

The
Economist

Guide to the

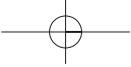
European Union

The definitive guide to all aspects of the EU

Ninth Edition

Dick Leonard





GUIDE TO THE EUROPEAN UNION



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**The
Economist**

GUIDE TO THE EUROPEAN UNION

Dick Leonard

9th edition
revised with assistance from Leo Cendrowicz

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Membership

- 1958 Belgium
- France
- Germany^a
- Italy
- Luxembourg
- Netherlands
- 1973 Denmark
- Ireland
- United Kingdom
- 1981 Greece
- 1986 Portugal
- Spain

- 1995 Austria
- Finland
- Sweden
- 2004 Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

Applications for membership

- Bulgaria^b
- Romania^b
- Turkey^c
- Croatia
- Macedonia
- Switzerland^d

a East Germany joined as part of unified Germany in 1990.
 b Entry expected in 2007.
 c Negotiations began in 2005.
 d Not currently (2005) being proceeded with.

Introduction

NEARLY 50 YEARS after the signing of the Treaty of Rome, the European Union has established itself as a major force in the world, and its activities now impinge more and more on the lives of the citizens of its different member states. Yet the extent of public knowledge of the EU has lagged some way behind.

Many excellent books have been written about the EU. The majority of these have been addressed to specialists, or are concerned with one particular aspect of the Union's role. The purpose of this book is rather different. It is addressed specifically to lay people, and is intended to give a simplified account of the origin, history, institutions and functions of the Union in a form accessible to the intelligent reader with no previous knowledge of the EU.

The book is divided into four parts. Part 1 contains an account of the origins of the EC, followed by a historical account of its development up to and after the appointment of a new commission headed by Romano Prodi in September 1999. Part 2 describes in some detail the institutions of the Community, such as the European Commission, the Court of Justice, and so on. Part 3 deals with its competences, from agriculture to technological research. Part 4 considers some specific problems, including enlargement and the continuing difficulties which the UK has experienced in adapting to EU membership, and concludes with an assessment of future prospects. A series of appendices provide reference material on the Union and its institutions. Lastly, there are suggestions for further reading for those who wish to pursue the subject further.

The source of most of the figures and much of the factual information contained in this book is the European Commission. Permission to reproduce this information is gratefully acknowledged, as is the help of Leo Cendrowicz in preparing this ninth edition.

I would like to dedicate this book to the memory of Dr Gertrud Heidelberger, my mother-in-law, an indomitable lady who represented all that is best in European culture.

Dick Leonard, Brussels, May 2005

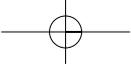
Notes

European Union or European Community?

In this book the terms European Union (EU) and European Community (EC) are often used interchangeably. Strictly speaking, the EC was incorporated into the EU in November 1993, when the Maastricht treaty came into force, but it continues to refer to the core of Union activities, for which the European Commission shares responsibility with the Council of Ministers, the European Parliament and the Court of Justice (see Part 3). Other activities of the Union, notably foreign and security policy and the co-ordination of police and judicial affairs, are organised on an inter-governmental basis.

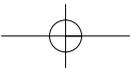
Currency

All sums of money referred to in this book are denoted in ecus, the European currency unit, whose value was based on the weighted average of a “basket” of the currencies of the member states, or in euros (€), whose value is the same. The euro is the new currency unit which replaced the national currencies of the 12 member states participating in the single European currency in January 2002. The fixed exchange rates of these currencies against the euro are shown on page 140. On March 4th 2005 the euro was worth £0.69, DKr7.4, SKr9.0, \$1.31 and ¥137.



1

THE BACKGROUND



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1 The origins

Hitler was the catalyst

Adolf Hitler was the main catalyst of the European Community, although none of its leaders would readily admit him as a founding father. Like Charlemagne and Napoleon before him, Hitler brought together, by the sword, virtually the entire land area of the original EEC, destroying in the process the self-confidence of the nation states from which it sprang.

