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CONSERVATIVE EUROPEAN REFORM GROUP



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IS REFORM POSSIBLE?

by Christopher Tugendhat, Vice President of the Commission
of the European Communities

The Conservative European Reform Group is a body of 40 Conservative M. P. 's which aims to promote greater discussion within the Conservative Party on EEC issues, and to achieve major reforms.

The Group has no funds and seeks none. Any profits made from the sale of publications will be donated to the Conservative Party, and any loss will be borne by the membership.

At the 1981 Blackpool Conference, the Group invited two prominent politicians to give an address on the theme "EEC - is reform possible?"

INTRODUCTION

Is reform possible? That is the question about the European Community I have been asked to answer. My reply is Yes. The Community is a living political organism in a permanent state of change, renewal and flux. Sadly, many in Britain are so obsessed with arguments about whether we should be in or out, and with those of its aspects that are unpopular in this country, that they fail to see either the speed or the extent of the evolution.

Of course the pace varies from one aspect to another. This unevenness creates difficulties, as some policies move ahead faster than others, and some appear to make no progress at all. It is, in fact, a major cause of the budgetary imbalance that constantly bedevils Britain's relations with its partners and the need to act on both the general and the particular problem is now recognised by all Member Governments.

They demonstrated this on May 30 last year, the day the crisis over the British budgetary contribution was brought to an end with a temporary agreement until something more permanent could be worked out. They did so by asking the Commission to undertake an examination of all the Community's policies, with the aim of preventing the recurrence of any further "unacceptable situations". The Commission, I am pleased to say, interpreted this mandate widely and in June this year produced a far reaching report designed to provide a basis on which the Community can be re-modelled for the 1980s and beyond. With such an ambitious objective the report covers a wide range of problems and policies and deals quite specifically with the two issues - the British budgetary contribution and the Common Agricultural Policy - that cause most concern in this country.

The fact that the member Governments in the Council of Ministers asked for the report, and the nature of the Commission's response, shows that the will to undertake the Community's reform is very much alive. The Governments, with the participation of the Commission, are now involved in detailed negotiations with the object of building a road over the territory surveyed by the Commission. I believe that rapid progress will be made.

It certainly should be. The West is facing the worst combination of economic and strategic dangers since the 1930s and can ill afford disruption within the Community. The Member States should be working together to tackle the problems which affect them all, not squabbling over details.

PROGRESS SO FAR

As I have already indicated the best answer to the question I have been asked is the Community's record. Though uneven it shows that reform and self-renewal are going on all the time.

The most obvious change has been in the membership of the Community itself. In 1973 the original Six expanded to Nine with the accession of Britain, Denmark and Ireland. This year Greece arrived. Negotiations are now in progress with Spain and Portugal, designed to lead to a further expansion to Twelve within the lifetime of this Commission and, I hope, with the minimum of delay.

Greece, Spain and Portugal were all until recently under dictatorships. They are among the few countries anywhere in the world in recent years to have exchanged that form of government for democracy. It is significant that on their return to freedom, one of their first acts was to apply for Community membership. In their view it is essential if they are to be part of the mainstream of Western European affairs.

The Community institutions have also changed at a pace that would have amazed the reformers of the 19th century heyday of British constitutional development. There are examples of both evolution and innovation.

The European Parliament has evolved first through the acquisition of important budgetary powers, then through direct elections. In Britain those elections did not attract much attention. But we should not allow our own passivity to blind us to the historic nature of an election involving people of nine different nationalities voting on party rather than national lines. Many of those who participated fought against each other during the war. I doubt whether in 1945 any of them would have dreamed that such an election could be possible. It would have seemed utopian.

The outstanding example of innovation is the European Council, the thrice yearly meeting of Heads of State and Government. It was not foreseen in the Treaty and does not feature in what might be termed the "Sacred Texts" of the Community. But the Presidents and Prime Ministers felt a need for it and it emerged. Now it has a central role to play in resolving disputes and pointing the way ahead. It also provides an occasion for its members to exchange ideas on common problems and to work out common positions on a wide range of internal and external matters.

Similar progress has been made in certain major fields of activity as well. The European Monetary System (EMS) and

Political Co-operation, as the procedure for working together and co-ordinating positions in foreign policy is called, are the two most notable examples.

