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Speech by Christopher Tugendhat, EEC Budget Commissioner, to Kensington and Chelsea for Europe, in London, Thursday 6th April 1

THE RELEVANCE OF THE EUROPEAN COMMUNITY

One of the most frequent, and also one of the most serious criticisms currently directed against the European Community is that its institutions are at present, and are likely to remain in the future, sadly incapable of making any significant contribution to the resolution of those problems which most actively preoccupy its Member States. In particular, its critics allege, the Community has proved itself wholly irrelevant to the central and most urgent task faced by all the national governments within it, which is somehow to find a way to reduce intolerably high levels of unemployment, to stimulate industrial investment, and to restore sustained economic growth.

These are charges which I believe to be totally unjustified. And since the cynicism about the Community to which they give rise is immensely damaging, I would like to take this opportunity to refute them in some detail.

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External Policy

One of the reasons why the important and constructive role, which, in reality, the Community is already playing in improving the economic prospects of all its Member States is often unrecognised is that much of its activity in this respect has been in an area of policy, external commercial relations, which, in Britain at least, usually receives publicity only in the business and financial pages of the more expensive daily newspapers. Yet the significance for Europe's hopes of economic recovery of the arrangements which she makes in matters of trade and finance with the countries outside her frontiers is difficult to overstate. And there can be no doubt whatever that, by acting together through the institutions of the Community, the nine Member States are able to ensure that such arrangements are much more advantageous to them than would be the case if each was to negotiate separately.

GATT

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GATT

The very substantial benefits for the Member States that can flow from the adoption of a common negotiating position are becoming very apparent, for example, in what are probably the most important of the external negotiations in which the Community is currently engaged: namely, the multi-lateral trade talks within the GATT (General Agreement on Tariffs and Trade) which were formally opened at the Ministerial Conference in Tokyo in September 1973, and which entered their substantive phase, in Geneva, at the beginning of 1978.

The Community's objective in these discussions, in which 97 countries are participating, and which are intended to create a new framework for world trade that will last through the next decade and into the 1990s, is twofold.

First, we want to ensure that restrictions upon world trade in the form of both tariff and non tariff barriers are reduced to the minimum practicable level. To this end, the Community, which is represented in these discussions by the Commission, has argued that industrial tariffs should be cut by as much as 25% to 35%, and is also pressing vigorously for the elimination of a long list of other and often more important obstacles to trade, such as the arbitrary and restrictive arrangements used by some countries for import licensing and customs valuation.

We believe that the swift acceptance and implementation of these proposals would do much to ensure that the long awaited revival of the world economy occurs sooner rather than later; for the assurance of more favourable conditions of market access for a prolonged period in the future would be bound to give a major and much needed boost to confidence and investment in all the industrialised nations.

But while pressing for a substantial easing of existing restrictions on world trade, the Community has also emphasised the importance of allowing the countries which subscribe to the GATT to have a right of recourse to an effective safeguard clause enabling them to take appropriate defensive action when this is made necessary by a sudden and seriously disruptive surge of imports from low cost producers. In my view, this second objective is a precondition of the Community's successful attainment in practice of the first: for unless the members of the GATT are permitted by its terms legally to protect their domestic industries from the chaos which a massive and entirely uncontrolled flood of imports in a particular sector can create, they are likely to treat all the undertakings which they have given under the Agreement with scant respect, thus creating a very real danger of an international trade war on the scale of the nineteen thirties.

There now seems a good chance that the main points at issue in the multi-lateral trade negotiations will be settled by the summer. The final outcome cannot be certain. But the bargaining power which the Community enjoys by virtue of its being responsible for over 40% of world trade - a bargaining power which places it on terms of at least parity with the world's two other trading giants, the United States and Japan - means that there are strong grounds for confidence that the final package will to a great extent embody the demands that we have made.

Textiles

If the successful outcome of the GATT discussions remains to be secured, the recent negotiations conducted by the Community with Third countries concerning trade in goods from one particular sector, textiles, have already reached a conclusion rightly characterised by the British Secretary of State for Trade as an 'historic turning point in the fortunes of the UK textile and clothing industries'.

For some time now, the position of the textile industry both in the United Kingdom and in the rest of the Community has been becoming increasingly precarious, mainly in consequence of the inability of European companies to compete with low cost producers particularly in the developing world.

The consequences of this for the men and women who work in the textile sector have been dramatic and dismaying. The Commission estimates that every thousand ton increase in the Community's deficit in cotton thread means the loss of 160 jobs in weaving; that for every additional thousand ton deficit in cotton cloths there is a loss of 160 jobs in spinning and 300 in weaving; and that every increase of a thousand tons in the deficit in shirts and blouses means 160 redundancies in spinning, 300 in weaving, and 1200 in manufacturing.