These were recreated in 1945, but no longer saw themselves as autonomous actors on the world stage. The governments of the three smallest - the Netherlands, Belgium and Luxembourg - decided in 1944, before the liberation of their territories had been completed, that their economic futures were inextricably intertwined. The Benelux Union came into force on January 1st 1948 as a customs union, with the intention of progressing to a full economic union at a later stage.

The Marshall Plan

The United States and the Soviet Union each gave the nations of Western Europe a strong shove in the direction of unity, one with apparently benign, the other with malign intentions. The Organisation for European Economic Co-operation (OEEC) was set up in 1947 in order to divide up among the member states the flow of US aid under the Marshall Plan. The aid programme was completed over three years, but the OEEC continued as a forum for promoting economic co-operation and freer trade among West European countries. It later widened its membership to include all the advanced industrial nations of the non-communist world, and changed its name in 1961 to the Organisation for Economic Co-operation and Development (OECD).

Fear of the USSR

If the United States, partly no doubt through self-interest, had contributed hope, the Soviet Union contributed fear. Its brutal suppression of the countries of Eastern Europe, culminating in the communist takeover of Czechoslovakia in February 1948, forced several West European countries to come together for self-preservation. As early as March 17th 1948 the Treaty of Brussels was signed, providing for a 50-year agreement between the UK, France, Belgium, the Netherlands and

Luxembourg known as the Western European Union (WEU). This provided “for collaboration in economic, social and cultural matters and for collective self-defence”. In practice the WEU was largely superseded by the creation of NATO in 1949, although it remained in existence and its five original members were joined by West Germany and Italy in 1954.

And fear of Germany

Fear of the Soviet Union in the post-war years was matched by fear of Germany, which had tried to overrun Western Europe in the second world war, and had also fought three ferocious wars with France over a period of 70 years. How to prevent a recurrence of these wars in the future occupied many minds in Western Europe, as elsewhere in the world, in the immediate post-war period. Two possible solutions presented themselves. The first was to ensure that Germany should not only remain divided (which the division of Europe between East and West seemed likely to secure, in any event), but that it should also be reduced to a permanent state of economic backwardness. Apart from intrinsic improbability, this solution had the serious disadvantage of conflicting with another West European priority: resisting the advance of Soviet communism. This pointed to the need not only for a German military contribution to western defence, but also for a strong economy which would help to satisfy the rapidly rising material expectations of West Europeans. It was this consideration which tipped the balance decisively towards the second proposed solution to “the German problem”. This was that Germany (or West Germany at least) should be linked so organically with its neighbours, and that the link should appear so evidently in the self-interest of both Germans and all the other nationalities, that another war between the nations of Western Europe would become impossible.

Monnet’s decisive role

The continental country most resistant to this concept was France, and it was fortunate that the most clear-sighted and persuasive advocate of this approach was a Frenchman, Jean Monnet. If Hitler provided the impetus towards European unity, Monnet was indisputably its principal architect.

He had a remarkable career, almost all of it devoted to international co-operation of a genuinely practical kind. Originally a salesman in the UK for his family firm of brandy distillers, he spent the first world war as a temporary civil servant co-ordinating the contributions of the French and UK economies to the joint war effort. Between the wars he acted as deputy secretary-general of the League of Nations, but in 1939

he was recalled to resume his role as an Anglo-French co-ordinator. It was his plan for a Franco-UK Union which Churchill put forward in 1940 in a vain attempt to forestall the French surrender to the Germans. Monnet spent the rest of the war years in London and Washington, once again co-ordinating the economic warfare of the allied nations.

He returned to France as a member of de Gaulle's government, and subsequently became head of the French planning organisation. In 1950 his moment of destiny came: it was his proposal that paved the way for the Franco-West German reconciliation which has been the essential condition for all subsequent progress towards European unity. The occasion was the Franco-West German dispute over the Saarland, which was largely fuelled by French fears that if its iron and coal industries were integrated with those of the rest of West Germany it would once again dominate the economy of Europe. France had tried unsuccessfully to annex the Saarland, which was overwhelmingly German in population, and, as in the post-1919 period, this attempt had poisoned relations between the two countries.