Britain unfortunately decided not to become a full member of the EMS at the outset, preferring instead a sort of 12th man status, neither really in nor entirely out. At that time, in late 1978 and early 1979, it was argued that the disciplines of membership would prevent sterling from falling. In fact, without the benefit of the EMS constraints which are designed to secure stable exchange rates with orderly parity changes when necessary, sterling went through the roof. The opponents of EMS quickly turned their original arguments on their head and despite the change of government in June 1979, Britain has continued in its anomalous position.

The facts speak for themselves. Outside the EMS exchange rate arrangements, the core of the system, British industry has suffered grievously from fluctuating exchange rates. Sterling rose too far too fast at first and since then has begun to arouse concern that it might now fall too sharply. By contrast the EMS countries have enjoyed remarkable stability both by comparison with before the system started and with those currencies outside. Changes have occurred but they have been carried through in an orderly fashion. Throughout this period sterling has of course been subject to special pressures as a result of its petrocurrency status. These have undoubtedly made the fluctuations worse. But by the same token it is even more regrettable that it has not had the backing and assistance of the EMS disciplines and procedures.

The EMS will face further tests. The longer the US pursues a high interest rate policy, the worse the consequences will be for other currencies. Divergencies between French and German economic policies could also cause problems. So too could the enormous public sector and balance of payments deficits for some of the smaller Member States.

The greater EMS's difficulties, the more those who wanted Britain to stay in the pavilion rather than fully participate in the system will crow. But they will be wrong: the greater the difficulties, the stronger the arguments for full British membership. The British economy is as much touched by the consequences of US interest rate policy as those of its Community partners within the EMS. Britain should therefore be co-operating fully with them to form a common front to represent Europe's views in Washington and to intervene in the exchange markets. Nor should Britain forget that stable international exchange rates with orderly movements when necessary are of a major national interest. Britain could only lose, it has nothing to gain if anything goes wrong with the EMS. To maintain this interest and to enable EMS to continue its useful work, Britain needs to be a full member.

Britain also has a considerable stake in the success of EMS's aim on bringing about a greater co-ordination of economic policy. The other members of the Community now constitute by far Britain's largest export market, accounting for some 43% of total British sales abroad. Germany alone now buys more British goods than the US. The Community is also a market in which Britain has been more successful than others. Over the last eight years our exports to the other members have grown twice as fast as our exports to the rest of the world and in 1980 we had for the first time a trading surplus of some £700m, even without taking invisibles into account. Industrial structures, marketing operations and patterns of investment, both within and outside the Community, are increasingly geared to the needs of this vast market. As a result, British jobs and profits are directly touched by the decisions of our Community partners, and it is in Britain's interests to strengthen the procedures for co-ordinating their policies.

In Political Co-operation, unlike EMS, Britain has been active and constructive since joining the Community.

This too is a good example of the Community's ability to innovate in response to changing circumstances. There is nothing about it in the Treaty. It derives from what is now known as the Luxembourg Report of 1970, since when it has grown like Topsy.

Perhaps the best way to describe Political Co-operation is as a process whereby Ministers and officials from Member States engage in continuous consultations on foreign policy through regular meetings and a special network of confidential telegrams. The object is to co-operate and to co-ordinate to the maximum degree and if possible to act in common. In all Member State capitals, Ministers and officials now instinctively think in European rather than national terms on a growing number of foreign policy issues. Douglas Hurd has described it as "the biggest change in diplomatic method" since he joined the Foreign Office in 1952.

The results are impressive. Political Co-operation's first major success was in preparing for the opening in 1973 of the Conference on Security and Co-operation in Europe (CSCE). Since then on the long journey from Helsinki to Belgrade and Madrid, the Community countries have maintained a common approach. Indeed, they have provided the motor for policy development on the Western side. Without this solid core, it is unlikely that such a high degree of overall Western solidarity could have been sustained or that the success, limited though it may be, which has been achieved in the negotiations, could have been reached.

