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THE EUROPEAN DIMENSION OF GERMAN EXTERNAL ECONOMIC RELATIONS

I should like to thank you for your kind invitation for me to come and talk to you this evening about problems connected with the European Community and German foreign trade. I am particularly grateful for the opportunity because this is the first major public speech I have made since I took up my post as Member of the Commission of the European Communities.

Therefore, I hope you will understand if I do not leave out the political and longer-term aspects of the subject. You are entitled, precisely when the European and world economies are going through a difficult phase, to an open discussion about the overall economic situation and the medium-term prospects for the economic unification of Europe - and, hence, about the general conditions in which your members' business activities will be conducted.

The historical whys and wherefores of the European Community's foundation are well known. So are its successes since 1958 - successes in which trade has played such an important part. The volume of trade within Europe, which is conducted according to Community rules, has expanded to over twenty times the 1958 level at current values. Even if enlargement is taken into consideration here, the expansion of trade within the Community has been far more dynamic than the development of world trade, without it being at the latter's expense.

For the European Community's position in world trade has become considerably more important since 1958.

At the end of the seventies the Community countries accounted for around 36% of world trade (including internal trade), that is twice as much as the United States and four times as much as Japan.

Even when we ignore internal trade and take the Community as a single entity on the world market, its share of world trade is about equal to that of the USA and Japan together - 23%, as against 16% for the USA and 9% for Japan.

The Federal Republic of Germany has played a considerable part in this development.

Nearly half of total German import and export trade is now conducted with the Community - that is over 10% of GDP; the share was barely one third in 1958.

For years now, France and the Netherlands have been by far our biggest trading partners as regards both exports and imports; each of these Member States accounts for over 10% of total trade.

There has also been a noticeable increase in the concentration of investment in the Community.

Germany's direct investments in Community countries progressed to DM 17 000 M in 1978, thus nearly attaining the level of investments in all other industrialized countries. This is still nearly three times the figure of the German economy's direct investments in the United States, which, as you know, has been particularly attractive over the last few years because of the weakness of the dollar.

The degree of interdependence is now such that, under normal political circumstances, even sceptics must admit it is practically irreversible. The social cost of withdrawal from the European Community would now be so high for everyone that any democratic government would sooner or later pay for such an attempt with its own collapse.

This even applies to the United Kingdom, where the recent controversy about membership of the Community has reached particularly massive proportions, obviously because of a pure lack of information. In any case, the real situation can be seen from the figures referred to recently in the House of Commons by Mr Pym, illustrating where British interests lie.

There are already two and a quarter million jobs in the United Kingdom that depend on the European Community - and these would be lost if Britain were to withdraw.

United Kingdom exports to the Community countries have grown twice as fast since accession as those to other countries - they account for 43%, compared with the 1973 pre-accession figures of 30%.

One of the Community's Member States - namely the Federal Republic of Germany - has recently supplanted the United States as the United Kingdom's largest export market.

According to Mr Pym, membership has made the country more attractive for foreign investors; the United Kingdom now accounts for over half the United States' non-oil investment.

The common agricultural policy has also contributed largely towards this interdependence. The system behind it is better than its write-up in the press. The fact that it has turned out to be too expensive has less to do with the system itself than with the policy that has been formulated on the basis of it - always with the consent of the Finance Ministers, by the way. For it has also helped keep under control the enormous change in agricultural structures, above all in the Mediterranean area, without its having any runaway economic or social effects. It now needs to be adapted to changed circumstances - but in a natural way and not in a piecemeal fashion. One of the changes is the forthcoming accession of Spain and Portugal, but also the realization that there will be twice as many people in this world by the end of the century as there were when the Treaties of Rome were being negotiated and when the Stresa Conference took place. Hence it is obvious what the consequences are going to be for equilibrium on the world market and what the price trend for agricultural produce is going to be.

In this present policy phase of agricultural embargoes no-one can deny that world trade in agricultural produce has become a political issue. It could become as explosive as that of world trade in oil and other fossil fuels.

