**A Withdrawal from Empire: Hong Kong-UK relations during the European Economic Community enlargement negotiations, 1960-63[[1]](#footnote-1)**

David Clayton

**Introduction**

During the height of the Cold War, 1949-78, Hong Kong, a developing country, was dependent economically on relations with the West; that is, on exchanges of capital, men and goods with high-income markets. Hong Kong’s economic relations with Britain were particularly important. In an age of strict controls, private money flowed relatively unhindered between London and Hong Kong, and the colonial state held its monetary reserves in the City of London, providing support for sterling and generating revenue for British banks.[[2]](#footnote-2) During a golden period of growth, 1950-1973, trade between Britain and Hong Kong, the focus of this chapter, grew quickly; this industrializing colony sold low-cost cotton textiles, garments, footwear, and electronic goods to Britain, and bought capital and high-quality consumer goods in return.

During the Cold War, an era when Britain’s policy of retaining Hong Kong was constantly under review, imperial economic relations were subject to two shocks: the 1967 devaluation of Sterling, which affected capital flows, and EEC enlargement, c. 1960-1973, which affected trade. As documented by Schenk, the 1967 devaluation of Sterling was a major shock for Hong Kong.[[3]](#footnote-3) The British government devalued Hong Kong’s sovereign wealth fund but did not notify the colonial state in advance, and post-devaluation monetary policy generated tensions because Hong Kong was not allowed to diversify its currency reserves. During this crisis, the Hong Kong government managed to secure a small concession, a guarantee for its official Sterling reserves because the British government predicated that private banks in the colony would have diversified out of Sterling without an insurance scheme.

EEC enlargement was a different type of colonial crisis. British government attempts to enter into a customs union with the existing members of the EEC—Belgium, the Netherlands, Luxemburg, France, Germany and Italy (the Six)—lasted from the early 1960s until 1973. During the first round of negotiations, 1961-1963, entered into by Harold Macmillan’s Conservative government, one of the issues preventing a settlement was uncertainty regarding how the common external tariff (CET) would be applied to duty-free imports into the UK from Hong Kong.

As shall be documented, Macmillan’s government, which had been under intense pressure from protectionist business interests since the late 1950s to curb imports from the Asian Commonwealth, perceived EEC enlargement as an opportunity to manage the decline of low-cost industries in Britain. But, by 1963, the government had not constructed a settlement that balanced British and Hong Kong interests. This strained political relations between Hong Kong and Britain.

To support British diplomacy the colonial administration and the organized business community in Hong Kong fed the British government commercial intelligence, conducted shadow diplomacy and lobbied a constituency of British politicians opposing Britain’s integration into Europe. As historians have clearly documented, Hong Kong gained considerable political autonomy from London in the 1950s and 1960s.[[4]](#footnote-4) But with respect to important issues such as devaluation and EEC enlargement, the British government retained considerable power.

This chapter adds to literatures on decolonization and EEC enlargement. The first section uses this scholarship to show how EEC enlargement complicated Britain’s withdrawal from its Empire; the second explains why at a time of rapid decolonization the British government wanted to retain Hong Kong; the third sketches Hong Kong’s dependence on the UK market; the fourth presents EEC enlargement as a hypothetical shock to Hong Kong; the fifth and sixth explore how the British government devised mitigation strategies for Hong Kong; the seventh argues that British diplomacy undermined the credibility of the colonial state; the penultimate section details the activities of Hong Kong business groups based in the colony and London. The final section sums up.

**EEC enlargement as history**

The value to the British economy of trade with the Empire/Commonwealth declined in the post-war period, while trade with Western Europe grew in significance. As such, Britain’s failure until 1973 to join the European Economic Community (EEC), a treaty that committed the Six to common commercial policies, was a missed opportunity: British businesses could have gained improved access to expanding markets and British governments could have turned European integration into a vehicle for the liberalization of global trade/the stringent regulation of capitalism.

A new literature has refuted the standard thesis that Britain failed to secure entry in 1963 because of strategic differences between Britain and France. It argues that the decision taken in January 1963 by Charles De Gaulle, the French President, to veto British membership is explained by practical difficulties afflicting negotiations, most importantly over how Britain’s tariff policy towards the Empire/Commonwealth would be modified.[[5]](#footnote-5) Britain’s convergence with Europe was, from this perspective, a diplomatic problem that took ten years of discontinuous negotiations to solve. This literature poses a question: why was it so difficult in the early 1960s for Britain to disentangle itself from imperial economic ties?