More recently the European Community has launched a distinctive initiative on the Middle East, as a complement to Camp David, and maintained it at a time when the American resolve in that area has sometimes seemed to falter. Had this not happened, I wonder whether even the most responsible Arab Governments would have been able to maintain those good relations with the West

which are so much in the interests of both sides. Last year the countries of the Community acted in common in imposing economic sanctions on Iran over the detention of the American hostages. More recently they have presented a plan inspired by Lord Carrington for ending the Soviet occupation of Afghanistan. They have also taken various economic and political measures in support of Poland.

Against this background it is not surprising that governments outside Europe make increasingly less distinction between the positions of individual Member States and increasingly ask "What are Europe's intentions and what will Europe do?" Together Europe makes a contribution to international peace and stability and to safeguarding the interests of its members that no individual European country can begin to approach.

But the procedures are still sometimes too cumbersome and Europe does not always respond as quickly or decisively as the times require. That is why in his Hamburg speech in 1980, Lord Carrington put forward an important three point plan to strengthen the organisation of Political Co-operation, to deepen the degree of co-operation and to speed up its ability to respond to crises.

The German Foreign Minister, Herr Hans-Dietrich Genscher, has suggested that Political Co-operation should be further developed so as to cover discussion of security questions. I strongly believe that we should go down that road. As the President of the Commission, Monsieur Gaston Thorn, has recently said "The over-simplified separation of economic policy and defence is absurd". When the Community was being formed and in its early days, such founding fathers as Jean Monnet and Paul-Henri Spaak, who indeed went on to become Secretary-General of NATO, were equally interested in both.

I believe that the Community will move in this direction and on two levels. Firstly, the accounting cost in real terms of defence equipment will lead to increasing pressure for the better co-ordination of defence equipment and procurement policies and for the establishment of a genuinely open Community market within which firms can achieve a level of cost effectiveness and creativity comparable to that of the US. Secondly, it is inevitable that within the overall framework of the North Atlantic Alliance there will be particular European interests and concerns that should be articulated within a Community framework. Beyond the NATO area there are already problems, of which the Middle East is the most obvious, that concern Europe's vital interests and towards the solution of which we as a Community should make a distinctive contribution. More are likely to arise in the future.

Because Political Co-operation has no formal rules and rests on a voluntary basis, it is sometimes suggested in Britain that the United Kingdom could remain a participant after leaving the Community. That is a delusion. It could not be done. Political Co-operation cannot be separated from the more formal

institutional obligations imposed by the Treaty. It depends for its existence on the particular intimacy, the continuous contacts and the sense of common purpose engendered by the Community. Moreover, rather like the House of Commons in session and when the Committee stage of a Bill is being taken on the floor of the House, it is increasingly difficult to distinguish between the Ten acting in Political Co-operation and the Community. The way in which the Iranian and Polish questions have been handled, to name only two, shows this very clearly.

Another area in which the Community has demonstrated its ability to change, evolve and reform from within, is in its relations with the developing countries. Taken together, the Community countries constitute the world's largest aid donor, providing 39% of the total compared with 25% from the US and a miserly 1.4% from the Soviet Union. The Lome Convention, an agreement between some 60 developing countries in Africa, the Caribbean and the Pacific, has been described by Lord Carrington as "the most advanced and ambitious partnership now in existence between industrialised and developing countries". More than half of those members are in the Commonwealth and one of the first acts of the newly independent Zimbabwe was to apply for membership.

Britain has always prided itself that it would provide a bridge between Europe and those parts of the world with which it has special historic ties. The Lome Convention provides the best means of doing so. Nothing we or any other individual European Country could do on our own could provide a similarly powerful, attractive force for countries like Zimbabwe on the edge of the Soviet sphere of influence.

WHERE MORE PROGRESS IS NEEDED

Enlargement, institutions, relations with the rest of the world - all provide ample evidence to support my answer Yes, to the question "Is Reform Possible?" It has and is taking place, and ideas for significant new developments are on the table, some from British sources. But there have been disappointments as well. As I have already said, the pace of change varies from one aspect of Community affairs to another and in some is excessively slow. As I also said, this is itself a major cause of difficulty. Hence the Council of Ministers' request last year to the Commission to come up with ideas for the future, and the Commission's response in June. Hence too the negotiations that are now in progress and about the outcome of which I have already expressed optimism.

