 30 per cent of total national income is bound up in international trade compared with only 13 per cent for the United States and 15 per cent for Japan. The United Kingdom depends to a much greater extent than its competitors on expanding world trade and has therefore played an important part in all world trade conferences and organisations.

Though remaining one of the world's major trading nations, the balance of Britain's trade has changed over the last decade. No longer does the majority of British goods go outside Europe. Western Europe takes some 55 per cent, the rest of the Community alone 43 per cent. Britain does nearly as much trade with the other member states as with the entire rest of the world, and it is important, therefore, to put non-Community or 'third country' trade into due context.

Our trade with each of the member states (except Greece) individually, for example, exceeds that with the whole of Latin America. Trade with Denmark is more important than that with Canada and twice that with Japan. Exports to the Middle East and the North Africa put together are less than to either France or to Italy. The consequence of this is that even small regions of the Community countries are important, as Peter Rees, UK Trade Minister, illustrated on a trade delegation to Lille in northern France:

> 'Total UK trade with the Nord/Pas de Calais region roughly matches our trade with Brazil and Mexico combined.'

External trade /1.

That said, however, the remaining 57 per cent of British trade is with the world outside the Community and as such is subject to a single customs tariff barrier or special agreements which are common to all Community members. The conduct of this trade, moreover, is under the EC Treaty a Community matter: it is the Community which negotiates international trade rules, arranges customs procedures and import restrictions and ensures protection against unfair foreign competition; the Community as a whole negotiates trade agreements with individual third countries on behalf of the member states.

International negotiations

Because the Community was given from the outset, under Article 111 of the EC Treaty, the responsibility for negotiating the common customs duties, it immediately assumed a major role in the world's international trading organisations and conferences. Long before Britain joined in 1973, the Community was acting on behalf of its members within the framework of the General Agreement on Tariffs and Trade (GATT) and various international commodity agreements, and as an observer at the United Nations Commission on Trade and Development (UNCTAD) and Organisation for Economic Co-operation and Development (OECD).

The early years of British membership were dominated by multi-lateral trade negotiations under the GATT which was established in 1948 as a treaty embodying reciprocal commercial rights and obligations as a means of expanding and liberalising world trade. Six previous 'rounds' had concerned the reduction of tariffs on a reciprocal basis but the Tokyo round, negotiated between 1973 and 1979, was much broader: it sought agreements on a range of non-tariff measures which restricted or distorted international trade (which had grown in importance as tariffs had been reduced) and wanted to secure additional benefits for the developing countries.

Negotiations were throughout conducted by the Commission 'under the direction of the Council of Ministers and in frequent consultation with member states' and were finally approved by the Council in November 1979. For the Community the major achievement was agreement by the USA, Canada and Japan to reduce most industrial tariffs by about one-third over eight years to 1988, though with the option to review progress after 1984: this means that Community tariffs will be lowered from an average trade-weighted level of 9.8 per cent to 7.5 per cent by the end of the eight years. There are also important agreements on anti-dumping (see below), subsidies and counter-vailing duties, customs valuation and licensing, and on government procurement.

The results left Britain well placed. There were particular successes on the US selling price, on chemical exports and on the non-tariff side where Japanese and American implementation of the anti-dumping and procurement agreements will be crucial for British industry. Outside the Community Britain might have wanted to be more liberal towards the developed Commonwealth and more protectionist in certain industrial sectors; the overall negotiating position, however, would have been less strong and the round itself possibly smaller in size and scope.

The strong bargaining position of the Community is evident in other sectors. In textiles it has been the Community which has concluded the Multi-Fibre Arrangement and negotiated the various quotas with individual third countries: eloquent testimony to the advantage of its ten members dealing as one.

The American decision to lift the pipeline embargo was largely a consequence of the intense negotiating pressure of the Community. Lord Cockfield, UK Secretary of State for Trade, has commented:

> 'The difficulties we have had with the American Administration... are further examples where the solidarity of the Community in facing common problems is of real importance. Together we have been able to exert far greater pressure directed to reaching an acceptable solution than we could have on our own.'

The Community's clout is also evident in other international frameworks such as the series of agreements on commodities, its supervision of member states' export credit policies, its de facto presence at the major economic summits since 1977; its growing competence in air and sea transport will also particularly affect the United Kingdom.

Protection

During the ten years since British accession great changes have taken place not just in UK trade but in the pattern of world trade generally. Two massive oil price increases, at the beginning and end of the 1970s have brought in turn world-wide inflation, a slowing-down of economic activity and in its wake the worst world recession for half a century. The result has been increasing demand for import controls and other protectionist measures, all of which the GATT was constructed to make obsolete. Our adherence to GATT commits us to a series of rules forbidding both direct and indirect protectionism.

The most important of these concern subsidies and dumping or the selling of goods abroad at prices below their normal value at home. Responsibility for investigating complaints of dumping and for imposing anti-dumping or countervailing duties on most products passed, for Britain, to the Community on July 1 1977 at the end of the transitional period: it is the Commission, therefore, which polices the application of the GATT legislation in the member states. An industry making a complaint must show to the Commission's satisfaction that the goods concerned are being sold at such a price as to cause injury, or threaten to cause injury such as unemployment, short-time working, loss of profits, price depression or excessive market penetration. The injury must be directly attributable to the dumping and the complaint must be lodged by, or on behalf, of the Community industry as a whole unless the national market affected can be shown to be isolated from the rest.