There is a simple answer: trade with Western Europe did not become more important to Britain than trade with the Empire/Commonwealth until the mid-1960s,[[6]](#footnote-6) and so it was not in the country’s immediate economic interest to reform its tariff policy. There is an alternative one: that, in 1962, Britain had failed to solve a fundamental problem: how to ensure that an economic withdrawal from the Empire did not damage colonial and Commonwealth economies. In the early 1930s Britain had entered into multilateral obligations that allowed goods from colonial dependencies and the Commonwealth entry into Britain at low or zero tariff rates. By the late 1950s this policy had outlived its economic usefulness to Britain.[[7]](#footnote-7) Conservative governments were committed to the liberalization of world trade. However, the British market was of considerable economic value to certain parts of the Commonwealth (notably New Zealand) and to some colonial dependencies.

Imperial preference also had symbolic value within Britain. It epitomized imperial commitments to aid economic development, to embed representative government, to nurture, via migration and nation-building policies, Britannic identities; and to sustain a strategic alliance that had contributed to Britain’s victory in two global conflicts. Imperial preference could not however survive British membership of the EEC, a treaty that committed members to converge on the CET. Therefore during its negotiations with the Six, the British government had to secure transitional trading regimes to mitigate for colonial dependencies and Commonwealth nations the loss of price competitiveness in the British market. During 1962, Britain failed to solve this problem for all parts of the Empire/Commonwealth. Consequently De Gaulle vetoed British entry.[[8]](#footnote-8)

Imperial preference mainly facilitated the exchange of manufactured goods from Britain for primary products from the Empire/Commonwealth. Hong Kong’s status was exceptional. As a major exporter of manufactured products, it presented one of the thorniest problems at the EEC enlargement talks. This colonial dependency could have been granted associate membership, duty-free access to European markets, but this would have given the colony’s industries a competitive advantage. This concession had been extended to French colonies but was not offered to Hong Kong. This outcome is well known.[[9]](#footnote-9) What remains unclear is how the British government sought—but did not get—a trade regime with the EEC based on written rules that would mitigate the effects of the CET on Hong Kong.

Before turning to tell this technical tale, the next section explains why during an epoch of rapid decolonization the British government was determined to hold on to Hong Kong. Mark’s landmark account has detailed the politics of decolonization for Hong Kong carefully, but he has underplayed how UK-Hong Kong economic relations affected the calculations made by bureaucrats in London.[[10]](#footnote-10) The next section uses new material to refine the literature on Hong Kong’s decolonization.

**British rule of Hong Kong: a cost-benefit analysis**

Hong Kong posed an unusual problem for British governments seeking to withdraw from imperial commitments. Another great power, China, claimed sovereignty, so there was no realistic possibility of independence, and by the early 1960s China had committed in private to maintaining the *status quo ante*. Hong Kong, which ran a trading deficit with China, was a useful source of foreign exchange for the Chinese People’s Government. For the British government, Chinese instrumentalism was fortuitous: its possession of Hong Kong benefited the British economy. By the early 1960s symbiotic Anglo-Chinese commercial interests had created an equilibrium state. Consequently British policy was to ‘stay there and to show that we intend to do so’.[[11]](#footnote-11)

The British Empire was a drain on public capital, and had an adverse effect on Britain’s balance of payments, a constraint on growth. Hong Kong was however an exceptional colony because the costs of retaining this possession were low and Britain benefited economically from holding on. In 1961, the net cost of maintaining a British garrison in Hong Kong was two and a half million pounds per year, and the colony, which ran persistent budget surpluses, had not drawn extensively on metropolitan aid finance. Britain’s trading account with Hong Kong was in surplus due to the size of monetary flows. Remitted profits, pensions, and earnings from investment, insurance and shipping services were high. Furthermore, Hong Kong banked its private and public reserves of Sterling in the City of London, and, if Hong Kong returned to China, these liabilities would have to be met, a ‘balance of payments cost’ estimated at £100 million.[[12]](#footnote-12) In 1962, one quarter of Sterling holdings by British colonial dependencies originated from Hong Kong.[[13]](#footnote-13)

From the mid 1950s, the Colonial Office recognized that the "real cost" of holding on to Hong Kong was being met by a particular British constituency, domestic producers of low-cost manufactures, being out-competed by Hong Kong imports in the UK market.[[14]](#footnote-14) By the early 1960s some of these effects were being mitigated. In 1959, cotton textile producers based in Lancashire had, thanks to interventions by the British government, secured a three-year multi-lateral set of quotas controlling the growth of exports of yarn and cloth from India, Hong Kong and Pakistan.[[15]](#footnote-15) EEC enlargement was an opportunity to create a permanent, comprehensive trade regime that would manage the growth of exports from the Asian Commonwealth to high-income markets in Europe.”[[16]](#footnote-16) Prime Minister Harold Macmillan acknowledged as much in the House of Commons in February 1963:

In the case of those manufactured goods, which are of special importance to India, Pakistan and Hong Kong, we had hoped, by the negotiation of comprehensive trade agreements, to inaugurate in Europe as a whole a move towards those advantages which we in Britain have given to these Commonwealth countries, often at very great sacrifice to ourselves.[[17]](#footnote-17)

This settlement needed to shore up confidence in British rule in Hong Kong. Since the late 1950s British government actions—imposing ‘voluntary’ export restraints and retrenching Britain’s military expenditure—had ‘shaken confidence' in the colony. The danger, from the perspective of bureaucrats in the Colonial Office, was that these cumulative processes would cause a tipping point after which local people, in expectation of a transfer of power, would make ‘terms with the other side’, China.[[18]](#footnote-18) As the next section outlines, Hong Kong’s exposure to the UK market for manufactures made EEC enlargement an acute problem for British diplomats.