The disappointments fall into two categories. Firstly, there is the failure to develop more common policies commonly financed through the Budget. As a result the Community Budget is still dominated by the Common Agricultural Policy (CAP) and the flow of funds between Member States which it generates is a fundamental

cause of the British budgetary problem. Secondly, there is the failure to respond sufficiently to new challenges in the mainstream of Community activities, both in respect of common policies commonly financed and in other ways not necessarily involving expenditure at Community level.

In neither sphere is the record as bad as it is sometimes painted. Since 1978 the Regional and Social Funds have grown annually by 30% compared with 12% for agriculture. In 1981 the Community Budget is providing some £1,650m for this purpose. This is far too little to have more than a marginal effect on the problems or to reflect a real desire for joint Community actions. Nonetheless the rate of progress is not negligible. Moreover the Community is also making more use of its ability to tap the international capital markets and to on-lend in the Member States. This year some £2,200m will be made available from that source to augment the Regional and Social Fund spending.

In the industrial sector the Community has provided a common response to the steel crisis. The British Government, the British Steel Corporation and the steel unions were among those who in 1980 pressed most strongly for the first ever declaration of a state of "Manifest Crisis" under which the Commission was given unprecedented powers to organise the market on a European basis. In June this year a second stage of the recovery plan was agreed in the Council of Ministers, aimed at restoring a free market and phasing out national aids by 1985. On behalf of the British Government, Norman Tebbit has said "We could not have solved unilaterally the problems of the British steel industry. The only way they could have been solved would have been in the context of Western Europe and I cannot imagine how that could have been done without the EEC".

Despite this success, industrial co-operation seems too often to be viewed like a visit to the dentist - unwelcome and to be postponed until there is no alternative. In the positive development of those industries - both high technology and more conventional - on which the employment and living standards of all European peoples will in future depend, we have so far failed to achieve the degree of co-operation necessary, or to exploit the opportunities of a European-wide market. The result is bad for us all. Acting individually the European countries are falling behind their major external industrial competitors and face a real prospect of a disastrous decline in which they are squeezed between advanced industrial countries such as the US and Japan on the one hand and the newly industrialised countries who can now produce more competitively the goods on which our past success was built on the other.

In energy too there is a long way to go. This is quintessentially an issue on which we face common problems and need a common response. There should at the very least be a framework of agreements covering crisis management, energy-saving and the twin problems of the diversification of supplies and

the development of new energy sources. None of these exist. We do not even have a common approach to energy pricing, a point which has caused considerable concern to British industrial consumers in recent months.

In Britain, however, most attention has been paid to the Community's failure to grasp the nettle of bringing the CAP up-to-date. The CAP has become a bete noire in this country. Because it dominates the Community Budget, owing to the failure to develop other internal policies in areas such as those I have just been talking about, it is not generally appreciated that it accounts for only some 0.5% of Community GDP. Its success in providing plentiful and reliable supplies of food at a time when many parts of the world are suffering from shortage is taken for granted. So too is the contribution it has made to social and political stability on the Continent, although that is in the British interest just as much as our stability is in the interest of other European countries. Its surpluses are justifiably attacked, but it should be remembered that they provided the means by which the Community was able to provide quick and much-needed help to Poland.

Nonetheless, though the principles and objectives of the Community are sound, the way in which it works needs to be brought up-to-date. The nub of the matter is that prices have been set at a level which encourages over-production, and there is no limit on the authorities' obligation to buy in at guaranteed prices that proportion of the total output that cannot be sold commercially. This in turn has led to the creation of a mass of arrangements for disposing of the surpluses, which add still further to the cost of the CAP and some of which create political difficulties and distortion on world markets as well.

The Commission has been aware of these problems for a long time. Each year since I have been in Brussels it has brought forward proposals to moderate the rate of cost increase, to curb production of wasteful surpluses and to tackle the underlying problems. Sometimes they have been more radical, sometimes less so. If even the more modest had been accepted, the Community would not be facing the difficulties it does today.

But each year the Council of Agriculture Ministers has unanimously gutted the Commission's proposals. Each Minister has been so concerned to secure benefits for his own particular interest groups that the longer term cost of the Agriculture Council's decisions has never received as much attention as it should. In that spirit they have exchanged concessions which over the years have grossly inflated the Community Budget.