Though sometimes criticised as slow-moving and cumbersome, the Community's anti-dumping procedures are designed to ensure that complaints are soundly based and that the wider trading interest, for example that of the consumer, is served as well as that of the industry lobby involved. As a major world exporter, too, it is particularly in the British interest that the GATT rules are observed: as Cecil Parkinson, then Trade Minister, commented:

> 'If we in the Community started to apply less rigorous standards of proof, we should be inviting abuse of the rules in other countries; and our exporters would be the first to suffer.'

Successful applications, nonetheless, have been initiated from the United Kingdom, for example on acrylic fibres, resin, weed-killer, car tyres and steel tubes from countries as varied as Sweden, Romania, Spain and the USA. It has also been estimated that in over half of the 60 anti-dumping or countervailing cases opened by the Commission between January 1981 and June 1982 United Kingdom industries had a major interest.

External Trade /3.

Relations with other countries

Under the EC Treaty commercial relations between member states and non-member countries are a matter for the Community, and it is thus the Community which negotiates trading and co-operation agreements between each such country and the Community as a whole. More than 100 countries have diplomatic representation in Brussels, and these commercial relations now embrace the vast majority of the world's trading nations. Member states retain responsibility for matters such as technological co-operation (agreements on which with the eastern European countries often have a commercial flavour) and the organisation of trade fairs and delegations.

Western European countries outside the EC benefit from the Community's decision in 1972 to sign simultaneous industrial free trade agreements with remaining EFTA members. There are a wide-ranging series of financial, trade and co-operation agreements with all the Mediterranean states (except Libya). Regular commercial relations have long been established with the major industrialised democracies, and for Canada they have been transformed on to a bilateral contractual basis; the strength of these relations has withstood occasional difficulties with former major UK trading partners such as Australia and New Zealand.

The Community has agreements with most Latin American and Asian countries, and there has been some attempt to put these on a regional basis through organisations such as the Andean Pact, ASEAN* and the Central American Common Market. Most recently of all, relations have been opened up with China and very slowly with the USSR and COMECON countries, one of which (Romania) participates in the Generalised System of Preferences; there is, however, no formal link as such between the Community and the COMECON.

It was the Community's first enlargement, to include the United Kingdom, that triggered off much of this achievement in external relations, as many of these agreements were specifically designed to help meet problems arising from the loss of old Commonwealth preferences. The success of these relations and efforts to deepen them further during a period of growing apprehension in international trade illustrates the importance of the Community in the eyes of those outside it.

* Association of South East Asian Nations

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DEVELOPING COUNTRIES: COMMUNITY TRADE AND AID

Summary

The future relationship between the European Community and the developing countries of the British Commonwealth was one of the most contentious and worrying issues raised by British accession to the European Community 10 years ago. Since then the traditional links between Britain's old colonies and Britain have been transformed into broader trading and assistance agreements with the European Community as a whole. Much of Britain's commitment to these countries is now a commitment shared by all the member states of the EC.

The European Community is the biggest world importer of developing country products as well as the largest donor of aid. Though the majority of this aid (85-90 per cent) is on a bilateral basis between member countries and recipient states, the Community contribution is of considerable significance, not least through its partnership alliance with over 60 African, Caribbean and Pacific (ACP) states - more than half of them members of the British Commonwealth - under the Lomé Conventions.

For most developing countries, however, trade is more important than aid. The Community accounts for 46 per cent of total agricultural imports from developing countries, over half of which (55 per cent) enter the common market duty free, and over a third (36 per cent) on low preferential terms. Economic recession has created problems on industrial imports - notably textiles - but the Community's policies mean that developing countries enjoy particularly favourable entry into the Community market.

Developing countries' earlier demands for swift industrialisation have now shifted gear to greater concentration on agricultural development to enable them to feed themselves. The Community's action plan to combat world hunger, at a cost of US $ 40 million, is designed to help meet this growing need and the European Commission has now put forward new proposals to boost food production in associated developing countries.

Trade

Until the early 1970s the Community's fast growing market was able to absorb most exports from the developing countries. Since then, economic recession in the industrial north, sparked off by the OPEC quadrupling of oil prices in 1973, plus the fact that several developing countries have begun to 'take off' industrially, has created difficulties and sometimes friction between the Community and Third World suppliers in products like textiles.

Fortunately for the majority of poorest developing countries, whose economies are heavily dependent on agriculture, their products - apart from beef and sugar - do not normally clash with Community produce. Thus the Community absorbs nearly half the total agricultural products from developing countries, about 90 per cent of which enter the common market at reduced tariffs or duty free.

Trade relations with developing countries fall under three main heads:

- the GSP;
- bilateral trade and co-operation agreements;
- the Lomé Conventions.

The GSP

The Generalised System of Preferences adopted by the Community on 1 July 1971 - and periodically updated - involves a scheme of tariff preferences for developing countries to encourage diversification of their economies. Most industrialised countries, including some of the state-trading countries, operate a similar system. The main features are that tariff preferences are generalised, non-discriminatory, unilateral in that they are not negotiated with beneficiary countries, and non-reciprocal, i.e. beneficiaries are not required to grant corresponding duty exemptions on imports.