**The UK market for Hong Kong manufacturers**

During the 1950s, a period of extremely rapid industrialization in Hong Kong, trade between Britain and Hong Kong, grew quickly.[[19]](#footnote-19) This reorientation was timely because Hong Kong’s entrepôt functions, the mainstay of the pre-war economy, had declined due to China’s turn to autarky and because of Western embargoes. In the 1950s, as Table 1 shows, the expansion of external demand first in the UK and then in the US compensated for a sharp decline of Hong Kong’s export trade with China. By 1960, Hong Kong’s trade with Britain was two and a half times larger than Hong Kong’s trade with the whole of Western Europe, and, as shown in Table 2, for the most voluminous and valuable manufactures, textiles and clothing, the UK market was eight times more important than the West German market, another large and rich economy, which, compared to those in France and Italy, was relatively open to competition from Hong Kong.

 *Table 1 and 2: about here.*

By the early 1960s, British merchants were sourcing a considerable proportion of imported cloth and clothing from Hong Kong.[[20]](#footnote-20) In 1962, Hong Kong was the UK’s largest supplier of foreign clothing, footwear and handbags, providing a third of the total; Italy was the next largest, supplying a quarter. For certain types of clothing, UK importers relied almost exclusively on Hong Kong: three-quarters of men’s and boy’s shirts, and infant gloves came from Hong Kong; over four fifths of imported canvas ‘gym’ shoes, fabric gloves and wellington boots were made in the colony. In 1962, Hong Kong replaced India as Britain’s largest supplier of imported cotton yarn and cloth, and Italy as the largest source of foreign-made girl’s and women’s jumpers, cardigans and pullovers.

British merchants were buying Hong Kong products because they were cheap. By the early 1960s, trade data reveals that Hong Kong industries were out-competing other low-cost producers in the developing world and European producers on price. In 1962 Italian women’s jumpers (at £13 per dozen) were a third more expensive than those from Hong Kong (at £10 per dozen). In 1962, in a new international market for transistor radios, German imports (£7) were a fifth more expensive than sets from Hong Kong (£5.6). These price advantages dated back to the early to mid 1950s, when British manufacturers first began to complain about import penetration by Hong Kong products. In the 1950s, UK producers were reporting that their wellington boots were twenty-five per cent more expensive than boots imported from Hong Kong; that UK-made fabric gloves were fifty per cent more expensive than imported Hong Kong equivalents; and that Hong Kong cloth (drill 3110) was twenty per cent cheaper.[[21]](#footnote-21)

But Hong Kong’s ability to penetrate the UK market was not based on price competitiveness alone. This can be demonstrated using a sample of product ranges for which Hong Kong had a large share of the UK market for foreign-made produce but high prices relative to their competitors. With respect to the category of cloth, ‘drills, jeans and gaberdines’, Hong Kong products were, as Table 3 shows, marginally more expensive then other low-cost producers but had secured a much larger market share. Likewise, although Hong Kong held the vast majority of the market for foreign-made cotton underwear (80 per cent), its products were, as revealed in Table 4, a third more expensive than those from Japan, the next largest low-cost supplier. The main reason why certain Hong Kong products enjoyed a non-price advantage in the UK market was because the British government was using import quotas to manage the growth of exports from some of Hong Kong’s main low-cost Asian competitors, China and Japan.[[22]](#footnote-22) (It is unlikely that Japanese goods were cheaper because they were inferior; and strong network ties between Hong Kong-based export merchants and British retailers and import merchants would only have made a marginal difference, compensating for higher Hong Kong prices by ensuring that the colony’s products were delivered in the requisite quantities and on time.)

*Tables 3 and 4: about here.*

As the next section outlines the primary concern of Hong Kong business interests was that the CET would erode Hong Kong’s price competitiveness, but there was also underlying anxiety within the colony that the non-price competitiveness of its exports would be undermined by nascent multilateral efforts to codify the use of import quotas. [[23]](#footnote-23) There had been a sea change in 1961, when the US administration, working through the GATT, had codified the use of quotas against low-cost exporters of cotton textiles and clothing; this allowed GATT members to use quotas as emergency measures, a protectionist regime balanced by a collective undertaking to allow imports to grow, typically at a rate of five per cent year. As shall be demonstrated in subsequent sections, this shift created uncertainty, making the implications of EEC enlargement much more unpredictable.