According to FAO estimates, the grain shortfall in the developing countries will amount to 100 M to 120 M tonnes by the end of the eighties; and agricultural production in the developing countries would have to increase by 4% - instead of the present 2.9% - per annum by the year 2000 in order to cover just basic requirements. This is just to show that, when we are judging agricultural policy, we should not limit our considerations to the short-term and purely European aspects.

In my opinion there is not much point in mourning over alternative European agricultural policies which were theoretically possible in 1958 and perhaps even corresponded to the letter of the Treaty. At no time were any other solutions politically possible than those actually adopted.

Another positive achievement is the effect the European Community has had on liberalizing world trade. The Dillon, Kennedy and now the Tokyo Rounds would not have been as successful without it and the result is that external tariffs have lost a lot of significance as instruments of protection and barriers to world trade.

The Community's external tariff protection is now lower - some 8% to 9% - than that of its biggest competitors, the United States and Japan.

With the Lomé Convention the Community made the largest constructive contribution on the part of the industrialized countries to the development of trade relations with the developing countries.

Without going into the somewhat academic question as to what share the European Community has had in this development, there is no denying that without the EC it would not have been possible to achieve either the internal or the external successes which I have just described.

No single state would have been able to have as much weight and influence vis-à-vis the outside world - from the economic and political viewpoints - as the Community as an entity.

This is particularly true of the Federal Republic with its strong involvement in foreign trade and payments and the fact that its starting point as regards policy is, in many respects, singular.

The Community's decision-making processes and institutions, too, have proven useful and capable, in any case in so far as those involved have been meticulous and honest in observing both the spirit and the letter of the Rome Treaties. If it appears today that the Community is less able to take the strain and more prone to crises, then this is because a few shifts of power have crept into its domestic affairs and into the interplay between the Community institutions - and this needs correcting. The core institutions - the Parliament, Court of Justice and Commission - have suffered a loss of influence which is unduly hindering the development of the whole Community, and it is the centrifugal institutions that have benefited - that is the Council of Ministers and the Permanent Representatives Committee plus the body for which there was not even any provision in the Treaty, the European Council of Heads of State and Government.

This shift of power has meant that what the founders of the Treaties wanted to avoid at any price has become the rule, namely the tendency at all diplomatic conferences to level everything down to the lowest common denominator. For example, when the European Council takes on a problem of average importance, such as fisheries, but does not manage to solve it then the repercussions of its failure go far beyond the realm of fisheries. The loss of faith in the capability of the European institutions to take any action has an effect on all aspects of integration:

- on the economy, where it is necessary to know when deciding on investments whether the success of the policy of economic unity can still be relied upon; but above all

- on the army of thousands of experts and their working parties which make it so difficult to follow the day-to-day progress of integration.

Meanwhile, they are given the task of identifying the difficulties of solving a problem, but are not required to prepare the solutions. Weak governments try to pass the necessary adjustments on to their partners in order to avoid taking the political responsibility for the changes in their own Member State.

If they cannot get their own way they prefer to leave the outstanding decisions on ice for years - and are helped in this by the practice of unanimity.

But even when a few experts set about seeking European solutions in a constructive spirit of compromise their political backing from home is withdrawn or their readiness to compromise is classed as weakness.

Our hopes for a change in this practice are directed first and foremost at the Parliament. However, the European Council will also have to admit that the only way of overcoming the present crisis of leadership and counteracting the growing mistrust is to take convincing decisions instead of merely issuing communiqués full of niceties. The European Council has had this effect mainly because, by its very existence, it has pushed the Council of Ministers - the hitherto "ultimate authority" - down a rung. I would even go so far as to say that the quite considerable bulk of outstanding decisions, pending before the Council, could be despatched in one hundred working days if only there still reigned the common will and capacity to act and take decisions and the readiness to compromise based on the European convictions that were the order of the day from 1956 to 1964.

Why can we not get back to that situation? What is stopping us?

There are no fewer challenges than there were then - just look at Afghanistan, Poland and the difficult economic problems facing us.

One development that has contributed to this stagnation of European feeling, and which was unknown in the period 1956-64, must not be overlooked.