Each year the Commission publishes in the Official Journal the reduced duty or duty-free processed agricultural and industrial goods from developing countries permitted to enter the common market within certain ceilings or quotas. Once the ceilings are reached normal tariff duties may be applied. A further limitation, known as the butoir, requires that goods from any one beneficiary country may not take up more than a certain percentage of the overall Community tariff quota for a particular product. Similarly, in the case of ceilings, once imports from a particular supplying country reach their butoir the normal duty may be restored to imports from that source. Special concessions are made for the least developed countries, which are often exempt from ceilings or quotas except in the case of textiles.

In 1981 the Community amended its GSP rules, abolishing overall quotas and ceilings applying to the import of sensitive products as a whole throughout the Community. Instead each beneficiary country is now offered individually-assessed preferential quantities and, if these are exceeded, normal tariff duties are imposed on that country alone. The purpose is to prevent more competitive countries using up the total quota at the expense of the less competitive.

Currently 123 developing countries, including all members of the 'Group of 77' and China, together with 24 dependent countries and territories, are able to benefit from the scheme. Subject to ceilings and quotas they enjoy duty-free entry into the Community for all industrial products and reduced tariffs for about 324 agricultural products. The value to Third World countries of these tariff concessions is estimated at over 1,300m ECU.

In July 1982 the Commission forwarded to the Council its overall approach to the GSP for 1983-85 and detailed proposals for 1983. They included improved access on a number of agricultural and non-sensitive industrial products; based on experience of a year's full operation of the new scheme introduced in 1981, the Commission intends to tailor sensitive imports more closely to the needs of the Community's economic situation.

Bilateral trade and co-operation agreements

Excluding the 61 ACP states, the Community has trade and/or co-operation agreements with at least 36 other developing countries, offering varying preferential access to their agricultural and industrial products, which apply irrespective of the GSP. These agreements include the Arab states (and Israel) bordering the Mediterranean; the majority of Asian states, and others in Central and South America. The Community also has special agreements with Yugoslavia and China.

The prospect of Spain and Portugal joining the Community has created apprehension among other Mediterranean countries as their products are very similar. Talks are in progress between these countries and the Commission on how to deal with the problem.

The Lomé Conventions

The first Convention, Lomé I, signed at Lomé (Togo) on 28 February 1975, came into force on 1 April 1976 and expired on 28 February 1980. Lomé II, a renegotiated Convention, came into effect on 1 March 1980 and runs until 1 March 1985. Lomé succeeded earlier Yaoundé Conventions, mainly limited to former French and Belgian colonies; when Britain joined the Community in 1973, Lomé extended the scope to include most former British colonies in Africa, the Caribbean and the Pacific. Today, with the exception of Angola and Mozambique (1), all countries of Black Africa are signatories to the Lomé Convention. The Convention has been criticised in Britain for excluding her former Asian colonies, such as India and Pakistan. While these have benefitted in other ways from Community assistance in trade and aid, they have not received the same preferential treatment as the ACP states.

The original model of the first Lomé Convention was designed to provide 'a balanced response' to the needs of the first 46 countries that signed the Convention. Under Lomé I, 99.5 per cent of ACP agricultural exports entered the Community duty free; in addition the scheme to stabilise export earnings (STABEX) on agricultural products has helped the poorest countries to withstand fluctuations in the price of their products. Lomé II was signed by 58 ACP states, since extended to over 60, including Zimbabwe. Duty-free arrangements affecting agricultural exports were extended to allow in produce such as tomatoes, carrots, onions and asparagus, and preferential arrangements for beef and veal were consolidated, the former being of particular concern to Botswana.

The list of products affected by STABEX was extended and, under a special scheme, 280m ECU (2) was allocated towards safeguarding mineral production in ACP exporting countries from price fluctuations.

Implementation of the Convention is governed by the Council of Ministers, composed of the Community Council of Ministers, the European Commission and a member of the government of each of the ACP states, assisted by a Committee of Ambassadors. During the negotiations for Lomé II many ACP members considered that the Community's preferred concessions were inadequate to their needs, but they signed in the end. For whatever its defects, Lomé is valuable to the signatories not only for trade, but for the positive aid available from the European Development Fund.

AID

Community aid takes a number of forms. The most important instrument is the European Development Fund (EDF) which provides assistance on a wide scale to the ACP states. In addition the Community is giving an increasing amount of technical and financial aid (20m ECU in 1976 compared with 200m ECU in 1982) to about 30 non-associated states in Asia (74 per cent of aid granted between 1976 and 1980), in Latin America (20 per cent) and in Africa. Almost 90 per cent of this aid goes to agriculture and 78 per cent of the poorest countries with the neediest peoples. Technical and financial aid under co-operation agreements concluded with the eight Arab countries bordering the Mediterranean is expected to reach 1,015m ECU between 1981 and 1986.

The Community also helps co-finance certain projects by non-governmental organisations, including some sponsored by Oxfam, Save the Children Fund and the Catholic Institute for International Relations (CIIR). At the end of 1981 some 856 projects had been aided by EC funds, to the tune of 56m ECU, and there were 151 Community NGOs operating in 99 developing countries, representing a total joint investment of 163m ECU. Small but practical projects ranged from equipping an agricultural school in Zimbabwe to improving stock farming in Paraguay; from providing necessities for a maternity clinic in Nepal to acquisition of rolling stock in Guinea-Bissau.

(1) Mozambique is expected to accede to the Convention shortly.
(2) The value of the ECU has varied over the period. In 1982 1 ECU approximates 55p.

The Community is also, after the USA, the largest donor of food aid (1).

