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Speech made by Mr. Christopher TUGENDHAT, Vice-President of the Commission of the European Communities, at the "Gesellschaft für Auswärtige Politik" (Foreign Policy Society) at Bonn on Tuesday, October 20, 1981.

THE EUROPEAN COMMUNITY AND THE CHALLENGE OF THE WEST
IN THE EIGHTIES

I should like to begin by thanking the Deutsche Gesellschaft Für Auswärtige Politik for its kind invitation.

In his memoirs Henry Kissinger writes that those who hold high political office live off their intellectual capital. They are so busy with decisions that they do not have time to think through and rethink their basic positions. Although I would not wish to compare my position with that which Mr Kissinger held, this is a danger of which I am very much aware and is one of the reasons I am so pleased to be here this evening. The challenge of an audience and of a title such as this is a welcome spur to reflection.

It gives me the chance to consider a range of issues together, to think through my ideas on some of the

problems facing the Community and to make suggestions on where we ought to be going. My choice is determined partly by what I regard as important, partly by my own expertise and experience and partly by a desire to draw attention to certain aspects of the Community which are too often overlooked.

I start from the proposition that if Europe is to rise to the challenge of the eighties its inspiration must be those words in the Treaty of Rome enjoining us to work towards "closer relations between the Member States" and "ever closer union among the peoples of Europe"; words surely even more valid now than when they were written.

At that time memories of the war were still fresh and the postwar reconstruction was still being completed.

Adenauer, Schuman, de Gasperi and the other founding fathers were determined that Europe should be spared the horrors of war and its consequential social and economic disruption through which they had lived. They were also determined that Europe should play its part in helping the world to avoid those experiences as well. As it happened, however, the years during which the foundations of the Community were laid turned out to be a golden age of political stability and economic progress throughout the West. Those of us who lived through them did not think so at the time but in retrospect they seem so.

The credit should go above all to the United States for the responsible way in which it used the strategic and economic domination which it then enjoyed. It safeguarded the defence of Europe and many other parts of the world as well. It underpinned the Bretton Woods system of international monetary relations based on fixed but

adjustable exchange rates. It also provided the impetus for the various arrangements made under the auspices of GATT to dismantle protectionism and encourage the freedom of international trade.

Two other factors characterise this period as well: the abundance of cheap energy, above all oil and the general moderation of wage demands. As a result governments throughout the West were able to pursue high employment policies and to provide an ever-rising level of social benefits.

In this warm and favourable international climate the Community passed its infancy. The Common Agricultural Policy and the Common Market were established. The institutions took root and the habits of cooperation were formed. As we in Britain discovered to our cost these developments enabled you to derive more advantage from the

prevailing circumstances and to move ahead faster than those of us who were not members. Unfortunately, however, the storm clouds gathered as the first Enlargement negotiations unfolded and the storm broke soon after their completion.

US economic domination gave way before the rise of Europe and Japan. In itself this was of course a good thing. But we failed to develop an effective collective leadership to replace the old hegemony. In many countries social expectations and demands began to outrun economic growth leading to high inflation and the disruption of the Bretton Woods system. At the same time exports from Japan and the newly industrialised countries started to threaten industries on which large-scale employment in Europe and the United States depends, thereby provoking demands for protectionism. All these trends were then made

infinitely worse and more difficult to deal with by the two massive increases in oil prices.

Thus we now find ourselves living in a world in which the fabric of our domestic societies and of our international relations is pulled so taut that at any moment it could tear apart. We are threatened by a combination of economic and social problems so contradictory that, as the Governor of the Bank of England Mr Gordon Richardson recently observed "the textbooks used not to acknowledge that they could co-exist". The basis of international monetary relations has been swept away, the open trading system is threatened by demands for protectionism and the international strategic situation is more menacing than for a long time.

So now the Community must show what it is made of.

Can it provide a framework within which we can jointly tackle our economic problems and so the social and political difficulties that flow from them? Can we make it the basis from which to bring our joint influence to bear on international economic, political and even strategic problems? The challenge which the founding fathers foresaw has come later than they might have expected. We were given time to consolidate before having to face it. Goethe tells us that "Genius develops in quiet places, character out in the full current of human life". Our founding fathers and those who followed them such as Walter Hallstein, the first President of the Commission, provided the genius. Now that the test is on us it is up to us to supply the character.

The first essential is that the Member States acting within a Community framework should set themselves

common objectives, identify their individual interests with those of the whole and be prepared to help each other in difficulty. This in turn means that all must be equally involved in all the policies that are undertaken.