The Schuman plan

Monnet succeeded in capturing the ear of the French foreign minister, Robert Schuman, a man whose own personal history (as an Alsatian born in Luxembourg) had predisposed him to the advantages of European integration. Monnet's proposal, which was put forward by the French government as the Schuman Plan, was that the West German and the French coal and steel industries should be placed under a single High Authority which should supervise their development. "The solidarity between the two countries established by joint production will show that a war between France and Germany becomes not only unthinkable but materially impossible," Schuman said in launching his plan on May 9th 1950.

Other European countries were invited to join the plan, which was instantly accepted by Chancellor Konrad Adenauer on behalf of the West German government, which rightly saw it as the way to rejoin the European comity of nations on equal terms. Italy and the Benelux countries also quickly responded, and the Treaty of Paris (see page 40), signed on April 18th 1951, formally established the European Coal and Steel Community (ECSC), which came into being on August 10th 1952. Jean Monnet was its first president.

The UK stands aloof

One notable absentee was the UK, which had been invited to join but

declined to do so after giving the matter little serious thought. The decision was taken by Clement Attlee's Labour government, but was confirmed by the Conservative government under Winston Churchill, elected in October 1951. The UK did not then regard itself primarily as being a European nation, and adopted a superior attitude to the new organisation, as evidenced by the private remark of Churchill to his doctor in January 1952, "I love France and Belgium, but we must not allow ourselves to be pulled down to that level."¹

The absence of the UK facilitated the construction of a community that was different from the many other international organisations established during this period, such as the Council of Europe, the North Atlantic Treaty Organisation (NATO) or the General Agreement on Tariffs and Trade (GATT). Each of these bodies established a permanent secretariat; however, there was no question of it having any more than an administrative role. Decision-making was reserved for meetings of representatives of each of the member states. The ECSC was unique in being provided with a supra-national High Authority which was given wide powers to determine the direction of two key industries throughout the member states. There was provision for a Council of Ministers, a purely advisory Assembly (or indirectly elected Parliament) and a Court of Justice, but the High Authority was, and was intended to be, the main organ of decision-making.

The constitution of the ECSC, as spelled out in the Treaty of Paris, closely reflected the views of Monnet, who wrote in his memoirs of the necessity of providing a firm institutional base to give effect to political intentions: "Nothing is possible without men: nothing is lasting without institutions."¹ He had intended that the ECSC would be paralleled by a common European defence force, which would supersede national armies and facilitate the rearming of West Germany without creating a specifically West German force. The same six governments – France, West Germany, Italy, Belgium, the Netherlands and Luxembourg – signed a treaty in May 1952 providing for the creation of a European Defence Community (EDC), for this purpose, but the French National Assembly in August 1954 declined to ratify the treaty.

Towards an economic community

The failure of the EDC had two significant consequences. West German rearmament proceeded on a national basis, and West Germany was admitted as a full member of NATO in October 1954. For his part, Monnet concluded that the path towards European unity lay through

economic rather than military co-ordination. When his first term of office as president of the High Authority came to an end, in February 1955, he declined to accept a further term. Instead, he left to head a high-powered pressure group, the Action Committee for the United States of Europe (ACUSE), which included leading figures from the Socialist, Christian Democratic and Liberal parties of all the six member states.

ACUSE did not have to wait long for the first fruits of its activities. The foreign ministers of the Six met in Messina in June 1955 and appointed a committee under the chairmanship of the Belgian foreign minister, Paul-Henri Spaak, to investigate establishing a common market. This committee produced a report which was the basis of the Treaty of Rome, signed on March 25th 1957, establishing the European Economic Community (EEC). A separate treaty, signed in Rome on the same day, established the European Atomic Energy Community (Euratom). All six parliaments ratified the treaties, which came into effect on January 1st 1958, with a West German, Walter Hallstein, as first president of the EEC Commission.

The EEC's constitution paralleled that of the ECSC, but the supra-national element was significantly less. The EEC Commission, which was the counterpart of the High Authority, had substantially less power, and the Council of Ministers substantially more, than under the Treaty of Paris. In the early years of the EEC this difference was hardly apparent, as the confident and decisive Hallstein dominated the development of the Community. But in 1965-66 his authority was successfully challenged by France's President Charles de Gaulle (see page 11), and he subsequently resigned. None of his successors has wielded as much power as he had done, and since his departure the supremacy of the Council of Ministers (the representatives of the different member states) over the supra-national commission has been evident.