Against this dismal background, the European Commission entered bilateral negotiations in the latter half of last year with all the Community's major textile suppliers for the purpose of securing their agreement to limit the future growth of their exports to us. In return for a voluntary limitation on their part, the Community offered the supplying countries security in the administration and application of the ceilings agreed upon.

The prospect of enjoying such security in relation to a market as large and as important as the Community's was one which the supplying countries could not but find attractive. In consequence, satisfactory agreements with virtually all the countries concerned were completed in time to come into force on the first of January this year. The new arrangements to which these give rise will ensure that the overall annual increase in textile imports over the next four years will be limited to about 6% in contrast to an average increase in the last four years of about 22%.

Restrictions of this order will not of themselves solve the European textile industries problems. But by providing known limits to future growth, the agreements negotiated with Europe's suppliers have created the more stable conditions which our textile companies require in order to plan and carry into effect the massive restructuring of their industry which is the necessary pre-requisite of its survival in the new world conditions with which it is faced.

Such restructuring is primarily, of course, a task for the companies themselves, and for the national governments of the Member States. But I should add that the Commission believes that, here too, the Community can make a useful contribution. And we therefore intend to submit, as soon as possible, to the Council of Ministers, a number of proposals covering among other things, the coordination of measures taken by the Member States, the intensified use in this area of the Community's own financial instruments, and the promotion of appropriate scientific and technological research.

New areas where the Member States are looking to the Communi

The external policy activities to which I have referred thus far are ones in which the Member States are legally obliged to act together at Community level. But the benefits of such collective action have been so conspicuous and so substantial that all the Member States have themselves recently been actively pressing for the transfer to the Community of further responsibilities in a number of external policy areas.

The remarkable manner in which the Member States have thus been offering to forfeit some of their rights of individual competence is a development in the history of the Community worth a good deal more attention than it has so far received. Moreover, it is interesting to note that there is no difference in the degree of enthusiasm manifested on this score between those governments which are thought to favour the swift development of Europe towards a united Federal state, and those governments which are associated with a more reluctant attitude towards any further pooling of sovereignty. Whatever the differences in their vision of the Europe of tomorrow, all the Member States prove equally willing to allot new tasks to the Community today, if and when they perceive it is to their national advantage to do so.

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Thus, it has been just as much a consequence of, for example, British as it has been of West German or Belgian pressure in recent months, that the Member States are now dealing with Japan to such a great extent on a Community basis, with the Commission as an interlocutor. For, whatever the disagreements between them in other spheres, all the Member States are equally convinced that such an approach offers them the best prospect of gaining access for their goods to the Japanese market, while preventing unfair Japanese competition on their own national markets.

Steel ./.

Steel

Similarly, impotent on their own to solve the appalling problems faced by their steel industries, all the Member States have proved very conscious of the advantages of action at Community level to help reduce the pressure of steel imports from Third Countries. And indeed the wisdom of the Member States in looking to the Community for this purpose has already been amply confirmed by the practical results. It was only in December that the Council requested the Commission to suggest that all countries which export steel to the Community should conclude with it bilateral arrangements designed to ensure that steel import prices are stabilised at a level which does not exert a downward pressure on the Community's domestic prices. Yet already such an agreement has been secured with EFTA and Japan and a number of other and, equally satisfactory, agreements with, major suppliers - including South Africa and Spain - now appear likely to be reached very shortly.

As in the textile sector the agreements secured by the Commission with the supplier countries will create the conditions in which the European steel industry is able to modernise and restructure. And also as in textiles, the Commission believes that in addition to providing an external shield the Community can usefully play a more direct role in such restructuring, and hopes to unveil appropriate proposals very shortly.

Development Policy

Another area of external policy where the Member States appear to favour an extension of the Community role - although that role is already of course very considerable - is development aid.

The European economy is critically dependent on the Third World both as an essential market for its exports, and as the source of about 55% of its raw materials imports. In these circumstances, the policies pursued by the Community in order to help bring prosperity to the Third World, and in providing such help, to develop our political links with the less developed countries are of very great and obvious importance. At this point I should like to say a word about the renegotiation of the Lomé Convention, the centre piece of the Community's programme, which determines the extent, manner, and conditions of the assistance given to the 53 African, Caribbean and Pacific countries (ACP) which subscribe to it. The Commission has recommended to the Council that the Community use that renegotiation significantly to reinforce the direct economic benefits which the Community receives from its development policy - most notably by making provision for joint planning of investment in ACP countries. Such planning would help to ensure that the economies of the LDCs in future grow in a manner that does not have severely disruptive effects upon Europe's own industries, such as those I described earlier in the Community's textile sector.

