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**THE EUROPEAN COMMUNITY : NEW STRUCTURES IN AN OLD CONTINENT**

Extract of a speech by Sir Leon Brittan,  
EC Commissioner for competition policy  
to the Chicago Council on Foreign Relations,  
Mid-America Club, Chicago, 24 April 1992

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*In this speech Sir Leon explains the urgent need for a successful outcome to the Uruguay Round, especially with a view to improving US and EC relations with Japan. He also spells out the questions facing the Community over its own enlargement.*

The urgency of the GATT

The logic of the European Community's Single Market applies with equal force to external trade. The Community lives by trade and has an overwhelming interest in the preservation and improvement of the multilateral world trading system.

Europe has to compete in a world economy in which the rules of international trade have been weakly enforced in the past. From its inception the General Agreement on Trade and Tariffs, GATT (sometimes known unkindly as the General Agreement to Talk and Talk), has been flawed. It has suffered from such defects as limited membership; the absence of whole sectors such as textiles and services from its scope; an inability effectively to enforce its judgements; inadequate rules in such matters as intellectual property rights; and over-generous safeguard clauses which have enabled some members to claim exceptional licence for protection.

The Uruguay Round is of critical importance not just because a successful outcome will fill some of the more obvious gaps in the existing rules of international trade, but because it has become a test of the world's faith in the open trading principles which have brought such growth and prosperity since the Second World War. It would be a supreme irony if, just as countries around the world came to recognize the benefits of unfettered market economies, the major developed economies which were the pioneers of free trade and open competition were to abandon their faith in that system. That must not happen, and it will not happen. The Uruguay Round talks are condemned to succeed.

The overwhelming need to arrive at a successful GATT conclusion, however, does not diminish the political difficulty of the task. In the agricultural sector in particular, the major economies, including the United States, have developed extensive systems of protection over many years. And democratic Governments find themselves with very little room for manoeuvre in a area which arouses so much public passion and concern. Yet mutual and balanced subsidy reduction is in the long term interests not only of the farmers themselves, and of the major economies, but of the economies of developing countries, too : for the export of agricultural commodities by the large producers at unrealistically low prices has distorted the economics of local production in developing countries.

The European Community has embarked - not before time, I accept - on a major reform of its agricultural policy. That reform - which is needed for its own sake - may also have a decisive influence on the Uruguay Round outcome if it is matched by equivalent movement from other major parties to the talks, including the United States which has, for example, been extremely reluctant to open up important service sectors such as domestic transport and telecommunications.

#### The importance of a breakthrough for our relations with Japan

The urgency of a breakthrough in the Uruguay Round is reinforced by reactions, in the United States and in Europe, to the Japanese economic phenomenon.

I am convinced that it is the awesome strength of the Japanese economy and the success of the Japanese export effort - giving it an export surplus in 1991 of over \$ 100 billion - which has given rise to much of the present questioning, in the US and in Europe too, of concepts of economic liberalism. For there is a widespread perception that Japan refuses to play by the rules, using predatory pricing and sophisticated non-tariff barriers and anti-competitive practices to protect its home market while it builds up dominant positions globally.

I do not myself accept that analysis. There is much that needs to change in the Japanese economy, but much that is changing. I have been impressed, for example, by the steady increase in the powers and influence of the Japanese Fair Trade Commission in recent years.

The most recent straw in the wind was Matsushita's announcement last month that it plans to reorganize its captive retail system, simplify its system of rebates to retailers, and abolish financial assistance to retailers belonging to the captive distribution network. That is extremely significant and encouraging news.

And the fault for existing trade imbalances cannot all be laid at Japan's door. There is much that the US and Europe should be doing, too, to match Japanese levels of productivity and quality.

My reason for mentioning this debate in the Uruguay Round context, however, is because of the threat posed to world trade by the US reaction to what it sees as unfair Japanese competition. The American reaction has been marked by two tendencies :

- The first has been to launch unilateral measures of retaliation. The famous 301 provisions of the Trade Act are the obvious example, but they reflect worrying currents of isolationism and protectionism which were already evident in such legislation as the Buy American Act. Who would have believed, a few years ago, that the US would be looking seriously at a measure such as the Gephardt Bill which would require Japan to reduce its trade surplus in cars with the US by 20% annually until it is eliminated, on pain of trade retaliation outside the GATT if such targets are not met ?
- The second tendency has been for the United States to enter into cosy bilateral side-deals with Japan. I would cite, for example, the US-Japan Semiconductor Agreement; the Public Works Agreement; satellite and telecommunications Agreements; and most recently the Car and Car Components Agreement proudly announced by the President when he was in Japan earlier this year. It is hardly surprising that such arrangements - to reserve x% of this sectoral market and y% of that one to American goods - provoke anger, suspicion and cynicism elsewhere !

It is my earnest hope that the United States will resist this drift towards managed trade which has strengthened the hand of protectionists and isolationists in Europe, and even cast doubt upon America's real commitment to the Uruguay Round.

I have no complaints about the SII agenda. My beef is with the methods being used to pursue it.

The right approach to Japan is surely to draw her in, developing a fuller and deeper relationship, and integrating her fully into international political as well as economic structures. Recent developments in competition policy in Japan are extremely encouraging from this point of view, and could even be paving the way for more ambitious competition rules at a GATT level in due course. The Competition Agreement which I concluded with the United States last year is an indication of the direction in which I would expect things to move, in time, at a multilateral level.

#### The Community and the Wider Europe

The new structures agreed at Maastricht are not inward-looking or exclusive. On the contrary, the European Community is acutely conscious of its responsibilities, representing as it does the central core of political stability and economic prosperity within Europe; and acting as a pole of attraction to others within the continent. These responsibilities are being fulfilled in a number of ways :

One is through a readiness to take in new members. Already there are six applicants for membership : Turkey, Austria, Malta, Cyprus, Sweden, and most recently Finland. Others, like Norway and perhaps also Switzerland are likely to apply soon. And Poland, Hungary and Czechoslovakia have expressed a firm intention to do so when they are economically and politically ready.

The next new accessions to the Community will probably take place in two or three years.

The Community will, I believe, be ready to accept new applicants which are economically and politically prepared, geographically appropriate, and ready to take on the full obligations of membership.

The Commission has been asked to produce a report on enlargement for the meeting of Heads of Government which takes place in Lisbon in June. Amongst the issues which this paper will need to tackle are :

- The question of whether there is a maximum size of membership beyond which the Community would be likely to lose the dynamism which has made it so attractive to its neighbours.
- Whether, beyond a certain size, dynamism could only be maintained through radical institutional innovations including, for example, a reduction in the number of working languages and a greater reliance on simple majority voting.
- The extent to which the Maastricht undertaking to adopt a common security policy which "might in time lead to a common defence" creates difficulties with respect to applications from countries which are pledged to neutrality.
- The problem of the institutional rights of very small potential new members.
- And the question of timing. How quickly can we integrate new members? Would there come a point at which we would have to call a halt to further enlargement while we digested the most recent arrivals?

I am personally sanguine about the implications of enlargement. At each stage in the Community's expansion faint-hearts have argued that new members would serve to kill the goose which was laying the golden egg. Each time, however, enlargement has served, if anything, to accelerate the process of European integration. The institutional problems are real, but they are secondary. Ultimately, the institutions must adapt to meet the needs of the Community's members. It cannot be the other way about.

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