

Before I start on my main theme, the relations between the United States and the European Community, perhaps it would be useful if I were to remind you of a few facts and figures.

First of all, what is the Community? It is a grouping of nine sovereign states in Western Europe, all of them firmly attached to the principles of democratic government, which have agreed by Treaty to pool their sovereignty as regards certain matters, in order to achieve a closer union of their peoples. The countries concerned are Federal Germany, France, Italy, the Netherlands, Belgium, Luxembourg, the United Kingdom, Ireland and Denmark.

What does that amount to in comparison with the other big industrial groupings? It means that its population is considerably greater than that of the United States. There were in 1978 just over 259 million Europeans, compared with just under 217 million Americans. Even the Russians only outnumbered us by a quarter of a million or so. Our gross domestic product for the same year was 1.524,5 milliard European units of account; that of the United States was only slightly bigger at 1.644,2 milliards. The next biggest was Japan, with only 756,2 milliards. Again, our share in world trade is enormous. In 1978 we had 37.6% of world imports and the same percentage of world exports. The figures for the United States were 14.1% and 11.8% respectively.

It is therefore of considerable interest to the rest of the world how this economic giant organizes its affairs, what are its achievements so far and what are its prospects for future development. Finally, I should like to suggest one or two reasons why the continued success of the Community

2 is important for the United States.

First, as the figures I have just quoted show, the Common Market is an important bloc in the pattern of world trade. Here the whole is greater than the sum of its parts, because of the unifying and strengthening effect of our common external trade policy. The Community's industrial base and population resources, which include a skilled labour force and a high degree of professional know-how, and also represent a large number of consumers, make the Community an important world market, trading partner and economic force. Its domestic purchasing power and share of world trade compare favourably with those of other economic blocs. The effect of these forces would be dispersed if it were not for the common external trade policy which is one of the main features of the Community. This policy means that the Community can negotiate on trade questions as a single unit, just like the United States or Japan. The value of this was shown during the negotiations in the Tokyo Round, which I shall come to in a moment.

The common policies of the Community - agriculture, trade, competition and so on - can be decided on and applied because of the existence of the Community Institutions, which ensure a careful balance between the general interest expressed in the Treaties and legitimate national interests. These Institutions are the Commission, which protects the general interest and puts forward proposals for common policies; the Council, which takes the final decisions; the Parliament, which injects the views of the electorate into the decision-making process as well as having important powers over the Community Budget; and the Court of Justice, to which any dispute over the application of the Treaties and of secondary legislation is referred. The last few years have seen the development of the European Council, which gives guidance at the highest political level for the future development of Community policies, and direct elections to the European Parliament, which means that

3 the Parliament can now legitimately claim to speak with the voices of the peoples of Europe.

The second point I want to mention is the satisfactory conclusion last June of the multilateral trade negotiations in the Tokyo Round. This would not have been possible, and indeed the negotiations might never have been initiated, if it had not been for the partnership of the United States and the European Community. There is no doubt that the outcome of the Tokyo Round will be of enormous benefit to world trade in the coming decades.

The Community played a much more positive and active part than in the previous Kennedy Round. Throughout the negotiations it had a firm, consistent and well thought out common position. From the start it opted against protectionism as a possible policy for the years ahead. This is all the more remarkable as the economic climate of the time made it more natural that governments should adopt a protectionist policy.

It is important that both the United States and Europe should see that the GATT agreements are properly implemented. Of course, protectionist tendencies exist on the part of all participants in the agreement. We must combat these tendencies together. The European Commission has good contacts with Governor Askew ^{of your administration}. This does not mean that there is always complete agreement between us, but the framework for discussion exists and is used.

The policy we must follow should be to try and limit the damage as much as possible, in order to safeguard the GATT agreements. A recent example is the case of US imports of artificial fibres to the United Kingdom, which have increased enormously in the last year, because, as we Europeans believe, of the favourable position which American manufacturers have enjoyed as a

control and has therefore been artificially low. Safeguard measures were
4 introduced by the Community but were limited to the strict minimum required
by the situation, and applied to the United Kingdom only. I am sure the United
States will show its understanding and appreciation of the Community's action.