A formidable contribution

By any standard, the extensive battery of Community policies which I have outlined comprise a formidable practical contribution to the solution of the Member States' main current problems. Of course, the claim that the Community is in a position to overcome difficulties which the nation state is ill-equipped to handle upon its own was the major argument used by those in Britain who campaigned for her accession. It is true that, as was only natural in the very different economic circumstances of the nineteen sixties and seventies, the British pro-Europeans hoped that many of the problems which the Community would help Britain to solve would be "the problems of success", and not the very different problems arising from world economic failure. But I hope that I have shown that, in the event, the Community has proved extremely an/effective instrument for assisting in the twin task of also mitigating the consequences of recession, and/creating the conditions of a return to growth.

Moreover, the policies pursued by the Community have not only brought the very considerable economic benefits I have already enumerated. The success of the Community in its external trade negotiations has also brought the Member States an invaluable negative gain as well. For the ability of the Community to ensure that on the one hand there is a very good prospect of continued access for her exports to most Third Countries, and that, on the other, her own domestic market are provided with/ reasonable safeguards against severe disruption has greatly diminished the temptation experienced by some of her national governments to close their markets to their partners, thus triggering off a trade war within the Community from which all its Members would be very heavy losers.

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When challenged, some at least of the Community's critics do not deny that it has secured for its Members significant economic advantages. But they complain that the political price which the Member States have to pay for these gains is unacceptably high, entailing, they allege, the subjection of national governments, in the areas of policy concerned to the diktat of an alien supra-national authority.

But complaints of this kind demonstrate a complete and depressing ignorance of how the Community actually works. For, far from being imposed upon the Member States from without, all the policies I have mentioned - and indeed virtually all the policies which the Community pursues, in whatever sphere - have been negotiated and agreed by the representatives of the Member States themselves, meeting in the Council of Ministers. Furthermore, within the Council each Member State enjoys in practice the right to veto any proposal which it believes to be contrary to its vital interests thus no major policy can be adopted unless it has the agreement of all nine national governments.

Europe's system of decision making can legitimately be criticised as being in some respects unwieldy and inefficient, and the Commission would like to see a number of changes in the Council's procedures, in particular much less use of the right of veto on relatively minor matters. But whatever its defects, the administrative and legislative machinery of the Community constitutes at present, and is certain to remain in the future, the exact reverse of the supra-national despotism which haunts the imagination of the anti-marketeers.

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The extent to which the Community can only proceed on the basis of the prior agreement of all its Members accounts for a prominent feature of it, the significance of which is frequently misinterpreted; namely, the often protracted, and sometimes very heated bargaining sessions that regularly take place between national ministers in Brussels and elsewhere.

Many people mistake the sound and fury of fierce argument during these sessions for evidence that the Community is so divided that its very existence is seriously in peril. The reality, however, is that in a system of decision-making based upon the consent of all the states concerned, rather than upon the command of one overriding authority, continuous debate and argument - so long as they are conducted within due limits - are not an obstacle to, but rather a vital condition of achieving the ever deepening consensus upon which continued progress depends.

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The need for new initiatives

Having spent most of the time available to me praising its achievements I must conclude, however, by emphasising the extent to which the full potential of the Community to contribute to the solution of its Members' difficulties has not been realised. The Community actions to which I have drawn your attention have all been either in the external sphere, or, if they concern internal policy, have been confined to a single industrial sector. Yet it ought to be increasingly obvious that the Community could, if it was permitted, also do much to assist the Member States in the realm of macro-economic management.

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The scale of the present recession is such that no single Community country - even the strongest - can hope to restore growth, and thus full employment, merely by its own unaided efforts. Each Member State depends critically upon the ability of the others to purchase a high percentage of its exports. In Europe's present circumstances of universally depressed demand, this means that a major reflation by any one national government will bring it little, if any, lasting benefit unless it is accompanied by similar action on the part of the rest, or at least most, of its partners.

There is an evident need, therefore, to work out a coordinated strategy for reflation on a Community basis. For some time the Commission has been pressing for precisely this. But, until very recently, most of the Member States have gone little further than conceding that such a proposal is attractive in principle.

Now at least, however, there are some signs that the continued failure of purely national macro-economic remedies for the economic crisis is causing national governments to ponder more seriously the possibilities of an initiative at Community level. Mr Callaghan for example has repeatedly emphasised in recent weeks that Britain cannot solve her problems alone. And in February the Council of Ministers requested the Commission to prepare a paper stating its ideas in this field in more detail for the next summit meeting of the Community's Heads of Government.

That meeting is to take place in Copenhagen tomorrow. It is by no means clear that the political will yet exists to adopt the course which common sense dictates. But if the Heads of Government do use the occasion to commit themselves to a common reflationary programme, then 7 April 1978 could prove, both politically and economically, a major landmark in the Community's history.

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