**EEC enlargement as a hypothetical economic shock**

Why was enlargement described as the ‘biggest question’ facing the colony?[[24]](#footnote-24) And why did Governor Robert Black writing in *The* *Daily Express* argue that Hong Kong’s exports would be priced ‘off the market’?[[25]](#footnote-25) Essentially because assessments made by business and bureaucratic elites in Hong Kong indicated that, on the application of the CET, Hong Kong would lose half of its share (by volume) in the British market, and that the margins on the surviving trade would be significantly eroded.[[26]](#footnote-26) It was estimated that Hong Kong products paying the CET would become on average twenty per cent more expensive; and British imports from the Six would be on average twenty per cent cheaper.[[27]](#footnote-27) It should be noted (before considering the social costs of this in Hong Kong) that these effects varied across industry. It was estimated that one-third of Hong Kong’s grey cloth production was exported to Britain. Faced by combined tariff increases of thirty-six percent, a large section of the textile industry would, it was predicated, be ‘wiped out’.[[28]](#footnote-28) One-third of Hong Kong’s production of certain lines of clothing, such as gloves and brasseries, were also exported to Britain. Faced by tariff rises of between twenty-three and forty percent, these industries would struggle to compete.[[29]](#footnote-29) Furthermore, new industries, such as transistor radios, dependent on ‘home’ demand in the UK, might be killed off; as would older industries, such as umbrellas and artificial flowers.[[30]](#footnote-30)

The colonial administration predicted that firms would respond to heightened competition in the UK market by cutting costs. This was a risky strategy because by concentrating production on certain lines it might strengthen demands for stronger quota protection.[[31]](#footnote-31) But it was rational for individual enterprises to cut costs, to maintain their market share. Each sector would have cut costs differently. Garment businesses would have slashed wages; in this industry wages were high relative to production costs. Weaving concerns would have laid off workers; in this industry, capital-labour ratios were high. Merchants may also have cut margins. [[32]](#footnote-32) However they were arrived at, these measures would, according to W. C. G. Knowles (the chairman of the Hong Kong General Chamber of Commerce (HKGCC)), cause ‘social and political unrest’.[[33]](#footnote-33)

As Hong Kong was a colonial dependency, Britain had a moral obligation to alleviate such distress. In a letter to *The Economist*, Knowles reminded Britain of this relationship. He believed that the suffering caused by EEC enlargement should be ‘relieved by subsidy’, a fiscal transfer from Britain. This was a powerful message. Thirty five per cent of the four million residents of Hong Kong depended directly on manufacturing for their livelihoods; and forty five per cent of net domestic consumption derived from the export of manufactures.[[34]](#footnote-34) John Cowperthwaite, Hong Kong’s Financial Secretary, also demanded via private correspondence with the British government a fiscal transfer from Britain. He proposed that British tariff revenues reaped from Hong Kong imports should be sent to the colonial administration.[[35]](#footnote-35) British bureaucrats viewed imperial patronage as the last resort. The Colonial Office believed that the colonial administration would, given its track record for low rates of investment in the social infrastructure, use any fiscal transfer to augment Hong Kong’s overseas holdings of sterling.[[36]](#footnote-36) The colonial state had moreover no mechanisms to target relief to those distressed by the fall in UK demand for their products; the government did not provide unemployment benefit or provide industrial subsidies. The British government wanted a strategy based on ‘trade not aid’.[[37]](#footnote-37)

These ritualistic exchanges were a reminder of what was at stake for both sides. It confirmed the consensual view within the British government that its trade negotiators must secure a comprehensive trade deal that would create rules to compensate Hong Kong for any contraction in demand in the UK. The next section considers how these bureaucrats using intelligence sent by the colonial administration in Hong Kong sort to create new rules to govern Hong Kong’s trade with an expanded EEC.

**Framing British strategies**

The British government devised two sets of rules to prevent EEC enlargement from becoming an economic shock for Hong Kong: the first sought to maintain Hong Kong’s share of the UK market; the second sought to compensate Hong Kong for a contraction in its share of the British market by improving access to consumers in continental Europe. Hong Kong was overcommitted in the UK market, and the scope for expansion of garment exports to the US had recently been capped as part of the recent GATT settlement. Hong Kong needed therefore to increase its market share in the Six, expanding high-income markets. EEC markets bought only five per cent of Hong Kong’s exports and were protected by high tariffs on textiles and clothing (twenty per cent in France, Italy, and the Benelux countries; twelve per cent in Germany); by French import quotas on Hong Kong textiles; and by an Italian informal agreement between importers and domestic manufacturers to restrict access.[[38]](#footnote-38) EEC enlargement was an opportunity to open up European markets. Could Britain forge a liberal settlement, facilitating market integration between the Six and Hong Kong?