Amalgamation

The three communities - the ECSC, Euratom and the EEC - were formally amalgamated on July 1st 1967. They became jointly known as the European Community (EC), or sometimes the European Communities, although the abbreviation EEC remained in common use to denote the combined organisation.

Note

- 1 Alfred Grosser, *The Western Alliance: European-American Relations since 1945*, London, Macmillan, 1980, pages 121 and 102.

2 Evolution – 1958–2005

The EEC might have broken up during its first year of operation. On June 1st 1958, five months after its foundation, General Charles de Gaulle became prime minister (and subsequently president) of France. His followers had bitterly opposed its creation; however, de Gaulle saw it as a useful means of extending French influence, and during his early years in power he encouraged its development.

Three months after coming to power he had a momentous meeting with the West German chancellor, Konrad Adenauer, which, in the words of a French historian, Alfred Grosser, turned out to be a case of “love at first sight”.¹ Grosser quotes de Gaulle as writing in his memoirs: “From then until mid-1962, Konrad Adenauer and I were to write to each other on some 40 occasions. We saw each other 15 times ... we spent more than 100 hours in conversation.” From this mutual attraction sprang an enduring alliance which has proved to be the mainspring of the Community ever since. It was formalised in the Franco-West German Treaty of January 22nd 1963, which provided for the co-ordination of the two countries’ policies in foreign affairs, defence, information and cultural affairs.

This co-ordination has been spasmodic, but whenever France and West Germany have acted together within the Community their influence has been enormous and they have generally been able to achieve their objectives. Where they have not done so, the Community has drifted and has found it difficult or impossible to agree on a course of action. For many years West Germany, although the stronger of the two powers economically, was content to play a subordinate role. When West German leaders’ views differed from those of France, they were often willing to defer to their partners, or at least refrain from carrying their opposition to extremes.

An encouraging start

With the background of the Franco-West German entente, the benefit of strong economic growth in all six member states and the enthusiastic encouragement of the United States, the Community got off to a tremendous start in the first years after 1958. Intra-Community trade leapt ahead, increasing by 28.4% annually during the first ten years of the EEC, and the average increase of imports from third countries was 10%.

The timetable for removing all internal tariffs and quota restrictions was originally intended to be completed in successive stages by December 31st 1969. It was, however, twice accelerated, and the process was completed 18 months ahead of schedule, on July 1st 1968. Simultaneously with the removal of internal tariffs, a common external tariff was erected, based on an average of the duties previously levied by the member states, with some downward adjustment. This, too, was completed 18 months early, and the Community collaborated with the United States in the Kennedy round of the GATT, which resulted in a further 35% cut, on average, in its external tariff.

The other economic objective spelled out in considerable detail in the Rome treaty was the development of a common agricultural policy (CAP), based, however, on protectionism rather than free trade. In fact the two major prongs of the EEC were widely regarded as offering quid pro quos to West Germany and France. Free trade for industry accorded with the interests of West German manufacturers, and a guaranteed market for agricultural produce with those of French farmers. Despite the provisions in the Rome treaty, the CAP proved much more difficult to launch than the customs union, but in January 1962, after what a commission publication describes as “lengthy and often bitter negotiations and the longest negotiating marathon in the Community’s history”,² the Council of Ministers adopted the basic regulations for a common market in agriculture.

Foreign policy gap

The economic progress made by the Six (as the founder members of the Community were known) soon showed up a glaring omission in the Rome treaty, in that no mention was made of political co-operation. At a summit meeting in February 1961, the heads of government of the Community agreed that a political union should be set up between the Six. A committee chaired by a French politician, Christian Fouchet, produced two successive plans to bring this into effect. But neither the Fouchet Plan nor the Second Fouchet Plan was approved, owing to a basic difference between the larger and smaller member states. The larger states, particularly Gaullist France, thought that they should effectively direct the foreign policy of the Six. The smaller Benelux countries, on the other hand, fearing the prospect of domination, wanted a more equal say. In the end nothing came of the proposal, except that the heads of government agreed to hold regular meetings for general political consultation. Despite this decision, no further summit

was held until six years later, and it was only after December 1974, when the European Council (see page 61) was formalised, that the heads of government began to meet regularly on a three times a year basis (reduced to twice a year in 1986).

