

SPEECH TO BE DELIVERED BY MR GASTON E. THORN,  
PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,  
AT THE EUROPE DINNER OF BRITAIN IN EUROPE 1981,  
MIDDLE TEMPLE HALL, LONDON,  
ON THURSDAY, NOVEMBER 12, 1981

---

Embargo: 20h00, November 12, 1981

This is perhaps a fitting time to make my first public speech in the United Kingdom as President of the European Commission.

The European Council will meet here in two weeks' time to discuss the future development of the Community. We should not expect one meeting to change the face of Europe. But we shall, I hope, on November 26 begin to lay the foundations of a Europe of the second generation. A Europe in which we address ourselves to the problems which press upon us in the last two decades of the 20th century, just as our founding fathers addressed themselves to the rebuilding of our countries after the second great European War in 30 years.

I would like tonight to share with you some of my hopes for this second generation Europe and of the United Kingdom's role in building it. And I want to do this in the spirit of someone who has been a long term partner of this country, a partner not only in European Institutions but in bodies like the United Nations' General Assembly and the day-to-day management of European foreign politics. Someone whose partnership goes back to the days of war to which I have just referred.

.../..

As a partner - and as a European by birth as well as by conviction - I have never accepted that Europe can achieve its full potential without Britain. Nor Britain, in this modern age, without Europe. Political and economic realities bind us ever more strongly - whether these realities be questions of security, questions of economic co-ordination, or international negotiations on tariffs and trade. The only thing that separates us now is our geography and I note that Mrs Thatcher and President Mitterand are planning to end even that by creating the long-awaited Channel tunnel.

Before we begin to talk about this second generation Europe, let me sketch in the background to our present discussions.

The figure of 9 million unemployed is grimly eloquent of the depth of our economic recession. Figures slip easily from the tongue. But you will have some idea of what such a statistic means if I tell you that it is equal to the combined working population of the Netherlands, Belgium, Ireland and my own country Luxembourg. In other words, together with their families, something like 30 million people are being affected today by the Community's lack of jobs.

.../..

In trying to tackle this problem, we are working in the unknown. Never before has such a recession co-existed with double-digit inflation. And, although we may be getting inflation under control, unemployment is rising and will soon pass the 10-million mark.

In such conditions it is all too easy to surrender oneself to apocalyptic visions. Conditions call for exactly the opposite. We must endeavour to see things as they are. Only then can we hope to come out of our present difficulties.

- We should notice that the recession is world wide, affecting the Eastern bloc as well as the West, the South as well as the North.
- We should notice that the recession is less severe in Japan and, perhaps, the United States, than it is here and draw appropriate lessons. Namely that we must adapt on traditional industries and technologies more rapidly than we have done in the past.
- We should notice that any lasting recovery must take account of the decline of traditional industries, of the revolution in energy prices and of the emergence of new technologies.

Above all we should notice that, if we maintain the right attitude, the recession brings opportunities for closer co-operation as well as problems. There are ways forward and they are much easier to find in a genuinely free market of 270 million people. The present tendency - both inside and outside the Community - towards protectionism is to be resisted.

The argument can take many forms. In some Member States, like the United Kingdom, a part of public opinion seriously questions the very fact of Community membership. Elsewhere, economic sectors hard hit by the recession demand national aids or protection against imports. In these respects, the Community mirrors tendencies shown elsewhere. It is a normal human reaction to crisis to first try to keep what we already have.

But it is not a reaction that brings success at the international level. And the effect on our Common Market of giving way to such temptations will be more serious than for others. If we cannot maintain free trade between ourselves, we cannot expect to improve our trading relations with third countries like Japan or the United States. Yet this will be a key element in our recovery from recession. We must be able to gain access to new and growing markets.

.../...

I cannot say strongly enough that it is in our vital interest to maintain free trade both within our frontier and with the world outside. We are a group of trading nations, inextricably bound up in a network of commercial links throughout the free world. We are not self-sufficient, not even in food and still less so in the vital question of minerals. To maintain a siege economy would mean a sharp decline in our standards of living.

But the argument goes further. The Community's external strength depends on its internal cohesiveness. This is important since our increased influence on world affairs is one of the greatest benefits we draw from being together.

Europe can play a role in world affairs of which it can be proud. Because of our traditions it is natural for us to support democracy, relieve hunger, fight oppression and preserve human rights. In foreign policy, Europe is on the side of the angels. But we must make sure we have the internal strength to put into practice what we preach.