It is for this reason more than any other that the Community is now approaching the limit of its financial own resources. It is, I believe, also for this reason more than any other that doubts exist about its ability to reform itself, despite the successes which have been achieved in other fields.

In fact, of course, the threat of financial crisis is a powerful instrument of reform. Because of it the Community quite literally cannot go on as it is. Already the margin between what it spends and what is available to it (from customs duties, agriculture levies and the 1% VAT charge) is so small that everything non-agricultural is being severely constrained. In particular, there is no chance of developing new initiatives in industry, energy and transport, for instance, beyond the prototype stage.

If the limit is reached, both the CAP and other existing policies will be disrupted. New financial own resources can only be made available with the agreement of the national Parliaments of all the Member States, and it is a political fact that this will not be forthcoming in the present situation. Thus the negotiators now working on the basis of the Commission's report have not only the carrot of creating a Community for the 80's and beyond; they also have the stick of a financial crisis if they fail.

Quite apart from this powerful consideration, the Community is at last focusing on a whole range of inter-related problems instead of tackling them piecemeal. The Commission's paper contains ideas on CAP reform, the problems of the Mediterranean, the Regional and Social Funds, industry, energy, the further development of the Common Market itself, a Budget mechanism to limit the British contribution, and new financial own resources. Agriculture, therefore, will no longer be just a matter of trade-offs between Agriculture Ministers. The British budgetary problems will be settled in the context of Community problems as a whole. The granting of new own resources, which will certainly be necessary if the Community is to be carried forward, can be justified by the reforms made in existing practices and the proposals that are agreed concerning present and future policies.

This framework is far more conducive to success than when individual policies are dealt with on their own by the specialist ministers concerned, as has hitherto been the case with agriculture. It is also more likely to bring forward amicable agreements than apparently straightforward negotiations on a single clear issue, such as a budgetary contribution, between one country and the rest or even between two groups of countries. Such negotiations are all too likely to become trials of strength in which one participant has more to gain or lose than the other. When several issues involving the national interests of all concerned are simultaneously on the table, as at present, everyone has an incentive to succeed.

Britain's interest, and it is necessary that British public opinion should understand this, is to conduct the negotiations on this basis. The British negotiators must not give the impression that they are concerned only with the budgetary contribution, important as that is. If they do, others will be reluctant to make concessions on that issue. The other EEC members need to be convinced that Britain is as committed to the Community as a whole as they are, and concerned with all aspects of its development. It

is in any case in Britain's interest to proceed on this basis, as a negotiation involving a wide range of issues provides it as a late-comer with one of the best opportunities it has ever had to influence the way the Community evolves in the future.

I feel on strong ground in saying this because on the two issues that most worry British public opinion - the CAP and the British budgetary contribution - I believe the Commission's paper rises to the challenge. On agriculture its recommendations include bringing internal Community prices more into line with world prices, production targets and limiting the guarantee to support the market, improved quality control and tighter financial management, and a stricter discipline in relation to national aids.

The paper also faces up to the problems created for Britain by the combination of the way in which the CAP works with the absence of other policies generating substantial offsetting flows of funds. It states unequivocally that "Community solidarity demands that a remedy be found to this inequitable situation" and goes on to propose a specific budgetary mechanism to achieve that.

In essence the mechanism involves comparing the United Kingdom's share of the Community's GDP with the proportion it obtains through agricultural guarantee expenditure. On the basis of this calculation, the United Kingdom would receive a repayment. In the Commission's view it should be "fairly high". But the precise amount or percentage of the United Kingdom deficit which it would cover is one of the principal matters to be decided in the present negotiations. I believe that the proposed mechanism, if adopted, would go far towards solving the British budgetary problem, although, depending upon the amount involved, an auxiliary measure might also be needed. But whether the Member States, including the United Kingdom, decide to adopt this mechanism as it stands, to modify it or to choose a different one, the principle enunciated by the Commission is of great importance to the United Kingdom. It should also convince British public opinion that its natural concern over the British budgetary contribution is understood in Brussels.