Similarly, a difficult situation has arisen in the steel sector. Protectionist measures in the United States which had the effect of reducing access for European steel products to the American market would have a serious effect on employment and therefore on the general economic situation of most Member States of the Community. A weakening of the economic position of the Community would not in the long run be in the general interest of the United States. We do not believe that Europe exports steel products to the United States at dumping prices, and we were satisfied with the operation of the trigger price mechanism, the suspension of which following the lodging of anti-dumping petitions we regret. The stance of the European Commission is that the consensus reached in the OECD in 1978 must be maintained. The principal industrialised countries then recognised that in order to overcome the worldwide steel crisis, measures taken to overcome the abnormally low price level, should take account both of the legitimate interests at stake, and of the traditional flow of trade.

The third point I want to mention concerns development policy. The institutional machinery for framing common Community policies has made it possible to work out over the years a Community development policy which is generally acknowledged to be in the vanguard. Our main efforts have been concentrated on developing countries for which the Member States, as colonial powers previously had special responsibilities.

This policy is expressed through a series of fixed period conventions concluded between the Community on the one hand and Africa, Caribbean and Pacific States on the other. The second Lomé Convention is the most recent of these and was concluded last year. Under this Convention, the beneficiary

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Finally, it is of great importance that Europe should have a sound economy, for which we need the Common Market. Consider for a moment what the situation would be if the Common Market broke down and Europe fell back into the situation of bilateral relations which existed just after the war. This would mean the end of our hopes of achieving the final objective of reaching political union, to which all Member States remain firmly attached. Whatever may be the shortcomings or even the disadvantages of the Common Market to the United States, it is indispensable both for Europe and for the United States as a basis for the common defence of the West. Without the Community Europe simply would not be able to provide the financial resources for our defence. There would be economic decline, a fall in the standard of living and social unrest, in other words political and economic instability.

It is important that the United States and the Community should continue to work together, solving in a spirit of cooperation any problems which may arise. Only if we stand together can the Western World be strengthened; and only in a strengthened Western World can we defend our liberties and preserve the values of Western civilisation in the face of the dangers which threaten them to-day.

If progress can be made in these four areas, I am hopeful that the effects of enlargement can be turned to profit and the further strengthening of the Community. If not, I fear that the Community may turn into a free-trade area dominated by the larger Member States.

You may think these are affairs of concern to Europe only, but I believe that what happens in Western Europe is of vital importance for the United States of America.

First, it is in the interest of the United States that there should be a single market in Western Europe with a moderate tariff, as is the case. This has proved to be an important factor in increasing trade.

Second, it is in the interest of the United States to have a world partner of similar standing to ensure that world trade does not relapse into protectionism and that the achievements of the Tokyo Round are not undermined.

Third, it is in the interest of the United States to have stable relationships between currencies in Western Europe. The development of the European Monetary System is not a threat to the dollar. On the contrary, it is more difficult for the dollar to play its indispensable role as the main medium for world commercial transactions in the face of wild fluctuations between other major trading currencies. Instability between currencies makes the whole currency market nervous; stability encourages stability.

7 difficulties can only be overcome if the process of integration is developed. Only if this challenge is successfully taken up can the Community be strengthened as a result of enlargement.

In practical terms, this means taking existing policies and bringing them up to date by adapting them to the changed circumstances in which we shall be operating, and it means taking those areas where we have not yet been entirely successful in producing common policies and turning difficulties to advantage by working out policies without which even what we have achieved so far will be undermined.

I will just briefly single out four areas in which an effort is required. First of all, we must reform our Common Agricultural Policy, not only because for certain products it has got out of control, but also because the arrival of these three Mediterranean countries will change the overall balance of European agriculture to present a new picture with which the present policy was never designed to deal. Second, we must develop regional policy. The three new Member countries must be helped to restructure their economies in such a way that they can be brought closer to the average economic level in the nine existing Member States. This will require a substantial financial effort on the part of the more prosperous Member States. Third, we must develop the European monetary system on the lines agreed, by the setting up of a proper European Monetary Fund, to form a zone of economic stability in which governments will really coordinate their economic and monetary policies. A test of governments' will to go in this direction will be whether the second stage of the European Monetary System is achieved on time, and in any case before the entry of Spain and Portugal. Finally, institutional arrangements must be adjusted to keep the Community working. This means that there must be a greater use of majority voting in the Council and also that some limits must be placed on the increase of the numbers of Members of the Commission.

