

NOT FOR PUBLICATION BEFORE 1700 HOURS ON 14 MAY 1981

ADDRESS BY CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF THE
EUROPEAN COMMISSION, ON THE OCCASION OF THE FIRST ANNUAL
SHELL LECTURE AT ST. ANDREWS UNIVERSITY ON 14 MAY 1981

THE U.K. ECONOMY AND THE E.E.C.

I intend this evening to discuss a subject which is, I believe, vital for the future both of the United Kingdom and the whole of free Europe. I want to talk about the development of an economically integrated European Community and about the defence of Europe, and to show that the two are intimately linked. Some may feel that I am trespassing onto forbidden ground and I am certainly interpreting the title of this talk in a far reaching fashion. I do so in a personal capacity and I am sure that it is right to draw these matters to public attention.

Western Europe is at present facing two great challenges. On the one hand there is the uninhibited Soviet arms build up and the aggressiveness of Soviet policy as shown by the invasion and occupation of Afghanistan. There are also mounting tensions in other parts of the world that could threaten Europe's supplies of vital raw materials. On the other, there is the

/combination

left

(51)
420.41
shell file
443.01

combination of the worst recession since the 1930s and the loss of international competitiveness that characterises so many of our basic industries.

In the next stage of European development the link between industrial recovery and the needs of the defence sector must be recognised. So must the need to forge a closer link between different aspects of policy. I believe the German Foreign Minister, Herr Hans-Dietrich Genscher, is right when he talks in the same breath of the need to develop Community policies flowing from the Treaties of Rome and Paris with the co-ordination of security policy and the development of a common European foreign policy.

Today many are more often conscious of the failings of the Community than its achievements, more aware of the squabbles between its Governments than the degree of cooperation, consultation, and solidarity which they display. Some are even tempted to suggest that if the Community did not exist we could cooperate more easily, which is like saying that if Parliament did not exist we would have no political problems. Differences do exist, as it is natural they should, but in the Community we have the institutions and the mechanisms through which they can be, and are, resolved.

PROGRESS IN THE COMMUNITY

The degree of integration and interdependence of the economies of Community Member States is now far advanced. A tariff-free market of 260 million consumers has been established and progress has been made in the removal of technical barriers which place obstacles in the way of those wishing to do business throughout the Community. Trade within the Community is for most Member States the most important element of their trading activity. Industrial structures, marketing operations, and patterns of investment both from outside and from within the Community are in large part geared to the existence of this market.

In the UK there has been a marked increase in trade with other Member States over the last decade, with the Community taking 43% of British exports last year, compared with 32% in 1973, the year we joined the Community. West Germany has now replaced the United States as our major export market, and most of the other Member States are among our top ten export markets. Our export/import ratio with the Community has also shown a steadily improving pattern for the last five years, from 70% in 1975 to 86% in 1979. Last year the UK achieved a net surplus of £700M on its intra-Community trade on visibles, in addition to our substantial surplus on private invisibles.

/A similar

A similar picture emerges if one looks at the British trading performance in manufactured goods. In 1979 the increase over 1978 of manufactured exports to the Community was more than four times the increase in manufactured exports to the rest of the world (21% against 5%). Between 1972 and 1980 the value of British exports to the Community increased by 480% while for the USA the figure was 234%, for Japan 237% and for the rest of the world 295%. Or, to put it another way, the UK export/import ratio in manufactures with Japan declined from 48% to 28% in the years 1973 to 1980, from 96% to 66% with North America over the same period, and remained more or less constant with the Community - 87% in 1973 and 86% in 1980.

The evidence shows that though British industry has not done as well in the Community as was originally hoped it has done much better there than anywhere else. I should, of course, like to see the performance of British industry in non-Community markets improve. The better it can do throughout the world the more happy I shall be. But I think it is clear that the future success of British industry is now primarily dependent on its access to and its ability to succeed in the other Member States of the European Community. If it cannot succeed in the Community where there are no tariff barriers and where non tariff restrictions are being removed, it is difficult to see how

/it can succeed

it can succeed anywhere else. The same applies with equal force to the industries of other Member States.