The European Development Fund

The EDF was first set up in 1958 to provide aid funds for dependencies of the six Community founder members, and was renewed for two further periods under the Yaoundé agreements. It was renewed again, on a greatly expanded scale, under Lomé I and II, with allocations from Community members totalling 3,466m ECU and 5,227m ECU respectively. The Fund is administered by the Commission (D-G VIII) subject to supervision by the joint EEC-ACP Council and an EDF Committee, consisting of representatives of Community countries and chaired by the Commission. The Committee must approve the projects financed by the Fund. These must be part of development programmes drawn up by the ACP States, and are then evaluated by the Commission as to their merits. If approved the project may be financed in a variety of ways ranging from non-repayable grants, soft loans and loans at market rates to subscriptions to equity capital and joint funding with private enterprise. The ACP country must then draw up specifications and ask for tenders. This is normally limited to competition within the Community and the ACP countries, although competition can be wider in the case of joint projects, such as with the World Bank. The Commission has a resident delegation in most ACP states to assist in solving any problem.

Contracts under the EDF

Contracts for EDF projects are carried out under the standard public contract conditions of the recipient countries, and details of projects and calls for tender are published regularly in the Official Journal. Contracts are normally of three kinds: consultancies, supply contracts, and works contracts. Though British firms are well represented in the first two categories, they fall lamentably short on works contracts as the table shows.

UK share of contracts awarded to EC member states under EDF IV (Lomé I) by value

	To end of 1978	To end of 1980	To end of 1981
Works contracts	4.0 per cent	6.8 per cent	6.0 per cent
Supply contracts	21.2 " "	17.8 " "	21.6 " "
Technical Co-operation contracts (consultancies)	12.0 " "	16.3 " "	18.0 " "
Total contracts	9.1 " "	12.1 " "	12.7 " "

Sources: BOTB and European Commission

The United Kingdom contributes 18.7 per cent of the EDF budget, but as 62 per cent of EDF contracts in money terms are works contracts, overall **UK industry gets** far less than it should if British firms were more interested in the opportunities available. This is a matter of concern to the British Overseas Trade Board as well as the Commission, and both have put in considerable effort to overcome British company resistance. Some firms, such as Mowlem International, at present building geothermal wells in Ethiopia under an EDF works contract, speak well of these contracts, but such examples of EDF ventures are hard to find. Yet when British firms actually tender, their success rate is as good as their competitors in France, Germany or Italy. The trouble is that so few do; where 200 French firms may bid for a contract, less than 40 British firms may bother. It is hardly

(1) See chapter on Food Aid

surprising, therefore, that though contributing 26 per cent of the EDF budget, France tends to win over a third of the works contracts compared with the UK's 6 per cent.

On consultancies, on the other hand, where there is a quota ceiling, British firms are incensed that they are debarred from taking on more work. UK firms also do well on supply contracts, where smaller firms are able to compete more easily*.

Joint ventures

In addition to EDF aided schemes, ACP governments are increasingly anxious to encourage joint ventures with EC private firms. The Centre for Industrial Development (CID), a Lomé subsidiary situated in Brussels, provides contacts and limited financial help for serious feasibility studies. Here again British firms lag behind their other Community competitors in showing interest in such ventures.

Agricultural and rural development aid

In the last few years the proportion of EDF aid going to the agricultural sector has risen from 29 to 40 per cent, while the share going to produce for export has fallen from 45 to 30 per cent. The shift marks the concern of the recipient countries to feed themselves, and between 1976 and 1980, 2.5 million hectares of new crops were planted; fisheries and forestry have been intensified, while numerous projects concerned with farming have been completed in health, education and water supply. The European Investment Bank (EIB) has financed food processing factories (26 loans in 15 countries) and other investments connected with agriculture, such as natural energy (solar, biomass, geothermal) and fertiliser production.

Aid to the non-associated states has also tended to concentrate on rural and agricultural projects. Of the 1,015m ECU technical and financial aid going to the southern Mediterranean countries between 1981 and 1986, so far 8 per cent of grants and 18 per cent of loans have been channelled into the agricultural sector. Among other non-associated states some 89 per cent of Community aid goes to agriculture, including projects concerned with social and educational development, irrigation and stocks, processing and marketing structures, rural credit and agricultural research. In India rural development has been partially financed by the sale of fertiliser provided by the Community.

Combating hunger

At the end of 1981 the Council of Ministers approved a Community action plan designed to help all Third World countries combat hunger. Today some 500 million people are believed to suffer from malnutrition in the Third World and this number could well rise to 700 million by the end of the century.

The proposed measures are to be directed principally towards the 31 least developed and poorest countries, but priority will also be given to those countries with integrated food development programmes.

The basic principles of the plan are:

(i) allocation of special food aid to help mitigate present shortfalls in the 31 LLDCs;

* Landell Mills Associates from Bath and Sir Malcolm McDonald & Partners Cambridge are two British firms with consultancy contracts involving a big irrigation and wheat growing project at Mpongwe, Zambia. Bentall Simplex Ltd of Maldon, Essex, has supplied several thousand manually worked separators for Tanzanian coffee growers under an EDF aided coffee improvement scheme.

(ii) joint comprehensive action by donors in support of national policies as part of a coherent food strategy;

(iii) assistance to regional groupings to combat deterioration of the environment or help develop natural resources;

(iv) international action to increase external food security.