I mean the unsatisfactory way in which the enlargement negotiations have been conducted. They have placed a burden on the Community because it appeared politically and tactically necessary to find expedient solutions and so the negotiations were limited to ensuring the minimum degree of conformity with the Treaties and secondary legislation, while nearly all the practical problems have been put off to be dealt with later. The result has been a decade of hovering crises over subsequent negotiations on the Treaties, only one example of which were the "renegotiations" under Wilson, and in which the still unsolved problem of the British contribution to the budget represents a millstone, which is holding back the development of the Community. It is not my intention here, nor indeed is it my job, to lay the blame on anyone. My European self-critical presentation of the problem is levelled at all those who have contributed in any way, within a kind of broad European coalition, to the unification process since the fifties.

Even today there is no real alternative to the Treaties of Rome, nor is there any real hope or even sufficient reason for a basic revision of them in order to evolve a more efficient integration policy. The provisions of the Treaties of Rome are much more flexible and open, precisely where dynamic policies are concerned, than their critics know or would have them be. The economic unification of Europe requires not so much blueprints and elaborate organizations as competent negotiators and decision-makers in the Member States. It is not the norms of the European constitution that are ailing; there is a hitch in the constitutional policy that should be applying them.

Happily, this year, at the instigation of Mr Genscher, exploratory talks about the constitution of the European Union are to be started up again and due attention is to be given to the field of security this time. This can but help promote the convergence of foreign and defence policy with economic policy. The connecting and binding objective of both fields is that "finalité politique", that idea of a unified, free, humane and democratic Europe which, as a historical fact and the power responsible for peace, can set an example in a world of increasing interdependence, and which must set that example if it is to assert itself.

It follows that the European Community must bear equal responsibility and not be either above or below the institutions and organizations that will emerge from the, I hope successful, talks about European Union. Anything that is added must complement the existing European set-up and not try to supplant it. There must be no new institutions superimposed upon the European Community nor any that can be used as a pretext for watering down the "acquis communautaire".

Alongside such matters of political life and death, which have always accompanied the Community in one form or another, what require our attention above all are the problems with economic policy in the present situation.

The core of the internal market is the Customs Union. The accelerated dismantling of internal market barriers, often anticipated by the economy, was the reason for the Community's great successes in the sixties. This successs story is now liable to come to an end in a wave of intentional, internal protectionism, accepted by those who are indifferent to the Community.

What is it all about?

From the point of view of economic policy, Europe is going through a recession.

The consequences of the two oil crises in 1974 and 1979 have not yet been overcome. The objectives of trade cycle policy are seen to be inappropriate everywhere. We have 8.3 million unemployed at the moment and there is nothing to say that there will not be ten million unemployed next winter if the situation deteriorates - the OECD refers to 18 to 20 million. To complete the picture, there is rate of inflation running at 12% and a European current account deficit of some $45 000 M for 1981.

Add to this the unsatisfactory growth prospects, a drop in competitivity and an inadequate increase in productivity. Everything is made more difficult by the fact that the public authorities in some Member States are in a state of total disruption and here the net new indebtedness for 1981 is as high as 10% of gross national product, the Community average being 4%.

In view of this situation the structural challenges and burdens weigh particularly heavily.

I am referring here to:

- the need to speed up adjustment in the energy sector;

taking up the Japenese challenge today and that of the United States tomorrow;

the structural consequences of coming to terms with the newly industrializing countries of the third world.

The fact that public opinion is hardly prepared for such a situation is a constant temptation for weak-willed governments to seek salvation in short-term beggar-my-neighbour policy and protectionist measures.

All the means imaginable to achieve market isolation, be it to gain only a few months' breathing space, can be seen more and more frequently nowadays as the aims of sometimes brazen administrative protectionism within the Community; the GATT has complained about the fact that non-tariff barriers to trade on a world scale have become more frequent than ever before.

The Community's essential instrument to fight this temptation is the logical application of Article 30, which provides us with ample opportunities of counteracting "measures having equivalent effect", and as limited an application as possible of Article 115, which irrespective of its effect on the outside world also provides a variety of pretexts for reintroducing administrative barriers within the Community.

Another starting point for protectionism is to be found in the temptation to provide direct or indirect subsidies for actual or supposed lame ducks, or in the attempt to engage the Finance Ministers in a race - as long as they are still capable of running.