In February 1962 Sir Pierson Dixon, the head of the UK Delegation to the Brussels Conference, stressing the fragility and importance of Hong Kong, a capitalist enclave next to a Communist China, requested that the Six grant associate status to Hong Kong. British bureaucrats did not believe that the Six would accede but they hoped that they would grant Hong Kong modified associate status, that is, some permanent special trading rights.[[39]](#footnote-39) British policy makers drafted rules based on two premises: that Hong Kong should be compensated for losses in the British market by new trading opportunities in the EEC; and that its access to EEC markets should be similar to those of other Commonwealth and British colonial territories. Conscious that this would cause a protectionist backlash, the Board of Trade proposed that exports of textiles from the Asian Commonwealth (which comprised nearly three-quarters of Hong Kong’s exports to Europe) should be treated as a separate category. The CET would be applied immediately to all Commonwealth imports of textiles but all existing quota restrictions on textiles would be scrapped. This innovative solution would have provided Hong Kong with an opportunity to expand its market share against India and Pakistan, where productivity levels were lower. As a *quid pro quo* for a protectionist regime all other Hong Kong exports would be allowed into EEC markets duty-free, which would provide Hong Kong with non-price competitive advantages vis-à-vis Japan, and with an opportunity to diversify its export product mix via the growth of its nascent electronics sector.

Doubtful whether the Six would accept this scheme, the government formed alternative strategies. Its second-best option replicated existing schemes to deal with the French trade with North Africa: Hong Kong would gain permanent duty-free entry into Britain but re-exports to the Six would be controlled to safeguard the interests of European producers. Its third-best option entailed the application of the CET by Britain on imports from Hong Kong but at a slower rate than proposed by the Treaty of Rome, a transitional regime governed by periodic reviews and subject to policy interventions to arrest distress. It quickly became clear to British diplomats that there was no chance that the Six would grant to Hong Kong permanent preferences, modified associate member status.[[40]](#footnote-40) This left the government to try and implement its third-best strategy.

During these early diplomatic exchanges both sides waged a propaganda war. The rhetorical position of the Six was protectionist. There were differences between the existing members (from the uber-protectionist French to the more liberal Germans) but the common view was that Hong Kong’s exceptionally cheap exports had the potential to ruin European textile and clothing industries. This was nonsense; even if every person in the colony spun, wove, knitted or sowed, and all this production was diverted to Europe, Hong Kong industry would never have been able to satisfy all of European demand. This fear was founded on a persistent belief that Hong Kong was re-exporting goods made in China and Japan, large economies that did have the capacity to meet all of European demand for cheap manufactured goods.[[41]](#footnote-41) The British government countered this claim using its own propaganda. British delegates argued that the colonial state was effectively regulating the local economy, clamping down on the falsification of export documents, which had been rife in the early 1950s but which had ‘virtually disappeared’ by 1962.[[42]](#footnote-42) They also highlighted that the Six ran a trading surplus with Hong Kong, and presented an idealized view of colonialism: that Hong Kong was the Berlin of the East, emblematic of a capitalist route out of poverty. These reasoned and rhetorical positions fell on deaf ears.

This failure to convince the Six that Hong Kong was a developing country worthy of support during the Cold War created a problem: might the Hong Kong issue cause EEC enlargement talks to collapse? The next sections examine how the government handled this diplomatic crisis.

**Implementing British strategies, June 1962 to January 1963.**

After these propagandist exchanges between Britain and the Six on Hong Kong during the early months of 1962, the British government judged the prospect of an agreement involving Hong Kong so poor that it considered excluding the colony from the negotiations. At this stage, the Six were insisting that, as a condition of entry, Britain must apply in the full and with immediate effect the CET on the Hong Kong imports. Under this scenario, discussed with Hong Kong officials, Britain would, once it was a member, have had to provide relief for the colony, and work towards a more liberal EEC commercial policy towards Hong Kong. There was a minor legal problem with this solution; the British government would have had to negotiate on behalf of a colonial dependency against itself, the seventh member of the EEC.[[43]](#footnote-43)

Hong Kong’s exclusion from a trade deal between Britain and the EEC was highly problematic.[[44]](#footnote-44) Britain would certainly have to provide a considerable amount of imperial patronage. And these compensations might be long lived given Britain’s prospects of opening up the EEC to competition from Hong Kong post enlargement. Hong Kong officials believed that the long-term prospects for liberalisation of EEC trade regime were poor, contingent on a strong alliance between Germany and Britain to oppose the French and Italians. Liberalisation might also have deleterious effects on Hong Kong: a common commercial policy might treat imports from Japan and Hong Kong equitably, destroying Hong Kong’s non-price competitive advantages in the UK market. British entry on these terms would mark the end Hong Kong’s privileges as a colonial producer, and colonial officials would have to manage the political fall out within the colony.