To choose to protect our economies either by breaking up our existing Community, or by resorting to national aids within our Community frontier, or by putting up tariffs to trade from third countries, is to choose a path to weakness. Such measures will either please our competitors or invite retaliation. Either way we shall be the loser.

The Community has negotiated for itself real advantages because of its united front. It can negotiate more. It can gain access to third country markets; it can negotiate voluntary self-restraint agreements with other countries. This is the case with Japan. We can negotiate successfully with Japan on cars or electronic goods or whatever, provided no one breaks ranks. If that happens the Japanese can pick us off one by one.

Similar considerations to these apply to Europe's relations with the United States. I must confess that I am extremely concerned about the recent sharpening of tone on either side of the Atlantic. To a considerable extent this is because of defence matters, but there is also a growing number of points of friction in the economic and commercial fields. These must not be allowed to get out of hand.

.../...

- The current levels of American interest rates are still having a harmful effect on the present and future performance of our Community economy.
- American companies are threatening our steel exporters with anti-dumping and subsidy complaints.
- The US Administration is taking an increasingly aggressive line against the common agricultural policy - despite GATT agreements in the Tokyo Round and despite its own recourse to subsidised exports.

These three examples are enough to illustrate the nature of our argument with the United States. And I notice that the language of the debate is becoming tougher and tougher. On both sides of the Atlantic we must remind ourselves that rhetoric frequently makes problems more difficult. We must all be careful not to charge issues with so much drama, to mount ourselves onto such high horses, that problems cannot be resolved.

.../...



In order to defuse what could be a crisis between the Community and the US, we are now seeking to arrange high-level political talks in Brussels. In these conversations we shall keep the different dossiers together in a common framework so strengthening our hand. This is only possible through a Community approach.

At the same time we must put a good deal of effort into putting over our point of view to the Americans. We must make sure that they understand what we are trying to do in Europe. It would be curious indeed if the first modern federalist state did not support our efforts to bring about a closer union of peoples.

And here is an area where the United Kingdom can make a unique contribution to the Community. It is perhaps outdated to talk of a special relationship but the fact remains that the British are intimately linked by language, culture and history to the Americans. Talk to them; explain to them what we are doing in Europe; explain to them the part that the United Kingdom is doing in the work of construction.

Talk to them as Europeans, though, not as Americans. Geological drift may be taking you westwards but you are much closer to us, in every way, than to them!

.../...

I have dwelt on these points to illustrate the dangers posed to the Community by the present economic recession. It is, of course, worrying to see that one political party here has adopted as its policy that Britain should leave the Community. And as I say similar schools of thought exist in other Member States.

May I say here, Mr Chairman, that a decision by Britain to leave the Community would be economic and political stupidity. It is not before this audience that I need to explain or defend the European ideal, and I do not intend to do so. Suffice it to say that:

- Europe is your growing market and now takes nearly 45% of your trade, compared with about 30% at the moment of entry. Put simply, Europe means jobs for British workers.
  
- Europe provides you with a market of 270 million consumers, soon to be more than 300 million. is your industrial future. A market in which the consumer has the money to pay for your goods and does not depend on loans, soft and otherwise.

- Europe is your natural ally. Not only your ally in questions of defence but your natural partner when it comes to dealing with the rest of the world.
- Europe has the size and stature to meet the United States, Japan, and other competitors on equal terms. Together we are a powerful force for helping the world's hungry and poor.
- Europe provides your way forward.

One should be able to speak plainly among friends. Outside the Community, Britain would find herself in the awful position of a mere economic satellite of the European Community she had left, a sputnik without any substantial say in Community affairs.

In short, Britain outside the Community would be a country with a past - indeed, a noble past - but what of the future? The Community would survive your leaving. It would be diminished in stature, it is true, but nowhere near as much as would be the United Kingdom, which would be severed from its natural allies and in sterile isolation.

.../...

You asked to join the Community and, after initial difficulties, you are now beginning to reap the benefits. Even by toying with the idea of withdrawal, you weaken yourselves. Leaving present difficulties behind will be easier for a united Community than for nations following a policy of "Every man for himself". It shouldn't be necessary to stress the advantages of unity in the United Kingdom. The plain fact is that the more we all put in, the more we all get out.

I have dwelt on the problems posed for the Community by the present recession - problems that present themselves sharply as a general drift towards isolationism and protection and away from the Community principle. In the face of this challenge, we can do one of two things.

We can mark time and watch events chipping off a piece of Community here, an ideal there until we are hopelessly compromised. Or we can press ahead and lay the foundations of a Europe of the second generation.