The parliamentary accompaniment to such temptations is - in European terms - rather discordant. It is characterized by demands for national go-it-alone policies and by the absurd assumption that the essential aim of European unification is to make any further structural change superfluous - in any case the constituency concerned.

If these undeniably enormous difficulties were regarded in an attacking and dynamic manner it would be natural, because of the crisis, to bring European trade cycle policy, which is coordinated only in studies, more quickly than before under overall control. Such a step would be desirable if only to prevent the European internal market, which has been conceived along liberal lines, from falling apart during the 1981 recession, as did the likewise liberal world trade set-up - definitively - during the 1930-33 crisis.

So why is it that the European Community has not got any further with the harmonization and alignment of its Member States' economic policies in spite of the fact that there has been constant talk of it for over a decade?

Apart from the inertia of national bureaucracies, which find things easier when confronted with a weak government, it is quite clear that what has contributed to this erroneous trend is that there is in the Community no alignment of that which is described in Germany as "Ordnungspolitik" or policy on the general organization of the economy - a difficult concept to translate. Now it is up to us to work out the most suitable European economic system, given the most disparate ideas of the large European parties, pressure groups and governments.

From left-wing socialism to traces of Manchester liberalism there is every kind of political, regulative concept and practice in the Member States. Therefore the European Community is, unfortunately, a long way from thinking within a single set of political views, from reasoning along the same lines and, above all, from acting.

The present confusion begins with the fact that there is widespread ignorance of the political framework and basic regulations of the EEC Treaty.

The economic core of the European Community is a common market without internal frontiers in which mobility of the factors of production based on the four freedoms - free movement of persons and goods, freedom to provide services and freedom of establishment - is intended to ensure optimum utilization of natural location, this being the prerequisite for a European economy based on the division of labour. Competition between firms on the basis of efficiency is expressly included in the rules laid down in the Treaty, and a ban on unauthorized aids and subsidies and the equipping of the Community with the necessary instruments to combat internal protectionism and harmonize any legislation which - were it to be maintained - would act as a barrier to trade complete this European concept. It is just as sound today as it ever was, and there is no alternative. For only with the aid of the market mechanism is it possible to ensure an optimum allocation of resources in the interests of the consumers, and that means all the citizens of Europe. A European state economy at Community level, a sort of European collectivism, would not be an alternative, as is shown by the example of Comecon. The history of Comecon serves precisely to show that even a far from squeamish superpower does not dare to incorporate the East European economies in its planning system by force and reduce them to the level of provinces of the Soviet Union.

Any such experiment involving the homogeneous partner states of the European Community would be even less likely to succeed. These considerations are not merely academic and were real enough during the years of the discussion on Eurocommunism. However, even a perfect centrally controlled economy on a national basis would be irreconcilable with the system of the European internal market.

A centrally controlled economic system functions only when the quantitative controls are introduced at its frontiers on the movement of goods, money, capital, services, workers and businessmen; otherwise, its control instruments would always be rendered ineffectual by its open frontiers. The re-establishment of frontiers would amount to the abandonment of the European Community.

Nevertheless, as things are today we are already in a grey area as far as policy on the general organization of the economy is concerned; I will deal with this under three headings:

1. nationalization or transfer to State ownership of major undertakings;

2. the "mixed economy" as the norm, and

3. a falsified industrial policy that is misused as a pretext for intervention.

Re Point 1

It is correct to say that Article 222 of the EEC Treaty leaves the rules governing the system of property ownership untouched. Nor can it be disputed, however, that as a result of the use of the instrument of nationalization in the field of services and marketable goods the possibility can arise of large-scale distortions of competition at the expense of private firms in all the other Member States. It is open to doubt whether the principle laid down in Article 90, namely that nationalized undertakings and private firms should by and large be treated in the same way, is really suitable given the conditions referred to therein to provide adequate protection against this danger. As regards the scope of this provision, there is as you know a case still pending before the European Court of Justice in which a number of Member States are disputing whether the Commission has interpreted that Article correctly.

