Eurofocus

A NEWSSHEET FOR JOURNALISTS • REPRODUCTION AUTHORIZED

No. 38/81 BRUSSELS, November 9, 1981

SPECIAL: May 30, 1980 Mandate

TOWARDS A NEW EUROPE

By vocation, Eurofocus generally is devoted to various aspects of European policy likely to interest the average citizen. In fact, most of the decisions taken in Brussels directly affect the daily lives of 270 million Europeans. It is therefore necessary to explain them and their importance in digestible form.

But in focussing too narrowly on certain subjects such as the price of petrol or the components of certain foods, there is a risk of losing sight of the general environment in which these actions take place, meaning the construction of a strong and unified Europe capable of meeting the challenges of our times.

This week, the news requires us to take a step back to examine a wider horizon. The event has been provided by the release of several documents prepared by the European Commission as part of the mission assigned to it on May 30, 1980, by the Council of Ministers. The aim is to review thoroughly the development of European policies, their financing and the budgetary consequences for the member states.

Briefly, the European Commission was charged with studying means of levelling the difficulties that represent obstacles against the integration of the Community, and to sketch the outlines of what could be Europe's "second generation".

On June 24, the Commission announced its first conclusions and recommended that the Council of Ministers set in motion a general strategy that would rejuvenate the process of European integration. (Continued on page 2).

S U M M A R Y

This newssheet is published in six languages (English, French, German, Dutch, Italian and Danish) by the Directorate-General for Information of the

Commission of the European Communities,
Rue de la Loi 200 - 1049 Brussels um.
Tel. 736 60 00 - Telex 21877 COMEU B.

Its contents do not necessarily reflect the official views of the Community institutions.

Editor : Will. J. Reckman

Documents published on Monday October 26 do not deal with general guidelines alone but put forward concrete and detailed proposals on the development or review of different Community policies.

Since its creation some 30 years ago, the European Community has developed around two major subjects: the setting up of a single internal market and the implementation of the common agricultural policy. Regulated by competition rules and a common customs tariff applied to third countries, the Common market has resulted in the free movement of goods within the Community to the advantage of both consumers and producers. The Common Agricultural Policy, for its part, has given the European Community food security and led to improvements in the living standards of farmers.

But Europe - like the rest of the world - succumbed to the economic crisis of the 1970s. Faced with increasing monetary instability, high unemployment levels, the decline of various industrial sectors, soaring oil bills and the emergence of new competitors - the Ten decided to reinforce ranks and implement a joint strategy capable of responding to the crisis.

The Treaty of Rome allows for the introduction of new common policies in such areas as energy, industry, science and the regional sector. Some of these policies are beginning to take shape, following the implementation of the European Monetary System, the Social Fund and the Regional Fund. But further progress will depend on the political will shown by the Ten.

Among the obstacles facing the introduction of new Community policies is the budgetary problem. As long as the EEC's budgetary resources continue to be restricted by the current ceiling, it will be difficult to introduce new Community policies or to respond to the urgent needs of our decade. This is essentially because the Common Agricultural Policy alone eats up close on two-thirds of the Community budget.

The task taken on by the European Commission is particularly complex: to put the Community house in order while launching new policies.

The main proposals made by the Commission are given in the following pages. The response of the European Parliament and the EEC Council of Ministers is still awaited. The coming months should provide food for thought for all European citizens and the first outline of the Europe of the 1980s.

AGRICULTURE: New orientations for the 1988 landscape

The general belief is that the common agricultural policy is the most advanced achievement of the European Community. After 20 years of existence, its results are widely considered to be positive. It has sheltered the Community from the frequent food shortages that regularly afflict major regions of the world. It has also stabilised agricultural markets, improved the quality of food production, encouraged the modernisation of agriculture and helped to maintain the standard of living of the farm population.

The basic principle of the common agricultural policy is the price guarantee for most food production, with the others benefitting from a system of subsidies. This machinery limits speculation on food price changes by insulating them from the results of the last harvest, even if the price to the producer is not the same as that paid by the consumer. Therefore, for example, if the harvest of cereals is particularly abundant and it exceeds by far the real needs of the population, the farmers nevertheless are guaranteed that their income will not crumble since the Community will buy their surpluses through various intervention mechanisms.

This system would be completely satisfactory if it did not lead systematically to surplus production, when producers are assured of being able to sell all their crop, there is no reason for them to limit their output to adjust to consumer demand. That's why the Community has experienced overproduction of dairy products, wine and certain fruits in the past few years. This excess production has resulted in a swelling of agricultural spending which has also blocked the development of other Community policies and programmes.