In the short term, 'Europe à la carte' has attractions, especially for impatient heads of government, anxious to see quick results or to avoid difficulties at home. It means that those Member States which want to work together on something and are ready to do so can move ahead without waiting for others. By the same token those which have difficulty in doing so can opt out. How much easier it all sounds than the endless negotiations that at present attend the birth and implementation of Community policies.

But in the longer term, and not very long at that, such an approach would destroy the whole Community ideal.

If the Member States become free to choose which policies to participate in and which not, they will soon join in only those from which they expect to derive tangible benefits. By the same token governments will increasingly tend only to work with those of their partners with whom cooperation is easy and not with the rest. The concept of working , negotiating and conciliating together to widen the area of common activity and range of common purposes will die. As it does so the Community will disintegrate into a collection of overlapping inter-state relationships. As such it could provide neither the framework for common internal action nor the basis for external initiatives that the founding fathers envisaged and the times demand.

Let me illustrate this point by considering first the internal market, one of our earliest and greatest achievements. By definition it could not have yielded its benefits if individual Member States had been able to opt

out when it suited them. The certainty of tariff-free access to the whole "espace commercial" if I might call it that was essential to encourage the enormous capital investments that provide the jobs and generate the rapid growth of intra-Community trade on which so much of our earlier prosperity was based. If the protectionist demands of special interest groups in various Member States had been accepted jobs would have been saved in the short run. But the longer term cost in employment opportunities, wealth and greater consumer choice would have been enormous. Moreover it often turned out that those who were most fearful of enhanced competition at the outset proved to be the most dynamic both in Community and world markets when forced to face up to it.

What was true then is true now. So the Commission

is determined to ensure that differing health, safety, technical and environmental standards should not be allowed to take the place of tariffs as barriers to trade. We are also determined - and I speak as the responsible Commissioner - to create a common market in financial services, notably at first banking and insurance, to take its place alongside that of goods. Some of those even in the Federal Republic who were most enthusiastic about the original aim are among the more reserved on this one. But the imbalance is contrary to the Treaty, unjust to those who would gain from the elimination of barriers both as buyers and sellers and an obstacle to increasing the competitiveness on world markets both of our financial sector and of those who use its services.

Another anomaly that I think needs to be tackled is the practice of so many Community governments of directly or indirectly forcing their departments and institutions which

are dependent on them to buy only the local product.

Public procurement now accounts for some 10% of Community

Gross Domestic Product and often has a determining role

in the introduction of new technologies in areas such as

telecommunications, data-processing, energy and transport.

If we are to compete successfully against the United States

and Japan the public procurement programmes of our ten

governments must be established on the basis of common

criteria and thrown open to companies from all Member States.

They should be designed and regulated in such a way as to

secure the possibility of benefits for the industries

concerned on a Europe-wide basis. The achievement of this

aim will require careful negotiations as each Member State

must feel that in opening up its market it is securing

commensurate opportunities for its national companies

in others.

I believe better coordination of government procurement in the industrial sector particularly in the high technology industries should have implications for defence and for the defence industries. The same governments and the same companies are involved. If European industry receives the benefit of coordinated government procurement programmes in the civil field, it is likely to seek it in the defence field as well. And if governments are able to coordinate their civil procurement programmes more effectively they may well see attraction in extending the process to their defence programmes. All European countries, even those most dedicated to the Western Alliance are having difficulty funding their defence programmes and such a move could do much to enable them to fulfil their defence obligations more effectively than at present despite budgetary constraints.

In any case the division between defence and civil industrial technology is blurred. Much of the defence equipment that is needed today involves technology which pushes at the limits of scientific and engineering development. In the aero-space, electronics and shipbuilding industries, to name only three, defence provides both a major source of orders - 60% of aircraft industry sales within the Community for instance - and thus an essential stimulus to the technological advance that is essential if they are to remain competitive on world markets.

Unlike the Common Market the European Monetary System had to be established on a partial basis because of British reluctance fully to participate. I believe that once it had become clear that the choice lay between going ahead without Britain in the exchange rate arrangements or not at all that it was right to proceed. Their success in creating a zone of relative monetary stability in which

when necessary adjustments to central rates have been carried through smoothly, promptly and without disruption to markets, is proof of that. By contrast the wide fluctuations in the exchange rate of the pound and the effects these have had on British interest rates show how mistaken Britain was to remain outside. I will continue to press my compatriots to join both for their own sake and in the wider European interest.

The further development of EMS to the extent that it is needed to defend Europe's vital interests in international monetary matters requires the full participation of all Member States. The events of the last few months have shown that despite our success in bringing order to the relationships between our own currencies we are still very much at the mercy of what happens in the United States. Because of American policies we have been forced to raise

our interest rates to levels that are damaging to our economies and the pressures on our exchange rates have been intense.