Since the nationalization of the Italian electricity industry - the so-called ENEL case - there has been an academic discussion in the Community on this matter. In my opinion it is time to take another thorough look at the usefulness of the nationalization formula. The case of steel should have provided some food for thought. According to plausible calculations, some DM 60 000 M has been paid out in subsidies or has been formally promised for the period 1975-83 in just four Member States, without there being any guarantee that the steel industries of those four Member States will really be competitive and able to hold their own on the world market when the subsidies come to an end.

It is extremely interesting that 70% of these highly subsidized steel undertakings are wholly or predominantly under state ownership. These Member States must therefore take the major responsibility for what is probably the greatest waste of resources in peace time that we have ever seen. An economic policy on this pattern, if extended to other branches, would be bound to lead to the economic ruin not only of the Member States but also of the whole Community. The drain on the taxpayers that is the necessary result of this course of action is not socially fair, economically sensible or politically justifiable. Other experience with nationalized industries in Italy, Great Britain and France points in the same direction. Should not these examples suffice to make us ask - irrespective of ideology - whether it would not be in the interests of every European citizen, above all the workers, to cast nationalization once and for all on the scrap heap of spurious economic solutions. At least then the present crisis would have had <u>one</u> positive result. Anyone still hesitating should consider the fact that neither Japan nor the United States, our two major challengers, have the slightest respect for such state-ownership recipes.

The effects on the development and ability of the Community to function are perfectly obvious: let us just suppose that all the production and service undertakings in a Member State were nationalized, leading in effect to the creation of the economic conditions of a centrally controlled economy. A fully nationalized national banking system with which it would be possible to prevent the financing of the purchase of plant, equipment or investments in other Member States would be bound to lead to incalculable distortions and falsifications of competition. Any such testing of how much the Community system could stand might easily lead to its destruction.

Re Point 2

There is little to object to in the concept of the "mixed economy" if it is merely used to describe the present situation of an increasing expansion of the public sector. It is one of economic policy's instruments of diagnosis. It does become more questionable, however, when there is a sudden transition away from the description of a regrettable state of affairs to that of a desired objective, i.e. a European norm, or when an attempt is sometimes made to argue that the Member States are required to change the organization of their economies if a more coherent European policy is to evolve.

Even today, the average figure for the state share of the national product in the Community is 47%, compared with 32% at the beginning of the 60's. The Federal Republic is no exception here and the trend in Germany has followed the above rate of increase almost exactly. This is an extension of the public sector at the expense of the private which cannot be viewed too seriously.

Re point 3

The third aspect of the grey area of politicized and interventionist state action can be linked to an erroneous interpretation of the concept of industrial policy.

The Rome Treaties do not use this term. After its establishment, it took the Commission ten years and some difficulty to obtain responsibility in this field. Since the Federal Republic is the only state that has no national ministry whose actual title assigns it responsibility for industrial policy, some transposition of the different concepts of our partners might first of all be necessary to achieve mutual understanding.

We must observe, however, that states that assign responsibility for industrial policy on a more comprehensive basis pick up the game of administrative protectionism much more thoroughly than do others. Customs posts are closed down - ostensibly for reasons of rationalization - for a number of particularly "sensitive" products; certificates of origin are demanded even when there is no legal basis for this; labelling regulations are invented supposedly for reasons of consumer protection; standards are manipulated; the Community is bypassed in external negotiations conducted under the heading of "cooperation", and wherever possible distortions of competition are organized and camouflaged with the aid of state-owned banks. The flow of investment is directed and even public procurement policy is used as a means to an end. "Buy British" or "achetez français" campaigns are still conducted without adequate Community sanctions and businessmen and their trade associations, which become increasingly used to these strategies, approach "their industry ministry" ever more vigorously to perfect their protection still further, complete their isolation and in this way avoid any structural change.

Recently, the Commission has been swamped with complaints in this field. The Commission will look into every individual complaint and will take action, conscious of its responsibility for the integrity of the internal market and the "aquis communautaire".

This means that we must take determined action against this trend and that we must not hesitate if necessary to ignore national or individual sensitivities and call in the Court of Justice - a step that has already been taken in a considerable number of cases.

In my opinion, it should by no means be seen as a bad thing if the Court of Justice has been developing more and more recently into the decisive force for the implementation of the integration process. For Community law is evolutionary and, particularly in this grey area, requires continuous interpretation and further development.