It has therefore become necessary to bring an end to this drift that is threatening the balance in the Community. In recent years, the European Commission has sought to react by encouraging an intense export promotion campaign to sell this surplus to foreign markets. This policy is beginning to show results, since the Community last year succeded in diverting part of their dairy stockpile, but did not result in a substantial reduction of farm spending. In fact, the prices offered on the European market for food products are generally higher than prices on the world market. European products, which lack competitivity, would find few buyers if the Community did not offer export assistance that allows an adjustment of internal prices to the level that obtains in the rest of the world without harming European farmers.

The only true solution to this agricultural puzzle appears to be a limiting

./.

of European production, so that the Community is not forced to subsidise ever-increasing quantities. The Commission took a first step in this direction a few months ago by proposing the introduction of mechanisms to make producers contribute to the cost of reducing this surplus production. These recommendations were not greeted with great enthusiasm by the 8 million European farmers, who had been complaining about a drop of 2 percent in 1979 and 9 percent in 1980 in their income. In addition, the Commission is conscious of the fact that all measures likely to stimulate the exodus from the country side and reduce agricultural employment would be particularly inappropriate at a time when other economic sectors are also experiencing high levels of unemployment.

In the new report prepared in connection with its May 30, 1980, mandate, the Commission proposes a series of new orientations. It set 1988 as a deadline for the accomplishment of these objectives. Beginning with the 1982-1983 season, the Commission will establish new production targets for most farm products. Prices would only be guaranteed for these limited quantities and, in the case of surpluses, producers would be obliged to contribute to the cost of distributing excess stocks.

Naturally, these production targets will take into consideration the trends in international and domestic markets as well as the Community's programmes to combat hunger in the world.

This new machinery should permit agricultural expenses to grow less rapidly than the Community's financial resources, so that their share of the over-all budget could be reduced.

The Commission also proposes a progressive alignment of Community and world market prices, especially on certain products such as cereals. And, to lessen the impact of such changes on farm revenues, the Community would develop a system of direct aid in areas such as the dairy and beef sectors.

Adjustments would also be made in the export strategies of the 10 Community member countries by, for example, concluding long-term supply contracts with other countries. Lastly, the Commission intends to place greater importance on the impact of agricultural methods and systems on nature and the environment in general.

Adjusted this way, the common agricultural policy, while retaining its best features, could overcome current difficulties and prepare under better circumstances to face the effects of the enlargement of the Community to Spanish and Portuguese membership.

INDUSTRY: A new plan to restore competition

A second generation of policies and programmes for the European Community will have to provide as much of a stimulus to the industries of its member states as did its creation in the 1960s.

But the challenges of the 1980s may prove to be more awesome than the original test of the Community, which came during a period of relative prosperity, whereas the coming decade is shaping up as a menacing one. No less than the customs union of the 1960s, a new industrial policy at the European level will have to establish the Community countries' competitiveness in the international marketplace. That's the aim of a major review and policy proposal just outlined by the European Commission in Brussels as part of the process of reform currently underway in the Community institutions.

According to a report made on the subject to the Council of Ministers on October 23, the need for such a new forward thrust is compelling. Europe's industrial performance is falling rapidly behind that of its main competitors in the United States and Japan. Statistics paint a bleak picture of the situation. Because of a decline in investment for new equipment and technology, unit labour costs in the main Community countries have increased an average of 8.7 percent annually compared with 7.4 percent in Japan and only 3.9 percent in the United States. In the last decade also, the number of jobs increased by only 2 million in Europe compared with 5 million in Japan and 19 million in the United States.

It's not as if Europe had not been trying to overcome the problems of economic adjustment and development during that period. But other statistics in the communication to the Council show only too clearly the need for greater efficiency. For example, twice as much is spent in Europe on research as is spent in Japan, but Japanese inventors obtain four times more patents than their European counterparts.

It is clear that new efforts will have to be made to restore European competitivity on the world stage to face up to the major task of the coming years to provide work for millions of newcomers to the job market.

The Commission proposals, which were sketched out a few days ago and will be supplemented by a major industrial study before the end of the year, do not represent a magic formula, according to EEC Commission President Gaston Thorn, but they do provide new approaches.

./.