We desperately need to find more effective ways of influencing the Americans on the one hand and of counter-acting the effects of their policies on the other when these run counter to our interests. So that there can be no doubt on the matter let me make it quite clear that I believe the best way to conduct international monetary relations and indeed all other types of international relations is in cooperation with the United States and not in opposition to it. But such cooperation in this field as in others that I shall touch on later in my speech is more likely to occur if we can function as a block of comparable weight rather than as disunited entities. The incomplete participation in our system of one of the major European currencies and the uncertainty this creates about how it will be managed

both in relation to its partners and external currencies is therefore a significant point of weakness.

The most pressing need is for our individual national economic and monetary policies to be discussed more systematically in advance at Community level and to be more intensively coordinated. Those who advocate most strongly a united front to the outside often tend to forget that this is an essential precondition to external success.

On the external front I would like to see the establishment of a coordinated system of intervention by the Community viz a viz the dollar and other major currencies. Though this does not require the creation of a European Monetary Fund the operation would, I think, be facilitated

if such a body could be set up. An EMF as was of course originally envisaged for the second stage of EMS would in any case be needed if we are to make the progress I regard as essential towards establishing the ECU as an international reserve currency. Until the world has an alternative store of monetary value to the dollar - apart of course from gold - it will be extremely difficult to counter the effects on national exchange and interest rates of large movements of funds into and out of the dollar.

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Neither the internal market nor the EMS involve expenditure programmes. Perhaps that is why they have engendered fewer disputes than the Budget, another area of Community activity where I have direct responsibilities.

In recent years disputes between Member States and between the Community institutions - Council, Parliament and Commission - arising out of the Budget have been creating increasingly serious tensions. Those involving the states have dominated European Councils, while because of the latter the Budget has been rejected by the European Parliament or had its legality challenged by Member States in each of the last three years. As the Budget is the point where the interests of the Member States and

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the competences of the institutions meet and rub against each other, a certain friction is inevitable. But we have now reached a point where unless the Community Budget is put on to a better footing, the disputes it engenders could do irreparable damage. Indeed, I fear they could jeopardise the far-reaching ideas for European political development that are currently being put forward in this country and elsewhere.

The nub of the problem derives from the imbalance between agricultural expenditure and the rest. The Community Budget, like any other, is a mechanism by which political aspirations and decisions are given the practical form which enables them to be carried into effect. This does not mean that a large

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Budget is good and a small one bad. Far from it.

The size of a budget must depend on a whole variety of political and economic circumstances. But the range of policies it covers and the balance between them is as good an indicator of the political priorities of those who draw it up, or at least of their ability to agree on those priorities, as can be found.

The present structure of the Community Budget reflects a two-fold failure on the part of the Community. On the one hand, it shows that not enough has been done to bring agricultural expenditure under proper control: on the other, and of more importance, it indicates how little progress has been made towards other common expenditure policies and so towards implementing a common purpose in

many fields. If the Community is to have a real impact in helping the Member States to overcome current economic problems, I cannot believe that agriculture should be the only significant example of a common expenditure commonly financed. This is not to say that policies for dealing with unemployment, industrial innovation, energy, regional imbalances and the like should be financed wholly or even mainly through the Community. In the present circumstances that would be absurd. And in any case important aspects of them will no doubt always be best handled at national level. But declarations of intent by Governments about working together to achieve common objectives can mean anything or nothing. Even undertakings to co-ordinate national policies can all too easily be forgotten in times of stress. An element of Community finance is essential.

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For policy issues involving expenditure, the Community Budget provides the best way of ensuring that all Member States fully participate both in setting objectives and working towards them on a continuing basis. Common policies commonly financed may account for only a modest proportion of the total expenditure by the Member States in the fields in question. But they form the arches that link together the various national edifices and make possible the long and difficult process of fitting the national policies together in a coherent and mutually compatible form. The greater the range of policies included in the Budget, the greater the scope will be for widening the range of common objectives pursued by the Member States.

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Three principles will however, in my view, have to be observed. Firstly, common policies must be worked out on their own merits on the basis of the Community interest. They should not be determined either in order to yield particular results for a particular country or to offset the consequences of another policy. If these considerations become paramount, they will turn into a mish-mash of distortions and anomalies. Secondly, if a group of countries with disparate economies at various stages of development is to work together towards common objectives, the richer will have to accept an element of re-distribution in favour of the poorer.