Summit reaffirms the will to go ahead

In an attempt to make progress, the Commission has put forward a policy paper to the European Council, recommending progressive harmonization of energy pricing and taxation in Member States and increased investment in energy, particularly energy saving. *The Council has now decided that members should study the proposals of the Commission*

We noted with interest President Carter's recent package of measures, which include a levy on imports of oil. By reducing US domestic consumption and easing pressure on the world market, this measure, provided it does not spark off a further round of price increases by producer countries, can only be beneficial. It will be interesting to see whether at the Venice Summit this summer, in which as you know the President of the European Commission takes part, the Heads of State and Government will succeed in coordinating further their energy policies.

Let us now look at the future of the Community in the light of its enlargement in the next few years to take in three new Members, Greece, Portugal and Spain. Greece will become a Member at the beginning of next year, and Portugal and Spain will follow thereafter.

The decision to make this enlargement was an act of political will, as a direct result of the Community's commitment to democracy. Recently these countries were dictatorships. After having returned to a democratic form of government they turned to the Community in order to preserve their liberties. This appeal could not be refused.

At the same time, we cannot ignore the fact that this new enlargement will cause immense difficulties, because the new Member States will be considerably less advanced economically than the existing Member States. These

First of all, the worsening economic situation has put the common policies we already have under strain. The policy of free competition, which was achieved by the abolition of tariff barriers, is being circumvented by the use of non-tariff barriers. The Commission can intervene to stop individual cases, but what is needed is a general approach to the problem, particularly as regards state aids. The common agricultural policy is a remarkable achievement, but it has been allowed to get into structural imbalance, with the resultant surpluses. Regional policy at present is little more than an accounting exercise, instead of being the means for a transfer of resources on a significant scale from the richer to the poorer regions of the Community. A sectorial industrial policy has been started to restructure particularly hard-hit areas of the economy, but it is too soon yet to say whether it will prove successful.

All these points must be closely followed and strengthened wherever possible.

The second area in which not enough has been done is energy.

The oil supply situation in Europe is, if anything, rather worse than in the United States. Member States of the Community have been particularly vulnerable to the rise in the price of crude oil. Dependence on oil as a source of energy must be reduced. This can be done by energy saving and by encouraging the use of other forms of energy. For this to be more effective than it is at present, we need a common energy policy, on which up to now Member States have not been able to agree.

Without it, particularly as the Community is enlarged, there is a danger that it will degenerate into a free trade area. This was one of the reasons (in addition to overall political reasons) for the initiative taken by President Giscard and Chancellor Schmidt at Bremen.

The operation of the present monetary system has obliged governments to exercise some discipline in economic policy. An example of this is the economic policy which Mr Barre has followed in France.

prime minister of France

This is the beginning of coordination of monetary and economic policy among the different Member States, which is an indispensable condition for the ultimate success of an economic and monetary system.

The continuation and development of the European Monetary System depends to a large extent on a stable dollar. If the dollar is unstable, the different European currencies will react in different ways, leading to stresses in the European system. For this reason, consultation between the United States and Europe is important. The policy of "benign neglect" has happily been abandoned, and consultations do in fact take place in Bâle.

So far, I have explained what our successes have been. Let me now come to the areas in which a great deal more needs to be done.

*12/15/66
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States have access for specific projects to grants from the European Development Fund or loans from the European Investment Bank for a total amount of 4.5 billion European units of account. A novel feature of the Convention is the so-called STABEX system, by which developing countries whose economy depends to a large extent on the export of a single crop can receive financial compensation if their export revenue falls below a certain level. This compensation is then used to finance schemes which will help to diversify their economies.

Finally, the Community has made encouraging progress towards economic and monetary union in creating a zone of monetary stability in Europe. When the Heads of Government met in The Hague in 1969 they pledged themselves to economic and monetary union.

A first attempt, based on a rather ambitious deadline (1980) for achieving this goal, largely failed. The old "snake", which linked the exchange rate of the Deutsche Mark with those of the Benelux countries and Denmark, was all that remained of this attempt.

In March 1979, an improved, and certainly more realistic European Monetary System was set up and a new instrument created, the ECU. This system is now in a transitional stage and should be consolidated next year into a definitive system, which will include the setting up of a European Monetary Fund.

The present system has already made a significant contribution to monetary stability as between the Member States of the Community. It therefore makes a corresponding contribution to the functioning of the world monetary system, which has been in disarray since the Bretton Woods system was abandoned.