British bureaucrats were relieved that, after a summer recess, UK-EEC talks resumed and positions had shifted somewhat. By the autumn, the end game was to craft a transitional regime that would provide Hong Kong with time to adjust before its exports to the UK incurred the full CET.[[45]](#footnote-45) By this point, British delegates had a precedent to work with. In the early summer, Britain and the Six had agreed to a transitional regime for India, Pakistan and Sri Lanka. This involved the incremental application of the CET to British imports of cotton textiles, combined with safeguards to prevent market disruption in the Six caused by British merchants diverting cheaper Indian and Pakistan cloth into European markets. But although British diplomats sought to rework this scheme for Hong Kong, this proved far from straight forward. Three problems arose.

The fundamental difficulty was Hong Kong’s price-competitiveness. Hong Kong merchants had to be given the same entitlement to trade as those in India and Pakistan. But this meant Hong Kong’s market share would expand. [[46]](#footnote-46) This outcome would have destroyed the principle behind the ‘voluntary’ multilateral agreement capping the rate of growth of Hong Kong, Indian and Pakistan imports into Britain.

The secondary problem related to the compensation mechanisms built into the UK-India scheme. The plan for India was to offset a protectionist regime for manufacturers by a liberal regime for tea. There was no equivalent way to sweeten the deal for Hong Kong. Cowperthwaite suggested one: to allow Hong Kong’s cotton textile import quotas to be switched to clothing. But this was not feasible: Lancashire textile interests would have opposed it, arguing reasonably enough that they deserved the same level of protection enjoyed by US garment industries which had already secured quota protection against Hong Kong. [[47]](#footnote-47)

The tertiary problem related to the capacity of the British state to prevent British merchants from re-exporting Hong Kong-made goods into European markets. This was of particular concern to French delegates. The French state had direct experience of operating a control regime for French re-exports of colonial produce from North Africa, and French bureaucrats were still convinced (despite British diplomatic efforts) that a large proportion of Hong Kong goods were made in Communist China. The underlying fear was that British merchants based in Hong Kong, Manchester and London would dump communist goods on the Six. They were therefore not satisfied with a solution that required the model agreed for India applied to Hong Kong.[[48]](#footnote-48) After months of talks they still refused to back a settlement based on a transitional period during which Hong Kong products entered the British markets at rates below the CET.[[49]](#footnote-49) The notion that Hong Kong would dump China-made goods on EEC markets was outlandish but French concerns about Britain’s capacity to prevent UK merchants re-exporting Hong Kong-made goods was legitimate; the British Board of Trade admitted that UK rules of origin would have to be revised to determine precisely how much re-processing would change the status of a re-export from Hong Kong into a ‘British’ export.[[50]](#footnote-50)

In sum, by late in 1962, the British government had been backed into its third-best strategy for mitigating the effects of EEC enlargement on Hong Kong. Even so, there were practical difficulties in the way of an agreement. French delegates were distrustful of Hong Kong’s mode of capitalism, and were unconvinced that the British government and colonial administration could regulate mercantile behavior effectively. This strengthened the French case for the use of the veto. The British government had not solved a fundamental problem: how to withdraw from imperial commitments to Hong Kong without damaging the colonial economy or British prospects for entering the EEC.

From the perspective of UK-Hong Kong relations, the decision of the French to end negotiations in January 1963 was fortuitous. For, as the next section, outline, the colonial administration was already struggling to manage an ill-informed public in Hong Kong.

**Managing expectations in Hong Kong**

During 1962 anxiety in Hong Kong regarding UK-EEC talks heightened. Early optimism that there might be a liberal settlement faded during the spring, to be replaced by a fear that Britain might converge on EEC levels of protection (rather than the other way around). This shift presented the colonial state with a problem: how to manage local public opinion. As this section describes, the British government denied the colonial state autonomy on this matter.

During the spring of 1962 Britain and the Six had, as previously noted, prioritized reaching an agreement on India, Pakistan and Ceylon. The thorny issue of how to handle Hong Kong was put off. By June, Britain and the Six had agreed to a provisional deal for these Commonwealth countries, and so talks on Hong Kong were finally scheduled for July. With time running out before a summer recess, and with negotiators conscious of how ‘very difficult’ these discussions were likely to be, these talks were delayed.[[51]](#footnote-51) A joint UK-EEC statement, which merely mentioned that ‘appropriate measures’ for Hong Kong would be taken before Britain’s entry, heightened concerns in Hong Kong. It was obvious that this vague declaration hid considerable disagreement between Britain and the Six. It provoked a strong reaction in the colony. The Press demanded Hong Kong’s representation at the talks.[[52]](#footnote-52) Business interests in Hong Kong labeled the statement as ‘totally unsatisfactory’.[[53]](#footnote-53)

