



Foreign and Commonwealth Office

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Prime Minister
 You might glance at
 paras. 12-22 which deal
 with the questions raised
 by Turkey's application.

23 November 1987

Jean Charles,

C.D.P. 23/11

not

Further enlargement of the European Community?

The Foreign Secretary last month circulated to OD(E) the enclosed paper assessing where the UK interest lies in relation to current or future applications for EC membership. He has now suggested that it might be useful for the Prime Minister to see the paper before Copenhagen, in case the issue of enlargement comes up there. Its conclusions evoked no dissent in OD(E), and were specifically endorsed by the Chancellor and the Secretary of State for Trade and Industry, and by the Defence Secretary, whom the Foreign Secretary consulted in view of the Alliance angle. The most important conclusions are of course those which concern the Turkish application.

A copy of this letter goes to Trevor Woolley in the Cabinet Office.

Yours ever,

(A C Galsworthy)
Private Secretary

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FURTHER ENLARGEMENT OF THE EUROPEAN COMMUNITY?

Summary

1. An analysis of the UK cost/benefit of possible further EC enlargement; arguing that Norway's membership would be in the UK interest (paras 3-6); that the questions of Maltese, Moroccan or Cypriot membership are, for different reasons, unlikely to be given serious consideration in the Community (paras 7-11); that Turkey's membership would be counter to UK economic interests (paras 12-13), would transform the Community in ways which might be against our political interests (paras 14-20), and will be opposed by most present EC members; and that a compromise, short of accession, will be required (paras 21 - 22). Policy deductions: a case for discreet UK encouragement for a Norwegian re-application for EC membership, and - in due course - for the full development of the EC/Turkey Association Agreement (paras 23 - 25).

Introduction

2. Demands for further EC enlargement are growing. For Switzerland, Austria and Sweden, Community membership remains a distant prospect; but Norway is likely to re-apply in the mid/late 1990s; the new Nationalist Party Government in Malta has already indicated a wish for eventual membership; Morocco has formally registered its interest; Cyprus is toying with the idea; and a Turkish application is being processed in Brussels. From the EC's point of view, expansion has some attractions, particularly if it enlarged the area of democratic stability in Europe. But at what cost? This paper attempts a UK cost-benefit analysis, considering the economic and political impact of Norwegian, Maltese, Moroccan, Cypriot or Turkish accession, but concentrating on the Turkish application, as the most pressing issue.

Norway

3. Of these five cases, a Norwegian application would be the most warmly received, would cause fewest problems in negotiation, and would probably result in early accession. Norway is readily

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assimilable, with a population of 4.1 million and GDP per capita of almost \$14,000, (cf the EC average of \$8,000). Domestic political and constitutional considerations make an application very unlikely until after Norway's 1993 election, but feasible thereafter, and highly probable by the late 1990s.

4. The terms of Norwegian membership have already been negotiated once. The main stumbling blocks in 1972 were fisheries and oil; these are likely to be less problematic now, particularly in view of the new Common Fisheries Policy (CFP) negotiated by the UK. Under the 1979 EC/Norway Fisheries Agreement the Community is allowed to fish in the Norwegian Economic Zone (and vice versa) subject to agreed Total Allowable Catches, and quotas, and this agreement should easily be absorbed into the CFP. The prospect of free access to EC markets and the growing strength of the fish farming (as opposed to traditional fishing) lobby may also serve to reduce domestic opposition to Norwegian membership. Agriculture could cause Norway transitional problems if in the meantime her support were to remain 30% above CAP levels, but the Nordics are already under pressure in GATT negotiations. And Norway is conscious of the need to adapt to developments in the EC internal market in order to maintain exports to the EC (now 65% of total Norwegian exports, equivalent to 17.6% of her GDP). Thus for the UK Norwegian accession would bring few economic disbenefits, other than perhaps marginally (3 OM votes) increasing resistance to full CAP reform. The economic advantages to the UK of a further widening of the EC market, and the strengthening of the Community's Northern tier through the accession of a country making little call on structural funds and likely to abide by the terms of the EC Treaties (and her own accession terms) and be a substantial net contributor to the Community budget, are clearly much stronger. Our economic interest lies in having Norway in.

5. The political arguments go the same way. Though Norway could be expected to share many Danish attitudes, eg on environment and nuclear energy, which would be difficult for the UK, her Parliamentary democracy or NATO membership are not in question, and her attitudes on national sovereignty issues would be similar to ours. Norway could be expected to play a full and constructive

part in Political Co-operation - indeed her present exclusion from it is a major cause of her renewed interest in EC membership.

6. In short, Norwegian EC membership would be in the UK interest. The arguments in respect of Malta, Morocco and Cyprus are very different, but equally straight-forward.

Malta

7. The Maltese economy is so small (population 360,000 - similar to Luxembourg, - per capita GDP \$3,300, 41.5% of EC average) that absorption into the EC would present no particular difficulties. On the worst assumptions (ie high resource transfers per head), direct costs would be very small: agriculture and fisheries contribute less than 5% of Malta's GDP.