I don't need to point out to a German audience how important this development is bound to be in a few years' time for overall economic efficiency. One can argue about the details of the drastic cure which Prime Minister Thatcher has been forced to apply over the last couple of years in Great Britain but there is no questioning the fact that without the decades of intervention-happy industrial policy pursued by previous British Governments the English cart would not have got so deep into the mud. The main price has been paid by British workers whose real income today is perhaps some 60% of the level of their German counterparts despite the fact that in the late 50's they were at more or less the same level. Nor is it any comfort to report that these industrial policy mistakes tend to be concentrated in areas in need of restructuring. The number of projects to promote the industries and technologies of the future that have come to grief in Western Europe in the period since the war is also considerable and the billions that have thus been lost have never really been counted. The politicizing of development and investment decisions has seldom brought any joy and the number of failures would seem to leave no room for doubt.

In view of the economic and political risks that can be linked with an industrial policy conceived on an interventionist or protectionist basis, it seems to me to be particularly important for the Community to avoid the repetition at Community level - only on a greater scale - of these national failures and aberrations.

There is no doubt about the industrial policy responsibility given to the Community in the matter of steel under the ECSC. This is, however, an exceptional measure for both political and historical reasons. Without the historical and political background of the ECSC no special provisions on steel would have been included in the EEC Treaty. This exceptional measure will apply up to the year 2002 when the 50-year period of the ECSC Treaty will expire. Before we reach that date, we still have a good deal of time to think about the organizational incorporation of internal and external responsibilities for the steel sector in the EEC Treaty and its position from the viewpoint of policy on the regulation of the economy.

As far as other sectors are concerned, the question arises of the proper delimitation of direct and indirect promotion of research at Community level. This is also of significance from the industrial policy viewpoint. It is the task of industrial policy in particular to monitor economic development to see whether there are relevant questions for practical basic research, but without encroaching on the autonomy of the firms which are alone responsible for their action.

What it boils down to in practical terms is to ensure that the Community neither promotes the renationalization of the internal market nor replaces a failed national interventionism with a European version of the same.

The increased role of the state has also contributed in another connection to the undermining of the internal market. I am referring to the increasing tendency of all the Member States to adopt a series of separate legislative measures to deal with questions of economic relevance.

I am referring here to the numerous occasions in recent years when Member States have gone it alone with national legislation - sometimes without any coordination with the Community - on the pretext of overriding objectives such as protection of the environment, safety at work and consumer or health protection. The consequence of this profusion of legislative measures is a fragmentation of the single market for every part sector thus dealt with, whether as a result of special standards, arbitrary approval regulations or the like. Anyone passing a national lead-in-petrol law, is refusing market access to the refineries of other states and is destroying the internal market for that product. Anyone introducing environmental protection standards not coordinated with the other Member States is denying market access to other products and, in industrial policy terms, is throwing away his own sales opportunities on the European or world market.

This trend cannot continue unhindered. A general political ban on national go-it-alone legislation without prior consultations with the Community is long overdue. In the long run, we must anticipate the problem by adopting relevant Community legislation; this would be far more rational than any attempt at subsequent harmonization.

The sum total of these developments in internal trade can only confirm the conviction that the European internal market must be recaptured.

This requires above all a psychological change.

If confidence in the dismantling of barriers cannot be restored, it will be impossible to count on the readiness to invest that is necessary to meet the world economic challenge from Japan, the USA and the newly industrializing countries. Without a dramatic reversal of direction, without an immediate internal market programme involving a high degree of political commitment on the part of the European governments it will be impossible to achieve this change, a change which is all the easier as it would generate no costs for the hard-pressed national budgets but would rather provide additional investment incentives for our industry, which is in dire need of them.

It is no longer enough to concentrate on curing symptoms or to quarrel about the details of originating products or similar manifestations of industrial and trade policy routine; it is now a question of restoring the dynamism of the development of the internal market and making it a usable instrument to overcome Europe's difficulties.