The proposed plan is based on a number of basic principles. These include the need to encourage investment and to discourage protectionism that blocks development inside the Community. Investment for industrial innovation can be channelled into research and development in promising areas such as energy conservation, micro-electronics and communications, biotechnology and space activities. For example, the study indicates that if the Community countries spent simultaneously the considerable amount they now disburse separately on economies of energy, between 350,000 and 500,000 new jobs might be created in 1985.

One of the major steps toward achieving this favourable investing climate, the Commission feels, is to truly open the internal market in the Community countries to enable industries to benefit from its continental scale. This would also offer Community industries production economies and thereby make their products more competitive throughout the world as well. To do this, major progress will have to be made to dismantle the multitude of national regulations and standards which can act as trade barriers; this dismantlement would also help protect consumers and the environment.

In addition, the Commission wants to push ahead with the opening up of national governmental purchase orders to bidding from competitors from other Community countries, instead of reserving such contracts for domestic firms. This policy currently punishes the taxpayers and Governments by turning away more economical or efficient products and it denies producers in other member states the market openings that could stimulate greater competitivity and efficiency.

Another area that could help improve the industrial performance of the Community would be to upgrade the training and qualifications of the labour force. The Commission hopes to expand the Community role in this area to overcome existing bottlenecks that are created by shortages of certain skills.

In addition, the Community could also provide a number of other important and relevant services. As well as providing a source of funds from Community financing and borrowing programmes, it could lend a helping hand through its role as a clearing house or catalyst in special areas. One such cited is the Euronet data communications network which could provide valuable information to all types of authorities and companies to make better judgements and investments. It can also serve as a liaison to coordinate the various other programmes in operation in the Community and also to propose concrete programmes, policies or regulations to help pave the way for this next generation of industrial progress.

EMPLOYMENT: Top priority to youth

With more than nine million unemployed, the European Community has to devote its efforts - at least in the short term - to the creation of new jobs.

New employment opportunities can only be created when overall economic performance improves within the Community. This implies efforts to boost the competitiveness of European industry through the development of investments and a cut-back in production costs. The fight against unemployment is therefore part of a global socio-economic strategy and cannot be tackled without action in such areas as industrial and regional policies, etc.

Efforts must be focussed on sectors capable of generating new jobs and economic growth in the entire Community. The Ten have also suggested that greater flexibility should be encouraged in the labour market and negotiations with the social partners on such questions as the reorganisation of working time are continuing.

Recent Commission action in the employment sector has focussed on two priority sectors: the drive to reduce employment among European youth and the development of small and medium-sized enterprises.

The Commission has made it clear that, in the fight against unemployment, top priority should be given to young people looking for jobs. For demographical reasons, young people represent a particularly high percentage of the active population within the EEC.

Coherent action is required for young people between the ages of 16 to 18 in order to facilitate the move from school to work and to provide equal employment opportunities for all school leavers. These actions will also aim to give all young people under 18 the opportunity to continue studies or receive special professional training as an alternative to unemployment benefits.

Measures aimed at creating jobs could include special premia for recruitment as well as the setting up of small training centres leading to the creation of small enterprises. The Commission has stressed that such small enterprises, because of their flexibility and capacity to innovate, have a considerable potential for the creation of new jobs. Small and medium sized businesses, however, have to face a series of financial problems and difficulties in such areas as exports.

National and local authorities should try to help small business surmount these obstacles by facilitating their access to financial institutions and disseminating information on new technologies. The Commission has also suggested that assistance from the Social and Regional Funds should focus on the least favoured regions and encourage local operations combining different Community instruments.

REGIONS: Help for Mediterranean regions may come from a revitalised regional policy

Under the cold grey skies of Northern Europe we tend to think of the Mediterranean regions more as a place of sunshine and oranges than an area of acute economic problems.

But, compared to the rest of Europe, these regions are desperately poor and underdeveloped. In rich areas like Hamburg or Paris people are likely to be producing five of six times as much per head of population as people in Calabria in southern Italy.

The enlargement of the European Community to include Greece, Spain and Portugal, some of the poorest areas in Europe, has brought the problem into relief. In the poorest parts of Portugal, per capita gross domestic product differs from the rich areas of Northern Europe by about twelve to one. In Portugal, overall, it is only about three fifths that of Ireland previously the poorest nation in the Community.

Mediterranean economies tend to be structurally very different from those of Northern Europe and rely heavily on inefficient peasant agriculture. Low incomes, unemployment and underemployment are big problems, and most of them produce a very similar set of products like wine and olive oil. Geographically, they are rather remote from Europe's main markets, and infrastructures, like transport, communications and energy supplies are often limited.