The major problem from Hong Kong’s perspective was that, despite months of talks, Britain had failed to secure recognition that an enlarged EEC would have a developmental obligation to Hong Kong.[[54]](#footnote-54) Business and professional elites in Hong Kong sensed that the British government would trade-off Hong Kong interests to secure entry into the EEC.[[55]](#footnote-55) Given the local crisis situation, Governor Black and Cowperthwaite requested the right to disclose intelligence on negotiating positions to local elites and thus begin the process of managing public opinion. Members of the organized business groups had had meetings with UK officials.[[56]](#footnote-56) But UK officials had not discussed detailed policy proposals with them, fearing that they would be leaked and that Hong Kong businessmen would lobby aggressively for a better deal. Colonial officials had long been aware of this information gap. Before the issue of the EEC statement, this was recognized as a problem.[[57]](#footnote-57) After its release, Black felt he must be allowed to prepare his public for bad news, and to begin the process of restoring ‘confidence’ in colonialism.[[58]](#footnote-58) The Colonial Office refused. It felt that a public relations campaign by the colonial state would at this stage ‘grievously weaken’ Britain’s negotiating position.[[59]](#footnote-59) This decision was only overturned late in 1962 but by then Black did not want to add fuel to the fire.

In October 1962 the Six finally agreed that Britain (but not the EEC) had a right to take into account its ‘responsibility’ (a developmental obligation) to Hong Kong. This gave Britain the opportunity to devise a transitional regime for Hong Kong, along the lines created for India. [[60]](#footnote-60) This was progress of a sort. The Six also established a working party to formulate a response to British proposals on Hong Kong. Talks had entered the end game. At this point the lack of participation by Hong Kong business elites in decision-making became a major point of controversy between Hong Kong and London. In October a delegation of local ‘unofficials’ attended meetings in London with Edward Heath, the Lord Privy Seal with responsibility at the Cabinet level for the EEC negotiations, and Duncan Sandys, the Secretary of State for the Colonies. These delegates questioned Britain’s ability to prevent a ‘loss’ of ‘confidence’ in Hong Kong. [[61]](#footnote-61) They predicted that, if Britain failed to secure preferential terms for Hong Kong, capital’ would drain from the colony, leading to social and political unrest. The British government’s position changed soon thereafter. The colonial administration was instructed to prepare the public for bad news: that the ‘solution we shall eventually obtain for Hong Kong is not likely to be welcomed in the territory’.[[62]](#footnote-62) Black refused. It was, he felt, too late. He believed that if the colonial state had leaked information about the provisional deal there would have been ‘a substantial loss of confidence’.[[63]](#footnote-63)

The penultimate section explains his reasoning. It shows how, in response to the slow and uneven pace of UK-EEC talks during 1962, Hong Kong business interests engaged in a propaganda war (repeating ineffective British rhetoric deployed early in 1962), practiced shadow diplomacy (forwarding negotiating positions already rejected by the Six) and launched a lobbying campaign in the UK that built up parliamentary and press opposition to Britain’s entry into the EEC.

**Rent-seeking behavior by Hong Kong business groups**

The EEC enlargement talks strengthened a shift from entrepreneurship—that is, making new products for new markets—to rent-seeking behavior: the use by monopolistic organisations of strategies to retain market share. This took a typical form: in an effort to tip some ‘finely balanced decision’ taken in Brussels, Hong Kong business groups invested heavily in commercial public relations.[[64]](#footnote-64)

In response to the impasse in talks, the Hong Kong General Chamber of Commerce, which was dominated by British merchants with strong network ties in London, designated an extra-ordinary budget for public relations, and set up a joint Common Market Committee with the Federation of Hong Kong Industries (FED), a new state-sponsored umbrella organization representing industrial trade associations. This business nexus initially used subscription fee income to pay for lobbying. But, at the end of 1962, the colonial administration agreed to double the stamp duty on exports and imports (from one to two per cent) and allocate these funds, matched dollar for dollar with revenue from general taxation, for commercial public relations overseas.[[65]](#footnote-65) The administration had used a hypothecated tax to turn private lobbying into a public good. This was a curious decision. Powerful figures in the administration, such as Cowperthwaite, perceived commercial public relations as ‘largely a waste of money’. [[66]](#footnote-66) That a parsimonious colonial state granted this concession confirms that it was truly fearful that its relationship with powerful business elites was being seriously damaged by EEC enlargement. It was a decision to shore up its method of rule, which depended on using the social power of elites.