What I have said regarding the increasing dangers of protectionism within the Community naturally also applies to external trade, as is illustrated by the most recent report from the GATT. The most sensitive sectors - textiles, shipbuilding, agriculture, steel - are significantly those in which there have been shifts of comparative cost advantages in favour of producers in other regions or parts of the world which even a decade ago played little role in these markets. Outside as within the Community, protectionism flourishes where the logical adjustments to market and production conditions are not carried out and where no allowance is made for structural changes. Understandable as the social and political resistance to painful processes of adjustment may be, the costs of protectionism are borne in the final analysis by the economic itself in the form of economic inefficiency and loss of growth. A topical example of this is the effect of the protective measures and excessive subsidies for a non-competitive steel industry in a number of European countries on the overall tax burden and thus on the industrial cost situation in those countries.

In the end, the problems of this industrial sector have been shifted on to other sectors, only in the form of social costs.

The rate of increase in world trade has practically halved compared with the levels achieved in the sixties and early seventies. It seems, too, that it will be difficult in the short term to maintain even that value. The current account situation and the diminishing creditworthiness of many non-oil-producing developing countries is giving grounds for concern. Even now we are clearly feeling the intensification of international competition in virtually every area of the export trade. The Community now has a current account deficit of $ 45 000 M compared with a surplus in Japan of $ 11 000 M and in the United States of $ 25 000 M.

At the very least, it remains to be seen whether, given the present overall economic conditions following the two as yet undigested oil crises, the so-called export locomotive - which in comparable situations has always been able to pull the economy out of trouble - can do that once again.

In connection with the consequences for the world economy of the energy crises and the structural shifts there has been much talk in recent years of the new international economic order. I cannot cover this complex subject properly here. Let me just say that its points of departure seem unsatisfactory and above all inconsistent. Not enough account is taken of the basic interests of the developing countries in an efficient world economy based on the division of labour or in the possibilities for choice that only efficient markets can offer. Any shift of decision-making away from the market into bi- or multilateral political bodies means increased economic and thereby also political dependence for the weakest developing countries on their more powerful partners.

Their group recently pointed out, and rightly, that investment by the industrialized countries in the developing countries can flourish only in a climate based on the market economy. Given the unqualified discussions on industrialized country investment in the developing countries in connection with the search for a new international economic order, it is therefore not surprising that German direct investment in the developing countries declined in just three years, from 1976 to 1979, from 38% to 14%.

The figures for other Member States are to some extent comparable.

No-one can fail to be aware of the food for thought provided by the Brandt Commission report. Our attention, however, is concentrated more on the questions it raises than on its answers, which in many cases will not stand up to the in-depth international discussion they have generated. It simply won't do to add up the industrialized states' expenditure on armaments and then paint a picture of the world that assumes that this expenditure can be devoted within a foreseeable time to development-aid. It is more logical to look into the causes of excessive arms expenditure and to say how these causes could be removed. This applies equally to the arms race launched by the Soviet Union and to the arms procurement efforts of the developing countries who, in the absence of a workable international order, feel obliged to protect themselves from their neighbours.

I now come to my conclusion.

The efficiency and reliability of the European internal market and the liberal European external trade policy are key elements for the solution of the European Community's present serious problems. Without access free from hindrance or discrimination to the sources of supply and sales markets of the world economy the European Community, which is so dependent on external trade, will not be able to pursue a successful economic policy. On top of this there is our unchanged and disturbing dependence on imported oil. This is a source of concern not only for reasons of security of supply, and because of our dependence on price decisions motivated solely by political considerations, but above all because of the connection with the balance-of-payments deficits and thus the external value of the currencies of the European countries whose economies have not done enough up to now to tackle the oil supply problem. In view of the long lead times for the restructuring of oil supply away from oil we are looking here at the exposed flank of European economic policy.

The multifarious problems that are emerging at national and European level will be soluble only if the responsible democratic forces in a number of Member States decide on a change in their behaviour in keeping with the seriousness of the present moment, that means a lasting increase in the ability of the European Governments to take action.

But:

no European decision-making process can make up for national weaknesses. The problems of European integration can therefore be solved only if the right conditions for this are created at national level. It is, therefore, the responsibility of every European to ensure that even this critical phase is used to good purpose and to ensure that in the end even this crisis will prove to have been beneficial.