Under (i) the Community is to buy 230,000 tonnes of cereal (or equivalent) at a cost of 40m ECU, of which 100,000 tonnes will be allocated to the international Emergency Food Reserve (IEFR), thereby bringing it up to the 500,000 tonnes fixed in 1971 but not hitherto realised.

Encouraged by the World Food Council, developing countries are increasingly introducing national food policies, including 22 ACP states. The Commission proposes that, in consultation with the governments concerned, aid donors should co-operate in a 'task force' for major projects, so as to avoid overlapping and confusion of aims. When one looks at Upper Volta, for instance, where 340 separate aid missions almost overhelm the country, some such co-ordination could prove beneficial. At first the aim will be to co-ordinate Community and individual member country aid, but the task forces will be open to other donors to participate.

With the consent of their governments the Commission is at present negotiating an experimental programme on these lines in Kenya, Mali and Zambia.

General relations with the Third World

The ten member countries of the Community each have their own political and trade relations with the Third World, but as an entity the Community has generally shown a sympathetic understanding of developing countries' needs. It was the first industrialised region to introduce the GSP as a result of UNCTAD urgings in the 1960s and Lomé, whatever the complaints lodged against it, is a genuine attempt to integrate aid and trade with developing countries without patronage or political strings.

The experience of the last 25-30 years shows that many of the original premises on which aid was based have proved incorrect, and the Community is now reviewing its policies. But failure is not entirely the fault of the Community and the industrialised North. The developing countries are also partly to blame, but the impact of world economic recession has created difficulties beyond their control.

The Community has tried to devise policies to offset the worst of these difficulties, but it would be idle to pretend that they have provided the solution to the troubles of the Third World.

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THE FOOD AID PROGRAMME

Summary

After the United States the European Community is the largest food aid donor in the world. Excluding bilateral arrangements made by individual Community countries, in 1982 the Community will donate 927,663 tonnes of cereals, 150,000 tonnes of skimmed milk powder and 45,000 tonnes of butteroil, plus smaller amounts of sugar and vegetable oils to aid the world's hungry. While most of this food aid is distributed bilaterally, a significant amount is accounted for by international agencies such as the UN World Food Programme (WFP), the International Committee of the Red Cross, the UN High Commissioner for Refugees (UNHCR) and non-governmental organisations. In a different category Community emergency food aid, distributed almost entirely by UNHCR and ICRC, is expected to help save at least 3,200,000 refugees and displaced persons in 1982.

Basic principles of policy

Initially Community food aid developed in a haphazard way, starting in 1968 with the coming into effect of the international Food Aid (Cereals) Convention, when the Community of the Six committed itself to an annual contribution of 1,035,000 tonnes of grain, including direct national contributions. In 1970 the Community added skimmed milk powder and butteroil to this contribution, channelled almost entirely through the World Food Programme. At that period food aid - which is donated free - was envisaged as a more or less temporary form of assistance to tide over countries - mainly in the developing world - where bad harvests resulted in shortages, and was seen as distinct from emergency food aid required at short notice to meet natural or man-made disasters. Since then the demand for food aid on both counts has increased enormously, outstripping Community resources, so that since 1977 the Community has been forced to apply rigorous criteria in determining on recipients for bilateral aid. Even so, there has been mounting criticism not only of Community aid procedures, but of food aid policies in general which appear too often to have become a prop rather than a support, and acted as a disincentive to local food production. In addition, distribution of food aid in recipient countries is often channelled into the wrong hands and rarely reaches the worst off, while administrative and other problems have led to much waste. For these reasons Community policy is moving more towards direct assistance in food production in rural areas, development of regional and local storage facilities, and agricultural development, so as to reduce dependence on foreign food supplies (1).

Meanwhile, normal Community food aid is concentrated on the UN-assessed poorest developing countries. In 1982 these with a Gross National Product (GNP) per head of less than US $ 730 will receive, depending on the product, between 92 and 100 per cent of direct aid delivered. Remaining aid is channelled through the WFP, UNRWA (for Palestine Refugees) and other international agencies. The aim is to relieve distress in urgent cases, to contribute to economic development, and to raise the levels of nutrition.

Taking world food aid as a whole, the Community supplies some 8 per cent of cereals (17.5 per cent if the Ten's bilateral agreements are taken into account), 75 per cent of skimmed milk powder, and 100 per cent of butteroil.

(1) See dossier on Developing Countries: Community Trade and Aid.

Commitments and costs

The following shows the volume of Community food aid commitments 1980-82:

Commodity (tonnes)	1980	1981	1982
Cereals	785,200	907,000	927,663
Skimmed Milk Powder (SMP)	149,765	162,296	150,000
Butteroil	48,076	44,510	45,000
Other products (sugar)	8,086	7,086	-
Costs (Excluding restitution payments) million ECU (1)	293.5	417.4	503.6

In 1982 some 60 per cent of cereals, 50 per cent of SMP, and 67 per cent of butteroil will be handled bilaterally by the European Commission, the remainder being divided between the international agencies and reserves. The majority of aid is expected to go to Africa and Asia, though an increasing amount is now allocated to Central and South America, including the Caribbean. Malta is the only European country to receive normal food aid. Including overlap, about 30 countries are expected to receive help with cereals, 50 with skimmed milk powder and 42 with butteroil.