SOME CONSEQUENCES OF WITHDRAWAL

Is reform possible, I was asked. I have given my answer and explained the reasons for it. But what if Britain should follow the Labour Party's prescription and leave the Community? That possibility too must be examined when one considers the question of the Community's reform.

At best, the European Community would simply go on without us. It would of course be distracted by the de-negotiations, when it should be concentrating on improving existing policies and finding new ways to tackle common problems. In the long term it would also be weakened by the loss, both actual and potential, of all that Britain could do for the common cause. But the Community

prospered before Britain joined and it should be assumed that it could remain a major force after Britain's departure. It is in the interests of democracy and freedom that it should.

In this scenario the main victim of British withdrawal would be Britain itself. At present British industry competes on equal terms with its European rivals in the Community which, as I have already pointed out, is by far the largest export market for British goods. This is partly because there are no tariff barriers and partly because the British Government has an equal say with the rest in setting the rules that govern standards and the terms of competition. After withdrawal tariffs would be introduced against British goods and the British Government would lose that right. British exporters would consequently be put at a massive disadvantage. In its recent policy statement the Labour Party's National Executive Committee (NEC) recognised that "some of our products would face high tariffs and have only restricted access to EEC markets". This self-inflicted loss would not be compensated for by new opportunities elsewhere and huge numbers of jobs would be put at risk.

This would not be the only blow to Britain's employment prospects. The country would also find it much harder to attract new industrial investment. At present one quarter of all such investment comes from abroad, most of it because we are part of the Community's tariff-free market of nearly 300 million consumers. A plant in Britain can therefore be used to supply the whole EEC without "let or hindrance". Following withdrawal that would cease to be possible. As a result some companies would run down their existing operations and the flow of new investment would drastically diminish. Jobs and job prospects would suffer accordingly.

At the same time Britain would no longer be part of Political Co-operation. It would lose the chance to join the EMS and so to enhance its ability to influence the economic policy of its major trading partners. It would have to leave the Lome Convention and so lose one of its best links with the developing countries. Finally, it would deny itself the right to participate in whatever new edifices are built on these foundations in future.

At a time when international relations in every sphere are dominated by countries much larger than Britain and by powerful groups of countries, Britain would be sacrificing the right to play a prominent part in one of these groups. It is not too much to say that this would be an act of self-abnegation unparalleled in our history.

Yet that is the least bad scenario; that Britain will harm only itself. Other possibilities exist as well.

The worst is that British withdrawal from the Community could turn out to be the first step towards unravelling the whole delicate structure of economic co-operation in the West. The

National Executive Committee of the Labour Party has said it would be accompanied by the imposition of protectionist trade barriers, and we know that some prominent members of that party are aiming at a siege economy. In any case Britain would be placing itself at such a disadvantage in international trade relations by withdrawing that any government that did so would find it hard not to be dragged down that road. This would be a significant international event. One of the largest trading nations, and one with all the advantages of energy independence, would be taking the lead in restoring international trade barriers. Not since 1945 would the open trading system on which the West's economy is based have suffered such a blow.

The Community, one of the strongest upholders of that system, would be weakened and distracted. Its disciplines might not hold. There would be strong pressures in the US and other industrial countries to retaliate against whatever Britain did. If one of their major markets was being closed, it would be argued, why should their industries have to suffer competition from British exports? First one, then a rush of other countries might feel obliged to take countervailing action. As a fire devours the forest, although the careless person who started it intended no such thing, so too could the central feature of the post-war Western economic system be swept away.

As we know only too well from previous epochs, there is a direct link between the sort of close political and defence arrangements that at present characterise the West and the economic system that underpins them. If the latter is removed, the former will be threatened.

Perhaps the worst would not happen. Let us hope that other countries would display more wisdom and statemanship than Britain if it decided to withdraw from the Community. But what a risk to run, and whatever the outcome, Britain would be damaged.

How much better to work for the success of the European Community. That is where our interests lie and that is the way we can do most good for ourselves and the world as a whole. Those who would take us out would not only reduce Britain's ability to influence the economic, political and strategic realities of the world in which we would continue to have to live. They would also deal a blow at the capability of the West to tackle the problems that now beset us. Not since Chamberlain's Government ignored Churchill's warnings in the 1930's would a British Government have committed such a historic error.

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