Cowperthwaite’s judgment on the social value of commercial public relations was correct: most of this expenditure was wasteful—business rhetoric was ill timed, and fell on deaf ears. The leaders of the Hong Kong lobby in Europe was Sir Sik-nin Chau, the chairman of the FED and ‘the most influential Chinese in Hong Kong’,[[67]](#footnote-67) and businessmen such as P. Y. Tang, one of Hong Kong’s most successful textile manufacturers.[[68]](#footnote-68) These figures were carefully chosen to embody the territories’ status as a developing country with a large émigré population who had escaped communist persecution and avoided penury by embracing the ‘free’ market. Chau and Tang had a plausible brief: to stress the ‘political importance of [the] colony to Europe’, and the importance of trade to ‘absorb and maintain [the] present population including refugee element[s]’.[[69]](#footnote-69) But this propaganda merely repeated official British rhetoric that had already failed to change prevailing views in the Six.

Shadow diplomacy, which was conducted mainly by white expatriate business elites rather than by Chinese figure heads, was ill timed and failed to enhance the prospect of a settlement. As late as October, representatives of organized business groups from Hong Kong were demanding that the EEC should recognize Hong Kong’s right to ‘exceptional treatment’, to ‘maintain unimpaired’ Hong Kong’s status as a colonial dependency.[[70]](#footnote-70) But British diplomats had already tried out this reasoning, and it had cut no ice with the Six. By late in October there was only one end game: getting the French to *trust* Britain’s transitional scheme for managing Hong Kong re-exports to Britain, and on to Europe. The interventions of Hong Kong business elites were however sowing *distrust*. The problem here was poor communication between British officials and local business elites who were ignorant of British negotiating positions. The Colonial Office had refused to allow the colonial state to keep Hong Kong business elites in the loop at the start of the talks.[[71]](#footnote-71)

By the end of 1962 Hong Kong business interests were developing a different tactic, cultivating pro-Empire members of the Conservative Party, and MPs within the Labour Party that were anti-EEC and pro-Commonwealth. This was astute. During the talks the British public assumed that the British government would put the interests of the Commonwealth before those of the Six.[[72]](#footnote-72) Expatriate business interests were strengthening the conditions for a Press and parliamentary backlash against a trade settlement that failed to honor Britain’s developmental obligations to Hong Kong. During a December House of Commons debate on the EEC, Anthony Royle (Conservative: Richmond), a leading figure in the parliamentary Hong Kong lobby who throughout 1962 had requested improved access overseas for Hong Kong goods and improved publicity for the colony’s ‘magnificent efforts’ in housing and education, asked the government how long would elapse before ‘arrangement could be completed’ for Hong Kong.[[73]](#footnote-73) EEC enlargement talks had therefore entrenched a particularistic imperial network, connecting business elites in Hong Kong with journalists and politicians in London.

**Conclusion**

British diplomacy to mitigate the effects of the CET on the Hong Kong economy damaged Hong Kong-UK political relations. By late in 1962 there was pervasive fear that Britain might enter into the EEC without creating a workable set of rules governing UK-Hong Kong trade. At a time of rising protectionism in the West, this bred uncertainty about the economic future of Hong Kong.

Throughout the early post-war decades confidence in a colonial project rested on the ability of Hong Kong’s industries to enter on preferential terms high-income markets in the West. Hong Kong’s broker was the British government. But, due to the rise of protectionism at home and overseas, the capacity of the British state to secure good terms for Hong Kong was in decline. Hong Kong’s bureaucratic and business elites responded by engaging in their own diplomacy overseas, building up their capacities to influence the formation of bilateral and multilateral rules governing Hong Kong export trade. This had some curious side effects. As documented here, it entrenched a particularistic imperial network linking together Hong Kong business elites and British politicians and journalists.

Shadow diplomacy gave Hong Kong a voice overseas; delegates from the colony, who took up seats at trade talks in Geneva and Brussels, helped to shape discussions about how the world would manage the integration of developed and developing economies. But during this particular episode, EEC enlargement talks, 1961-63, the ability of Hong Kong actors to influence outcomes was extremely limited.

Using economic intelligence from Hong Kong, the British government devised a range of innovative strategies to mitigate the effects of the CET on Hong Kong exports. But, facing opposition from the Six, it was quickly backed into its third-best strategy. Attitudes in the Six towards Hong Kong were intransigent, distrustful of Hong Kong business ethics and fearful of Hong Kong’s price-competitiveness. Despite this the British government prevented the colonial state from managing public expectations in Hong Kong. At the beginning of the talks there were hopes that EEC enlargement would open up protectionist markets to Hong Kong products, vitalizing the colonial project. This quickly turned into a realization that Britain would have to converge with European levels of protection against Hong Kong.

This episode caused a *withdrawal from Empire*, an acceptance that Britain could not meet its existing developmental obligation to Hong Kong *and* secure entry into the EEC. These talks had deleterious effects on Hong Kong-UK relations, heightening anxieties in the colony, sapping confidence in the colonial project, and encouraging the colonial state to turn private rent seeking into a public good, a transfer of money from Hong Kong to journalists and politicians overseas.

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