Financing food aid

Since 1980 the Community has begun to operate multi-annual food programmes (2), but these are still largely in the formative stage. Normal practice is for the Commission, following Council approval of annual regulations regarding each commodity, to invite tenders, and an intervention agency from one of the Community countries acts as buying and transporting agent for the Commission. Usually the food comes out of Community stocks or is purchased on the Community market. Where the price of the product exceeds the world price, normal restitution payments (export refunds) are paid from the Farm Fund (EAGGF) Guarantee Section. In some cases these may amount to 50 per cent or more of annual food aid costs.

The Commission has asked for authority to buy up more food in regional markets to avoid restitution payments, but so far the Council has been reluctant to agree except in cases of emergency aid, when the Commission was able to buy rice for Kampuchea in Thailand, and cereals for Nicaragua in the central American region.

Emergency Food Aid

Today an estimated 4,500,000 people fall into the category of refugee, displaced person, or one suffering from natural disasters such as drought or flood, who are eligible for emergency food aid, and the numbers are expected to increase.

Apart from Africa where, for the most part, aid is available under the Lomé Convention, the direst need for emergency aid is in Thailand and Pakistan where, in the latter, according to UNHCR, 2,200,000 Afghan refugees have sought asylum. Following urgent requests from the WFP and UNHCR the Community is sending extra cereals and other foodstuffs to the Afghan refugees, in addition to the 29m ECU worth of emergency food aid already allocated for 1982 in general, and which is expected to be increased to 35m ECU by the end of the year.

(1) The value of the ECU has varied over the period. In 1982 1 ECU approximates 55p.
(2) Previously only India benefitted from a significant multi-annual programme under 'Operation Flood', designed to use sales of EC food aid to develop a dairy and distribution network covering 150 million people and providing work for some 10 million families.

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EUROPEAN POLITICAL COOPERATION

European Political Cooperation (EPC) is a process of foreign policy coordination among the Member States of the European Community. This process is conducted outside the framework of the treaties establishing the Community and so is not governed by the decision-making rules which apply to meetings of the EEC Council of Ministers. EPC was set up in 1970 upon the recommendation of the Foreign Ministers of the Six whose "Luxembourg Report" pointed to the need to fill a gap in the Community's activities. It represented a common will on the part of the Member States that Europe should speak with one voice in important world affairs. EPC has enabled the Community to make considerable progress towards this goal during the past ten years.

EPC operates through a network of Ministerial Meetings and a Political Committee and various specialist groups attended by senior Foreign Ministry officials. It is reinforced on a day-to-day basis by special telex links for the exchange of information. The habit of coordination is now becoming rooted in Foreign Ministries.

Britain has supported EPC as an important instrument for strenghtening the country's foreign policy. Meeting in London in October 1981 under the United Kingdom's Presidency, Ministers of the Ten adopted the "London Report" which reaffirmed and strengthened their commitment to EPC and agreed on practical measures to give expression to this commitment.

Although EPC is not governed by the Treaties establishing the Community, it would never have come into existence without those Treaties. Considerable thought has been given to the relationship between EPC and the Community as such. The creation of the European Council (the meetings three times a year of heads of state or government) means that political cooperation can be followed at the highest level of European policy-making. Indeed, the European Council is the body which takes cognisance of European affairs as they develop both within the framework of the treaties and outside it (e.g. in the context of political cooperation). It can thus ensure coordination between two closely related, but distinct, processes.

Indeed, there is increasing realisation of the interdependence in practice between Political Cooperation and the Community on a series of important questions. There is effective practical cooperation at all levels.

One of the earliest successes for Political Cooperation was in the negotiations leading up to the signature of the treaty on security and cooperation in Eruope at Helsinki on August 1, 1975. During the long discussions which preceeded agreement the nine member states of the European Community were able to adopt common positions on the complex problems raised. This unity has been maintained in the subsequent meetings of the conference at Belgrade (1977) and Madrid (1980).

Another international forum where the member states have worked together is the United Nations. Here a very high degree of cooperation has been achieved, with consensus or common votes running at over 75 per cent in 1981. Obviously, the degree of unity on such occasions will depend on the type of issues raised, but it can be said that, in this area, the machinery of political cooperation is functioning regularly and smoothly.

Another area where European Foreign Ministers have been able to develop a common approach is the Middle East. The Venice statement (1980) on the Middle East laid down the conditions which Community governments regarded as essential to peace between Israel and its Arab neighbours. The statement made an important contribution to the evolution of attitudes to the Middle East problem.

Three recent instances of the operation of Political Cooperation concern the Lebanon, The Falklands and Poland:

1. The Lebanon: After the Israeli invasion of Lebanon on June 6, Foreign Ministers of the Ten called for unconditional Israeli withdrawal. Meanwhile on the Community side it was agreed to suspend the signature of the second Financial Protocol with Israel and not to hold the meeting of the Community-Israel Cooperation Council. On September 20 Foreign Ministers condemned the massacre of Palestinians and the Israeli occupation of West Beirut.

2. The Falklands: After the Argentine invasion on April 2, the Ten condemned the Argentine action and called on it to withdraw its forces. On April 10 Foreign Ministers demanded the implementation of Security Council Resolution 502, which called for the immediate withdrawal of Argentina from the Falklands. Later is was agreed to prohibit Argentine exports to the Community, though, on May 17, when the ban came up for renewal, Ireland and Italy opted out, while undertaking not to undermine its application. The embargo was lifted after the end of open hostilities.