.../...

There is really no choice, the Community must go forward. It is no comfort to the millions of people affected by the present recession to tell them that we are only trying to hold on to what we have already built. The Community will mean more from here to the year 2000, once it shows itself capable of responding to the challenge of pushing ahead. That is what we believe fervently in Brussels and what we are now trying to bring about. That is for us the importance of the European Council on November 26.

This meeting of Heads of State and Government will discuss the Commission's plans to improve the imbalance of the Community budget. In the United Kingdom, I know, this presents itself in clear terms - you see Britain as one of the poorest Community members in terms of Gross Domestic Product per head but one that risks paying in a large amount to the Community.

.../...

We have refused to treat this problem as a mere accounting exercise. We are a political Community not a Clearing Bank. An accountant, handed our Budget figures, will note that two countries - the United Kingdom and Germany - pay in more than they get out.

Someone with a less narrow view will also note that we have a lopsided Community, deformed by the weight of its agricultural expenditure. His conclusion will be that the problem is two-fold: on one hand, yes, we have a problem of budget imbalance, on the other we have a more fundamental problem of policy imbalance.

The time has come to tackle both issues. The imbalance of policies is fundamental and the Commission is proposing two lines of action.

- The common agricultural policy must be adapted to the realities of the markets within and outside the Community.

.../...

This is not the place to go into details, except to say that for us there is no question of dismantling the agricultural policy. It has proved its worth and our belief is that, whilst safeguarding its basic principles, we can adapt it so that the rate of growth of agricultural expenditure is less than the rate of growth of our own potential income.

In other words, without taking the butcher's axe to one of the most important achievements of the Community, we can reduce relative spending on agriculture and channel more of our scarce resources into other policies.

These fresh policies need to be installed where they can play a key role in helping the Community to find again the path of sustained economic growth. Our top priority is to put our people back to work and so use to the full our productive powers and productive energy.

- We have therefore launched a strategy aimed at stimulating investment. It is based on the view that the innovator must be privileged and that we must consolidate our free market - already a great achievement - by waging war on artificial barriers to trade.

.../...

- . We have set out guidelines for reducing our dependence on imported oil. Each drop that we do not have to import, helps our balance of payments and gives us more room for manoeuvre.
- . We have launched ideas for helping to speed the take-up of new technologies and innovations in our industries, especially in small and medium-sized firms.
- . We have taken initiatives in the field of social and regional policies - where we want to concentrate resources in order to reap maximum benefit. Benefits for the young unemployed or for regions which are in decline.

A full description of the measures we have put forward would take more time than we have available. But the message is clear enough:

- We must put our people back to work;
- We must help re-equip our industries so that they can fight off their competitors.

.../...



- There are ways to help the economy overcome recession without fuelling the other evil of inflation.

Above all the Community must move ahead. We need a political impetus and that must come from the Heads of State and Government.

But, as I said, the problem facing the Community has two dimensions - a policy imbalance and a Budget imbalance.

We believe that the changes we are calling for in agricultural and other policies will correct the Budget imbalance. But they will not do it overnight. In the meantime we need to ensure that we can resolve exceptional cases - and the United Kingdom appears to be one for the moment.

The Community already agreed on the exceptional situation of the UK for 1980 and 1981 in its meeting in May last year.

.../...

The European Council was then faced with a forecast that the UK would pay more into the Community budget than she would get back through Community policies. The figures were 1.8 billion ECU for 1980 and 2.1 billion for 1981.

It agreed that you should be reimbursed by 1.2 billion ECU in 1980 and 1.4 billion in 1981. In other words, to have a reduced figure for your contributions.

But after the size of the reimbursement was fixed, it became clear that the United Kingdom's position would be better than foreseen.

In fact, in 1980 you only paid in about 346 million ECU more than you received - in other words only about 60% of the reduced figure. In 1981 you are likely to receive from policies almost as much as you pay in. The net figure will be about 95 million - less than one-seventh of the reduced figure.

More simply, instead of the net contribution accepted by the United Kingdom for 1980 and 1981 taken together of 1.3 billion ECU, it is likely to be 450 million, about one-third of what was accepted.

.../...

These improvements are largely due to two factors: world currency developments and improvements in our management of the common agricultural policy. May I observe in passing that these same developments worsened the position of one other Member State, Germany, which will pay in far more than she will receive in 1980 and 1981. Taken together the figure will be about 4 billion ECU. It is a clear political problem to have only one contributor of this dimension.