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8. Fortunately, a sensible alternative to Maltese membership already exists. The EC-Malta Association Agreement of 1970, envisages progress to an eventual customs union (similar to that just negotiated with Cyprus). The Maltese can - and should - be encouraged to aim for this if they are serious in wanting a closer relationship with the EC. The Maltese may argue that this is not a satisfactory alternative to membership; but we must be careful to avoid implying any commitment to eventual membership.

Morocco

9. The economic arguments against Moroccan membership are overwhelming. Her population of 22 million is growing at a rate of 2.4% a year. But her GDP is only \$12 billion, of which industry accounts for only about 20%; and GDP per capita only some \$600 - less than one-third that of Portugal. Morocco is heavily indebted.

10. Fortunately her application is effectively ruled out of court by geography: Article 237 of the EEC Treaty states that "Any European state may apply", and Morocco is not European. The Community's current response to Morocco therefore is negative. But in order to avoid delivering an outright rebuff, the Community will be offering to consider ways of beefing up the existing Cooperation Agreement to constitute a closer association. Customs Union, and perhaps closer political consultation, may be worth exploring. The Moroccan application is a political signal of interest in increased alignment with Europe: we should ensure that the Community gives an appropriate response. But EC membership is not on.

Cyprus

11. Though the Cypriots currently claim that they do not envisage an application, it remains a possibility we cannot discard. With a population of 660,000, GNP per capita of \$3,800 (47% of EC average) and progress towards Customs Union with the EC already in train, assimilation of Cyprus would probably not be too difficult. But politically, the Community could not respond favourably to a Cypriot application unless also saying "Yes" to Turkey; and Customs Union and close association remains the appropriate course.

Turkey

12. The question of possible Turkish accession is much the most complex. Comparisons with Norway pinpoint the problems. Both are NATO members. But whereas Norway, as a small (4 million), rich (per cap GDP \$14,000) unquestionably European, democratic country would be easy to absorb, with few costs to the UK, Turkey is large (50m),

poor (per cap GDP \$1,000 - 14% of the current EC average), largely Asian (98% Muslim) in culture, and with little democratic tradition and still fragile respect for human rights. Moreover, the economic disparity between the existing Community and Turkey is unlikely to narrow naturally in the foreseeable future. Turkey's economy has made significant progress under the current administration, but still operates on a very flimsy base. Furthermore, although her economic growth is likely to continue to exceed the EC average, her very rapid population growth - well over 2% p.a. - is certain to do so, so that by 2000 her population will reach 70 million, but her per capita income, if outside the EC, will remain well below that of the poorest member states (and probably still some 15% of the EC average). The high birth rate and relative poverty would also entail large influxes of migrant workers into other Community countries in the event of Turkish accession, a consideration which the Commission themselves see as a crucial reason for excluding Turkey. Turkey furthermore has a high proportion of its labour force in agriculture, is a net exporter of agricultural produce, has large regional imbalances, an industry as yet not ready to compete in a free market, and high inflation and foreign debt.

13.

Had Turkey been a member of the Community in 1986 net transfers from Northern to Southern Member States would have increased from \$5 billion to \$7.5 billion: this probably under-estimates the real extra cost to the North for Turkish claims would have led to a reduction of \$1 billion in net receipts by other Southern Member States, whose clamour for compensation might have led to a still larger overall increase. The gap between Northern and Southern Member States in GDP per capita in 1986 would have grown from \$4482 to \$5840.

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14. A political case for supporting Turkey's application is nonetheless sometimes made, eg by Americans, in terms of the merits of consolidating the South-Eastern flank of NATO, and Turkey's European and pro-Western orientation. In fact the likelihood that Turkey, if rejected by the Community, would in practice abandon the substantial benefits of Alliance membership and turn towards the Soviet Union or the Middle East is small. But Turkish prestige is engaged, and a rebuff would certainly risk triggering the forces of nationalism and Islamic conservatism which are already stirring.

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15. However, one also has to consider the political effects on Western Europe and hence the Alliance of the changes to the Community which would result from Turkey's admission. For, while Norwegian accession would change the Community hardly at all, and only in ways beneficial to the UK, Turkish accession would change it rather radically, to our political as well as economic disadvantage.

How would the Turks change the Community?

16. The foundations of the Community are a body of Community law (the Treaties and rules made under them) directly and equally applicable in all member states; and a Community budget to which all member states contribute. Turkish accession would obviously put considerable strain on common budgetary arrangements, but it would also be likely to accelerate the erosion in practice of the principle of a market regulated by common laws. At present the cost of (mainly Greek) non-compliance is bearable, Greece being a small economy. In 1985 Greece was served 69 formal notices of infringement (out of an EC total of 503), a total only (narrowly) exceeded by France and Italy, and her record has been getting steadily worse. However, Greece's population is one-fifth of Turkey's; she has a total GDP of only about \$35 billion, compared to Turkey's \$56 billion; while her GDP per capita is over three times that of Turkey. For the most populous EC country - which Turkey would be by the time of any possible accession - to emulate Greece would be much more damaging. Yet Turkey could not in practice afford to comply without seeing her infant industries swamped. She

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would be likely - like the Greeks - to pay lip-service to the law, and demand heavy financial compensation - again like the Greeks: even if such compensation were provided, she would probably not practise free movement of goods, services, and capital - just as the Germans and others would resist free movement of Turks. And the Turkish example would greatly encourage further back-sliding by other Mediterranean member states.