Other European countries began to take note of the economic success of the Community. Greece and Turkey both applied to become associated states during 1959, while the UK government, whose earlier attempt to negotiate a wider free trade area within the OECD had ended in failure, became alarmed at the prospect of being left out in the cold. It took the initiative in organising the European Free Trade Association (EFTA), which linked it much more loosely with six of the smaller West European states. Together with Austria, Denmark, Norway, Portugal, Sweden and Switzerland,³ it signed the Stockholm Convention, establishing EFTA, on January 4th 1960.

The UK knocks at the door

Yet no sooner had this Convention been signed than the UK government, led by Harold Macmillan, reappraised its position once again and decided that EFTA was much too small a grouping to meet its trading interests (it had a combined population of no more than 90m compared with 170m in the Six). In July 1961 the UK applied for full membership of the EEC, and was followed shortly afterwards by Ireland, Denmark and Norway.

The application was welcomed by five of the Six, but it soon transpired that President de Gaulle was lukewarm if not actually hostile to the entry of an "Anglo-Saxon" nation. Detailed accession negotiations began in November 1961, but soon became bogged down as the UK negotiators strove, perhaps ill-advisedly, to achieve a mass of detailed concessions on agriculture, Commonwealth trade and future relations with the other EFTA countries. Meanwhile, de Gaulle bided his time, but in January 1963, following Macmillan's Nassau agreement with President Kennedy on the supply of Polaris missiles which confirmed the French president's view that the UK's links with the United States took priority over any European commitment, he promptly vetoed the UK application at a press conference in Paris. The other three applicant countries accordingly withdrew their own applications.

The other five members states were aghast at the French action, but were unwilling to bring matters to a head. The EEC without the UK was a misfortune, in their view; without France it would be an impossibility. So they reluctantly acquiesced in de Gaulle's action, and only one week

later the Franco-West German Treaty was signed. Three years later a UK Labour government, under Harold Wilson, made a renewed attempt to secure entry, but once again de Gaulle applied a veto, and once again his EEC partners submitted to his will.

Hallstein versus de Gaulle

At the head of the European Commission during the first nine years was Professor Walter Hallstein, formerly a close aide and confidant of Adenauer, whose name was previously associated with the so-called Hallstein doctrine, under which West Germany refused to have diplomatic relations with any government which recognised the East German regime. Hallstein had been the leader of the West German delegation to the Schuman Plan conference in 1950, and he enjoyed a large fund of French as well as West German goodwill at the outset of his presidency which greatly helped him to keep up the momentum. After several years, however, the gap between his own beliefs in a supra-national Europe and the more nationalistic approach of President de Gaulle became more and more apparent, and it was probably only a matter of time before a clash would occur.

The occasion might have been a difference over foreign policy or the rejection of UK membership. In the event, it was the decision-making process within the Council of Ministers which led to the break. During the early years of the Community most decisions within the council needed to be taken, under the terms of the Rome treaty, by unanimity. From 1966 onwards, when the transitional period came to an end, a wide range of decisions should have been reached by qualified majority voting. President de Gaulle was not willing to contemplate the possibility of France being outvoted on major issues and when, in June 1965, France found itself in a minority of one against commission proposals on the financing of the CAP, the provision of its own financial resources and extending the budgetary powers of the European Parliament, he refused to allow decisions to be taken. For the next six months France boycotted all meetings of the Council of Ministers, and its “empty chair” policy was not abandoned until January 1966, when the so-called Luxembourg compromise (see page 58) was reached. This effectively gave all member states a right of veto when their “very important interests” were concerned. Not long afterwards Hallstein, who rightly concluded that the Luxembourg compromise had severely undermined the role of the commission as the principal initiator of policy, submitted his resignation.