3. Poland: On January 4, 1982 a meeting of Ministers issued a statement calling on the Polish Government to lift martial law, free those in detention and resume talks with the Church and Solidarity. In parallel with this action the Community adopted measures restricting imports from the Soviet Union, and gave humanitarian aid to the Polish people.

By enabling the Ten to speak increasingly with one voice on issues such as the Middle East, the Falklands and Poland, EPC extends the scope of cooperation among Member States beyond the economic and commercial sphere and increases their weight in international affairs. Policies are, of course, implemented through instruments which remain in the hands of Member States - embassies, military forces and so on. But EPC has established a network of cooperation at different levels and has created the expectation that the Ten will increasingly adopt common positions on key issues.

EPC is now substantial enough to be considered as a new dimension in British foreign policy. Suggestions have been made for its improvement, including most recently ideas put forward by Mr Pym for improving practical cooperation in third countries. Mr Genscher and Mr Colombo, the German and Italian Foreign Ministers, have also put forward proposals which would involve the political cooperation method being extended to new areas like legal cooperation and culture. It was also proposed to bring security questions more fully into an EPC sphere. Whatever may become of such ideas, it seems likely that, in a dangerous world, European states will increasingly feel the advantage of working together in their conduct of foreign affairs. As for Britain, the support it received during the Falklands episode shows the advantages to be derived from the European dimension of its foreign policy.

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MEETING THE COMMUNITY'S ENERGY NEEDS

Summary

The European Community had little to be proud of in its immediate reaction to the 1973 crisis which occurred at the same time as Britain took its first steps as a new member. However, though the Community was at the time unprepared to take a united stance and members went their several ways, it was nevertheless this crisis that provided the impetus for the development of a Community energy policy. In the nine years that have passed, elements of this policy have begun to fall into place, not to form an all-embracing centrally managed policy for energy on the lines of the common agricultural policy, but rather something much more decentralised, but within an agreed framework of mutual assistance, co-ordination of objectives and collaboration in research.

Energy policy can be considered under three aspects; short-term or crisis policy; medium-term planning, and longer term policies to secure energy supplies well into the next century.

Security of supply

To help pre-empt a crisis, there is within the Community consultation on the security of natural gas supplies, together with a legal requirement to maintain oil stocks equivalent to 90 days' supply. The Commission has proposed a tightening of this regulation. Should a major shortfall in oil supply occur, a system of export licences can be introduced to ease the problems of countries worst affected. Of course nine of the ten Community countries are also committed to oil sharing within the context of the International Energy Agency.

Medium-term energy strategy is concerned mainly with the following: firstly it must deal with security of supply because the Community has a heavy external dependence. Secondly, there is the problem of how energy is marketed, as different price and tax policies can cause severe distortions in the Common Market as a whole. Furthermore, irresponsible price policies can encourage the waste of the irreplaceable. Finally there is the rational use of energy; a concept virtually unknown in the era of cheap and seemingly inexhaustible supplies.

The UK is in a more favourable situation regarding energy supply. As a member state she alone has a net self-sufficiency in oil and might expect the same in natural gas. Coal reserves should last at least 300 years at present rate of extraction. In 1981 Britain produced 52 per cent of all the hard coal mined in the Community. As far as nuclear energy is concerned, however, the British programme is by no means so well developed as the French but Britain does have the experience of the early Magnox reactors together with the more recent advanced gas-cooled reactors and even the world's first experimental fast breeder reactor.

Diversity of energy sources

Community policy for supply stresses the need for diversity. 1973 found Europe 61 per cent dependent on imported oil. Partly due to the development of the North Sea and partly due to recession this fell steadily in the 70s and the quantity of oil imported fell by 26 per cent between 1973 - 1980. Clearly the development of North Sea oil, like Dutch gas before it, was one way to diversity. So, in a different way is the recently controversial Soviet gas pipeline However, the Commission has continually stressed the importance of indigenous coal. There is a Community scheme for subsidising coking coal but Commission proposals for support for power station coal were not accepted. Nevertheless, Article 54 of the ECSC Treaty provides for the financing of investment in the coal industry. Approximately £550m was loaned in this way between 1977-1981 and 79 per cent of this went to the UK. This represented 37 per cent of total investment in the UK coal industry in 1978; 28 per cent in 1979 and 18 per cent in 1980.

Agreement seems near on Commission recommendations concerning the national financing of the conversion of oil fired installations to coal; and in the programme to promote the rational use of energy there is a Commission proposal to provide interest subsidies for these conversions - now partly introduced.

However, the target for coal production agreed in 1974 - viz; maintenance of production at 1973 levels, has not been met and production has slipped from 270m tonnes to 246m in 1981. Consequently, imported coal has played an increasing role in Europe's energy balances. In 1981 the Community imported over 70m tonnes (over half from the USA) though only 4m tonnes came to the UK. The sources of supply are not the same as for oil, so this of course adds an element of security.

Given the Community's long-standing Euratom Treaty, it is no surprise that there is a strong nuclear element in the Community's energy strategy. The Commission estimates that nuclear energy substituted for 56m tonnes oil equivalent in 1981 and should substitute for more than 150m tonnes oil equivalent in 1990. This clearly helps the Community to diversify its energy supplies and so since 1977 the Community has established a loan facility through Euratom which, between 1977-1981, lent over £470m towards these developments. In addition, the Community's own programmes have been carried out at its research establishments in Belgium, Holland, Germany and Italy. These include, notably, the safety of nuclear reactors and the disposal of radioactive waste. If agreed the 'Super-Sara' project will simulate reactor meltdown.