Probably the first step in solving these problems is defining just what they are, and that is what the action guidelines of the 30 May "mandate" proposals presented recently by the European Commission to the Council of Ministers set out to do. While they appreciate that the basic objectives of Community policy are to increase incomes and employment in the Mediterranean areas, they are equally aware that simply increasing production, given enlargement and the fact that they all produce the same things, is simply going to lead to agricultural surpluses of certain crops.

That means that more farmers must be encouraged to diversify into other non-"Mediterranean" crops which would bring with them CAP benefits not yet enjoyed by the area. Better organisation of structures and markets would help to catch up with the rest of Europe.

Improving the market does not just mean intensifying production and diversifying into other crops, claims the mandate report. Measures should also be taken to stimulate consumption of Mediterranean products, and improved policies in a variety of fields including exports should be adopted.

On the structural side, farmers should be better organised and a policy of temporary subsidies should be considered in certain cases in order to maintain farmers incomes.

./.

But perhaps the most important aspect of the action guidelines is the emphasis they lay on the shift away from agriculture and towards industry that the Mediterranean regions will have to make if they are to approach the sort of economic growth enjoyed by more prosperous regions of Europe.

Developing "agri-foodstuffs" industries fo process their own farm produce is the first step on the ladder towards higher living standards. Important processing and cold storage industries linked to fishing could be developed, and more craft industries could also provide a source of jobs. Tourism is a big potential money spinner as well.

Since actions speak louder than words, it is Community plans for financing all these proposals that will be of most interest to the regions themselves. The Farm Fund would play a major role. So would the European Investment Bank the "New Community Instrument" and the Social Fund. But it is a new revitalised Regional Development Fund that would be in the forefront of investment plans for the Mediterranean, say Commission officials.

This would mean a major reorientation of Community regional policy. Unlike the existing "sprinkler" system, resources would be concentrated much more on the development of small and medium-sized enterprises. More "quota free" joint-financing of projects would emerge, and development programmes would be worked out and coordinated at regional, national and Community levels. (In the past, critics have argued that governments often substitute Community regional development funds for their own, instead of adding to them).

Under the new "concentrated" system, the poorest Mediterranean regions of the existing Community would account for about 60 percent of the total. The Italian Mezzogiorno would get about 44 percent and Greece, with the exception of Athens and Thessalonika, would get about 16 percent. "Quota" funds which constitute the largest part of regional development resources currently stand at about 1200 million ECU (*).

Detailed plan for implementing an integrated development programme for Europe's Mediterranean regions should be ready by the end of 1982, according to Commission officials. But the problems facing the areas remain immense. The pressure of the recession, coupled with the impact of enlargement on their highly vulnerable economies, will inevitably act as a catalyst for change. The European Community will be obliged to meet the challenge or accept as a "fait accompli" the prospect of a split Europe of rich and poor.

(*) 1 ECU = 0,59 UKL on October 5, 1981.

BUDGET: Not a mere accounting exercise

On May 30, 1980, the European Council called on the Commission to examine the different financing and budgetary problems faced by certain member countries. The debate was provoked by the United Kingdom which felt that its contribution to the EEC budget far exceeded what it received in return from the Community, particularly in the agriculture sector.

While opposed to such a balance sheet approach to Community membership, the European Commission conceded that a solution would have to be found for the specific problem facing the United Kingdom. It was also agreed that preparations for a "second generation Europe" should begin, with emphasis on the promotion of new Community-wide policies in such key areas as energy, employment, and industry.

Such a major reform, decided the European Commission, should not become a "mere accounting exercise". While it is necessary to analyse the budgetary repercussions of the new policies being suggested, the Commission is clearly in no hurry to begin discussions on figures before agreement is reached on a number of critical issues of political importance to the future of the EEC.

Money is clearly needed for the expansion of regional and social policies. The continuing economic crisis, the increase in unemployment, growing regional disparities and the prospect of further EEC enlargement to include still poorer countries, are factors which make an increase in social and regional expenditure very vital for the EEC.

Additional funds will also be required for the Commission's plans to introduce well-coordinated policies in such areas as energy, industry and research and development.

The Commission has indicated, however, that before considering the possibility of an increase in the 1 % ceiling imposed on member state VAT contributions to the Community budget, attempts to introduce some "order" in the current situation should be made.

Emphasis has also been put on the need to take the "legitimate" interests of all member states into account. This is a specific reference to the complaints about the level of contributions made by the Germans.