17. The result, *de jure* or *de facto*, would be a two-tier Community. Some argue that, by admitting the Greeks, we have already started down this path, but that is as yet unproven: the inclusion of Turkey could well tip the balance decisively. Moreover Turkey's size and significance would make the damage to our interests resulting from the inevitable creation (and its inevitable inclusion in) a second tier, of those with more rights than responsibilities, far greater than if such a tier were limited to Greece and Portugal. While there already are many examples of Community legislation containing provision for differential application, the *de facto* route to a two tier Community would introduce increased uncertainty and complexity into EC law; in particular cases the outcome might be open to challenge as contrary to the principles of the Treaty of Rome; and the fiction of a unified corpus of law would be even more blatant. The *de jure* route would mean Northern tier countries, no longer able to tolerate accelerating contempt for central elements of the Treaty of Rome, concluding that the obligations in question, especially as amended in the Single European Act, reached too deep into the Community's economic and legal fabric to be capable of two permanently different levels of interpretation, and that a separate framework was necessary for those activities which were originally envisaged as within the sphere of the Community, but in which some members had now shown themselves unable or unwilling genuinely to participate. The willingness of the FRG, as the EC's principal contributor, to follow the *de facto* route, sustaining present EC financial arrangements, while turning a blind eye to increasing Turkish and other breaches of EC rules, must be doubtful. Yet the *de jure* route would entail a major political upheaval, not least because there is no provision in the Treaty of Rome for expulsions, and those wishing to form an inner core would therefore have to abrogate the existing Treaties. So the *de jure* route looks

politically still more unattractive than the de facto one.

Should we mind a two-tier Community?

18. For the UK, the immediate economic effects of the emergence of a two-tier Community would not be particularly serious: 80% of our exports to the present EC go to the countries likely to remain in the upper tier. But the vision of a single large internal market, the achievement of which is strongly in the UK's economic interest, would have faded, whichever route were followed. The de jure route would be economically less damaging to us than the de facto route, for formalising the two tiers would provide a legal and sustainable way of limiting resource transfers from the first to the second tier via the EC Budget; whereas the de facto route would leave the Northern tier vulnerable, as at present, to demands for budgetary compensation from the South for market-opening measures, even though such measures would be applied by the Southern tier even less than at present.

19. As the Prime Minister's paper on "Europe: The Future", presented to the June 1984 European Council suggested, some (variable geometry) forms of two-tier community are obviously in our political interest: we might, for example, welcome the emergence of a European Defence identity, provided that the Alliance was thereby strengthened, and we would lose no sleep over Irish self-exclusion. But the political effects of the emergence of the particular form of two-tier Community which would be likely to result from Turkish accession would do serious damage, and particularly in Bonn (leaving aside the turbulence of the transitional period if, for economic reasons, the de jure route were chosen). For this would not be a question of a group of like-minded member states deciding to act together on a project (eg Airbus) not covered by Community competence or one on which (eg ERM) all partners do not yet agree - such forms of two-tier activity cause no greater qualms in Bonn than in London - but rather recognition, de facto or de jure, that despite massive FRG financial support some member states were making it impossible for the Community any longer to follow the path laid down in the Treaties. The long-term effect on FRG policies is not easy to predict; and it may be over-alarmist

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to suggest that the price for securing Turkey's current Western orientation by the EC membership route might be a change in the FRG's orientation. But there can be no doubt that the arrival of Turkey would fundamentally change the Community, and that this would change FRG attitudes to it, in ways which could well be unwelcome to the UK, and damaging to the Alliance.

UK attitude in EC discussion of the Turkish application

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24. To reduce the risk of invidious Turkish comparisons, and a perceived rebuff, it will be important that the processing of a Norwegian application should not start until a compromise on the Turkish application has been struck. But the probable timing of any Norwegian application (para 3 above) is such that this is unlikely to cause problems in practice. We need not therefore be deterred from discreet encouragement of the Norwegians, in the medium term.

Conclusions

25. (a) Norway's membership of the EC would strengthen the Community and be in our economic and political interests; a re-application is unlikely before 1993, but would evoke little opposition and should in due course be discreetly encouraged;
- (b) the Moroccan application, and possible bids from Malta or Cyprus, raise problems of diplomatic handling, but no issues of substance, for none of these countries will be seen as a credible candidate;
- (c) Turkish membership of the EC would run counter to our economic interests; evokes major opposition; and would affect the Community in ways damaging to our political interests - the wrong sort of two-tier structure would emerge, de jure or de facto;
- (d) but Turkey should not, given her NATO Southern Flank role, be rebuffed: we should in due course work for the compromise of a carefully structured further development of the Association Agreement, together with improved political consultation arrangements.