The transformation of farming

One of the most profound changes within the Community during the 1960s and 1970s was the transformation of its agriculture. Not only did productivity and production shoot up, making the Community more than self-sufficient in most temperate products, but the number of people working on the land fell sharply, from 15.2m in 1960 to 5.8m in 1984 in the original six member states. The process would have gone even further if the Mansholt Plan, named after Dr Sicco Mansholt, the agricultural commissioner and later president of the commission, had been adopted. This plan, put forward in 1968, would have provided generous financial inducements for increasing the size of holdings, mechanising farming operations and taking some 5m ha of poorer land out of cultivation. A much watered down programme was eventually approved by the Council of Ministers in 1972, but unfortunately it did nothing to cure the emerging problem of structural surpluses nor to lighten the burden on the Community's funds of production guarantees.

Another significant development was the conclusion, in 1963, of the Yaoundé Convention, signed in the capital of Cameroon with 18 African states which were former dependent territories of EEC member states. The convention provided for the duty-free access of all their exports, except for certain products covered by the common agricultural policy, and for financial aid to be provided through the European Development Fund and the European Investment Bank. The first Yaoundé Convention was replaced in 1969 by Yaoundé II, and subsequently by four successive conventions bringing in many of the developing countries of the Commonwealth, signed at Lomé (Togo) in 1975, 1979, 1984 and 1989 (see Chapter 35). Lomé IV, signed by 70 African, Caribbean and Pacific states (the ACP states), continued the programme until 2000, when it was replaced by the 20-year EU-ACP Agreement, signed in Cotonou (Benin) by 78 ACP states and the 15 states of the EU.

An EC summit conference at The Hague, in December 1969, marked an important step forward. The conference finally approved the proposals for financing the common agricultural policy, the creation of the Community's own financial resources (see pages 95-6) and the extension of the European Parliament's budgetary powers, which had earlier been blocked by France. It agreed that the Community should proceed to the establishment of an economic and monetary union to be completed by 1980 (which proved to be a wildly over-optimistic target date), and it commissioned a report on ways of improving foreign policy co-

ordination between member states. This report, written by Belgian diplomat, Etienne Davignon (later an influential commissioner), was approved ten months later. Since then the foreign ministers of the member states have met “in political co-operation” at frequent intervals, as have senior officials of the different foreign ministries, the idea being to discuss and if possible harmonise foreign policy opinions and activities (see Chapter 36).

Enter Denmark, Ireland and the UK

President de Gaulle’s resignation in 1969, followed by his death the following year, removed the main obstacle to UK accession. His successor, Georges Pompidou, was less inflexible and the new West German chancellor, Willy Brandt, strongly urged him to agree to an enlargement of the Community. The Danish, Irish, Norwegian and UK governments all renewed their applications and, after much hard bargaining, treaties of accession were signed in Brussels on January 22nd 1972. Norway narrowly rejected the treaty terms (by 53% to 47%) in a referendum in September 1972, but the other three countries formally became members on January 1st 1973.

Denmark and Ireland also held referendums on EC accession, which produced majorities in favour of, respectively, 83% and 63%. The UK did not initially do so, although the issue of accession was highly divisive. The prime minister, Edward Heath, pursued the objective of UK membership with great determination, and succeeded in rallying a large majority of the Conservative Party behind him. The Labour Party, however, was badly split on the issue, with the majority coming down decisively against. A defiant minority of 69 Labour members of Parliament, led by Roy Jenkins, insisted on voting against a three-line whip, in favour of the terms that Heath had negotiated, in a House of Commons vote in October 1971. The Labour Party subsequently resolved to hold a retrospective referendum on continued UK membership if it won the next general election.

The government of Harold Wilson, which came to power in 1974, first as a minority government, later with a tiny majority, fulfilled this undertaking in June 1975 after having “renegotiated” the terms of entry. The main change secured was the institution of a “corrective mechanism” which was intended to prevent excessive UK contributions to the EC budget. The mechanism was later to prove inoperative, but the referendum produced a decisive vote (67%) in favour of continued UK membership, and it seemed as though the controversy was at an end.

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