The Commission is anxious to introduce order into the pricing and taxation of energy. Distortions in trade can be caused by unfair subsidies while a dwindling resource should only be exploited at a price which can pay for its replacement. The Commission has acted to try to diffuse as much information as possible about energy prices, and to make these as transparent as possible; that is to say, to make it obvious how a price was arrived at.

Rational use of energy

The third element of a medium-term energy strategy is the rational use of energy. Among the objectives energy ministers set themselves in 1974 was reducing the ratio of growth of GDP to energy consumption from 1:1 to 1:0.7. Significant progress has been made in this regard. One particular contribution the Community is making in this area is its financing of energy saving demonstration projects for which £45m has been allocated so far.

Schemes supported in the UK include the use of sea water (Gulf Stream) as a heat source in an electric heat pump installation for space and domestic hot water heating at Iona Cathedral; a gas turbine in a combined heat and power plant driven by a heavy fuel-oil/coal mixture which produces major energy savings; a grant to the Electricity Council Research Centre for an improved design of an Electric Induction Furnace for melting aluminium and a project to reduce energy consumption in a textile factory by 10 per cent by strict process control. The experience drawn from these schemes

(89 in total so far) can make a significant contribution to energy saving.

Of course it is also true that much energy saving could be achieved with the application of existing techniques. The Commission strongly urges increased investment in the rational use of energy and suggests over £10 000m as a target figure for 1985. Of this, between £1 100m and £1 400m is recommended for the UK.

Indeed, the Commission would like to see a rise in the level of energy investment as a whole. In the Community it is running at less than 2 per cent of GDP compared with over 4 per cent in the USA and 3-3.5 per cent in Japan. Apart from Euratom and ECSC loans, Community loans for energy projects are available through a loan facility known as the New Community Instrument (Ortoli Facility) and through the European Investment Bank. In 1979 under the former, about £55m out of a total of £150m supported energy projects in the UK. Between 1973-80 the European Investment Bank also lent £700m to UK energy projects, including for example nuclear power stations such as Hartlepool (£50m), Torness (£25m) and loans for the development of the Sullom Voe oil terminal. Even though such investments in energy as new power stations take ten years to come to fruition, their importance to Europe is difficult to overestimate.

External relations

The European Community's energy policy also relates closely to its external relations. Having failed to maintain a common front in 1973 the Community has seen recently the benefits of common positions, adopted, for example before the Western Economic Summits, meetings of the International Energy Agency and in the UN Conference on New and Renewable Energy Sources. This is a foundation on which to build greater Community co-operation in the fields of hydrocarbon supplies, the international coal trade and supplies of nuclear fuels. A further vital area is co-operation with the developing world; in 1980 the Community and its member states gave a total aid (grants and loans) for the development of energy resources in the developing world of over £425m.

Long-term research

But as far as energy is concerned, the medium-term is too short if future generations are to have adequate supplies. The Community has its own research policies in the field of energy, as well as being a forum for collaboration for national research policies. Some of these research activities have short-term benefits, but others look for their return well into the twenty first century.

Since its inception, the ECSC has had a role in financing technical research in the coal industry under Article 55 of the Treaty. At present the budget for this research runs at about £10m per year of which about half is spent in the UK. Projects which have been assisted include a new gadget devised by the NCB for solving the problem of screening fine damp coal. Called the "Rotating Probability Screen" it has been successfully marketed in the UK and overseas. Help has also been given to the NCB's 'Minos' project - a computer control system for coal mining. Under the EEC Budget £42m has been made available for demonstration projects in coal liquefaction and gasification. About £3m of this has been given to the British Gas Corporation 'Slagging Gasifier' at Westfield - a test station in Scotland.

In the hydrocarbons field too there is a fund to support technical developments;

about £110m has been made available since 1974 for projects in production technology, drilling and enhanced recovery techniques and pipeline technology, of great assistance in the development of the UK's own oil resources.

More futuristic has been the Community's support of research and demonstration projects for the development of alternative energy sources. Some £16m has been granted for solar energy and £12m for geothermal. Support has even gone to a large number of solar heated swimming pools in the UK and many domestic heating schemes. The geothermal programme is supporting the Camborne School of Mines in Cornwall with a scheme to use the heat from hot rocks below the earth's surface using pumped water as a collector. The granite spine of South West England may make it a logical place for the widespread use of these techniques.

More futuristic still however, is the Community fusion project - the Joint European Torus, or JET. Sited at Culham in Oxfordshire, this project, which will cost about £220m between 1982-6, aims to generate and control sufficiently high temperatures (100m^{o} C) to cause a mixture of deuterium and tritium to fuse, thus becoming helium and giving off large quantities of energy in the process. The aim is to control the reaction by magnetic means within a dough-nut shape (the Torus). Another prototype will be needed before one can contemplate a true fusion power station. However, if the project is successful, it will greatly help to resolve the problem of energy dependence, as the raw material for the reaction - deuterium (heavy water) is found in large quantities in ordinary sea water. Yet one gramme of fused deuterium/titrium would produce more energy than 2000 gallons of petrol.

Facing the future

The Community still lives in the shadow of the oil crisis of 1973. It may be, though, that this crisis had the beneficial effect of forcing the Community and the Western world to look far into the future and devote real resources to the long term security of our energy supplies. Here the European Community has a central role to play.

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