The substantial changes in these figures will have an important effect on the forthcoming discussions.

They demonstrate clearly the fragility of budget forecasts - a fragility aggravated by the nature of the figures concerned. They also reveal that it will be difficult to renew the May 30 agreement which was in part characterised by fixed payments to the United Kingdom, that is to say payments that would not be affected by eventual improvements in underlying economic factors.

.../...

What is needed is a temporary adjustment system which will adapt itself to any changes in the magnitude of the problem. The Commission put forward an outline for such a system in June this year - a system that would be based on the payments under the common agricultural policy. A factor in favour of such a system is that its modalities could be conceived in such a way that the burden of any correction could be shared in a fair way among the more and less prosperous Community members. We cannot allow the settlement of problems for one country to create problems for another.

Two last words on this subject. It is, for us, regrettable that so much discussion has to be consecrated on problems of so-called unacceptable situations. Budget payments and receipts are important but so is the competitiveness of our industry. The fact that we shall soon have 10 million people without jobs is an unacceptable situation. So is the fact that our take-up of new technology is slower than that of our competitors. We must not lose our proper sense of priorities and concentrate all our attention on one problem to the exclusion of others.

For me, present discussions are focussed on the wrong question. Instead of asking "what money we can get back from the Community?". I would prefer us all to be asking "How can we get better value from the Community?" The fundamental problem, as I say, is one of policies not of payments.

.../...

Finally, there is a more fundamental budget problem. the limit of 1% on the VAT contribution to the Community's own resources.

For the moment, there is a view among Member States that this limit should not be raised. But we cannot go on for long in this way.

Our strategy in Brussels is to create a room for growth in the existing Budget mainly by adapting the common agricultural policy. But as I have said, we are already launching new initiatives which will use up our spare money. New policies generally have a low cost at the moment of their initiation so that will give us a little more time.

But within one or two years we shall arrive at a moment when a decision has to be taken to raise the budget ceiling. We are not interested in a Community tied permanently to 1% of VAT. Tied to such a figure, it will never be able to fully correct the lopsided nature of our policies. If we want the Community to help us out of our present difficulties, we will have to give it sufficient finance.

.../...

I am almost at the end of my remarks and I have not said anything about my life-long interest - foreign politics. Nor will I say a great deal except to indicate an area of Community activity where the United Kingdom is playing a leading role - political co-operation.

The arguments I used just now about the Community apply with equal force to political co-operation. Member States acting separately cannot exert the same influence as when they act together. I am sure Lord Carrington would agree with me that on his recent visit to Riyadh he was listened to more attentively as President-in-office of the European Community than if he had gone only as Foreign Secretary of the United Kingdom.

It is therefore very important that political co-operation should work well. And indeed it does work well. Who would have thought, in 1970, that the Ten would have been sufficiently organized to take an important initiative on Afghanistan and play, as a body, an influential rôle in the evolving Middle East situation? Nevertheless, all this has come to pass and it has come to pass the more effectively with Britain's participation.

And yet I must utter a word of warning. Political co-operation is successful, but it has clearly defined limits. First of all, its very existence depends on the Community. Without the bond of membership of the Community, participation in political co-operation is unthinkable. Without the weight of the Community, and of a successful, effective Community, action in political co-operation is impossible. The conclusion is that any hopes that progress can be made in political co-operation, while the Community marks time, are illusory.

We cannot and must not use our activities outside the Community as an alibi for weakness inside. Foreign Affairs - and this is why I have tried to discipline myself tonight - can be no refuge from the work we must do at home.

.../...

The message I want to leave with you then has two parts. The first is that there are things that the Community can do better than Member States working on their own. And that includes the United Kingdom.

- The Community is a better negotiator. It enhances the sovereignty of each of us.
- The Community is a better market. It provides the scale which modern industrial practices require.
- The Community gives us a better chance of helping our worse-off regions and industrial areas. It is only on a European scale that we can reorganise steel and textiles and generate jobs for our workers.

The second message is that the Community must develop if it is to meet the needs of our peoples. The United Kingdom may have been on the outside for the first stage of the Community's development. But it is in my earnest hope that you will continue to work inside the Community as we try to resolve our present difficulties.

.../...



Together we can make full use of our opportunities.  
Together we can find a way, to release the enormous  
potential in our peoples and our productive power.  
We must not be modest, we must hold to the Community's  
ideals. Activity and boldness and enterprise, individually  
and together, must be the watch words for our Community of  
the second generation.