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Thirdly, it will be necessary to build in safeguards to assure Member States that their contributions to the common cause do not develop unfairly in relation to others nor run out of control. This is bound to be a subject of interest to the Federal Republic. For my part, as Budget Commissioner for the last four years, I would like to say how conscious I am of the scale of Germany's contribution and of the political effort required to sustain it.

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Before leaving the Budget, I would like to make one other point. Only in the Budget procedure does the European Parliament have real powers that cannot be bypassed or ignored. Thus the greater the range of policies carried out in part through the Budget, the greater will be the role and influence of the Parliament in the Community's affairs. If, of course, Parliament is given new powers, its position could be enhanced in other ways. I would like to see that. Nevertheless constitutional history shows that in the end it is the power to pass or reject budgets that constitutes the most important single power of Parliaments. This is not because budgets either are, or should be, rejected, except on very rare occasions; it is because the passage of a budget enables a Parliament to bring influence to bear on the scale of policies, their direction and their mix.

Everything I have said so far has been designed to give practical effect to the "closer relations between Member States" and the "ever closer union of European peoples" that I believe is essential if we are to rise to the challenge of the 1980s. I have also had in mind the wise words of that great British Foreign Secretary, Ernest Bevin, who used to tell his followers that success in foreign policy depended a great deal on the effectiveness of the industrial and economic policies that underlay them. The matters about which I have spoken this evening are not just important in themselves. They also form the basis on which the ideas now circulating for enhancing the Community's collective foreign policy voice will have to be built.

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These ideas, some of the most valuable of which have originated in the Federal Republic, should in my view constitute the next great wave of European development. Opinion will no doubt differ from one capital to another on how they should be implemented and the extent to which the Community's constitutional arrangements should be altered. I hope that these arguments will not lose sight of the central point, which is to ensure that Europe can make a distinctive contribution on issues which concern our vital interests and play an effective role in influencing and partnering the United States. If we cannot bring our collective weight and solidarity to bear in international relations, our individual voices will not get much of a hearing.

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The strengthening of Political Co-operation will inevitably lead to a broadening of the areas of activity which it encompasses. In particular, it seems clear that there will be a greater readiness to discuss issues of security policy and it has been suggested that this in turn may lead to a degree of Community involvement in the defence field.

As far as a security policy is concerned, it is of course natural that when Ministers of Community Governments discuss the problems facing them, they should devote an important part of their time to the problems of their own continent and in particular to East/West relations. They have indeed begun to do so already. One of the first successes of Political Co-operation was the achievement of a common European approach to the Conference on Security and Co-operation in Europe.

There are, moreover, good reasons why the countries of the Community should discuss together certain security issues. Arms control, for example, has a particularly European dimension both because of the special situation of the Western European countries vis-à-vis the Soviet Union by comparison with the situation of the United States; and because there are in many European societies domestic pressures and concerns, as recent events in this country have shown, which are not shared on the other side of the Atlantic. This does not mean that the Community, by discussing such issues, would attach any less importance to the discussions which take place in the North Atlantic Alliance. On the contrary, a common understanding among Community Governments can often serve to help discussions in the wider NATO forum.

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To suggest developments along these lines is not to imply that the Community need suddenly acquire a new defence dimension involving a radical change in Western Europe's security institutions. Nine out of the existing ten Members of the Community already share a common security policy which is based on their membership of the North Atlantic Alliance. Of the two acceding countries, one is already a member of the Alliance and the other seems to be on the verge of joining it. But such defence problems as the proper balance between military capability and arms control, the need for more cost-effective use of defence resources and questions concerning the deployment of particular types of weapon, touch all the peoples of Europe very directly.

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War, it was once said, is too important to be left to generals. By the same token, matters relating to the prevention of war are too important to be excluded from the European Community. After all, the prevention of war between European peoples was one of the principal objectives of those who conceived and launched the European idea. In an appropriate form, and bearing in mind the interests of those who depend on us, and those on whom we depend, the Community must cover whatever is essential to the well-being of its peoples.

So I return to where I began: to the vision of a European Community that can provide a framework within which we tackle our internal problems and a basis from which we can make our influence felt in the world. But let us never forget that we are not just in the business of economics or even of politics. The Community has a higher purpose than both.

Our task as we build Europe is to show that the values on which our societies are based can fulfil their promise. We must show that in economic terms they can provide our citizens with a wide range of career opportunities to develop and use their talents. We must show that in freedom and tolerance men and women can best develop their full potential as human beings and the more generous aspects of the human character. We must show, finally, that within our society there is the best chance for most people to enjoy peace of mind and happiness.