Against this background it is not surprising that there is a developing process of cooperation and co-ordination of general economic, fiscal and monetary policies at the highest political and official levels within the Community. The establishment of the European Monetary System (EMS) in 1978 and its remarkable success to date in creating a zone of relative monetary stability in Europe against a background of disturbed economic conditions and wide fluctuations in non-EMS currencies such as the yen and the dollar is one of the best known aspects of this co-ordination. Sterling, which has unfortunately remained outside the EMS exchange rate mechanism, has also been subject to wide fluctuations, with adverse effects on both domestic monetary policy and external trade. Full sterling participation in EMS would, I believe, improve the prospects for a realistic and stable sterling exchange rate and a wider zone of monetary stability in Europe. No one stands to gain more from this than British industry.

Less well-known than the EMS are the other associated steps which are taken to develop a complementary approach among Community Members to questions of inflation, monetary

/targets,

targets, budgetary policy and general economic management. At the political level the Chancellor of the Exchequer and his counterparts meet regularly in the Council of Ministers to discuss economic policy, and Heads of Government meeting in the European Council regularly consider reports on economic developments and policy options submitted to them by the European Commission. Supporting these there are several bodies meeting on a formal basis: a Committee of Governors of Central Banks meets to discuss intervention policy, relations with third currencies, domestic monetary trends, and developments within the EMS. The Monetary Committee complements at official level the work of the Governors on monetary policy and the EMS. The Co-ordination Group on Short-Term Economic and Financial Policies has the task of keeping under review the day-to-day development of economic policies in Member States and of ensuring adequate consultation when changes are proposed which could have repercussions in other Member States. The Economic Policy Committee consisting of senior economic officials seeks to develop common lines of general policy and advises the Commission in its preparation of documents for discussions by Ministers and Heads of Government.

All these activities are based on the recognition that such co-ordination of policy facilitates the tackling of domestic problems and is

/essential

essential if the interdependent unit which the Community has become is to participate effectively in a wider international forum involving the US and Japan. The procedures do not work perfectly. Sometimes Member States are drawn apart by domestic pressures. On other occasions they take too long to bring their positions into line. But in a pragmatic and undramatic fashion the system works and is improving.

INDUSTRIAL COOPERATION

In the field of industrial cooperation, however, progress has so far been disappointing. Most of the effort has been concentrated on fighting rearguard actions to defend declining industries. The recent steel crisis measures, and the Multi-Fibre Arrangement (shortly to be re-negotiated) are examples of important and useful Community activities, but they are essentially negative successes which buy time and they cannot indefinitely postpone the need to become competitive on the world market. Policies to assist old industries in difficulty, if they are not simply to lock up human and financial resources and undermine our capacity to adapt, must be combined with policies for those industries that will meet the needs and serve the markets of the future. It is there that the jobs will be.

So far Member States seem prepared only to turn

/towards

towards the Community when they have clearly failed to solve a problem themselves. Community industrial cooperation seems sometimes to be viewed like a visit to the dentist - unwelcome and postponed as long as possible until there is no alternative. In the positive development of successful high technology industries, on which the future of European living standards depends, we have so far failed to achieve the degree of cooperation necessary or to exploit the opportunities of a European-wide market. We still operate too much on the basis of self-contained and competing national units.

The result is deeply discouraging. Europe is falling behind its major industrial competitors and faces a real prospect of industrial decline in which it is squeezed between advanced industrial countries such as the United States and Japan and the new industrialized countries who can now produce more competitively the goods on which our past industrial success has been built.

In 1965 the Community exported 40% more electronic-based products than it imported. In 1976 we only broke even, while in the same year the Japanese exported nine times as much of such products as they imported. Our balance of trade in computers is getting worse - in the

/first half

first half of 1980 we had a deficit of \$1½ billion with the USA alone. In patents, an indicator of our innovative propensity, the number taken out by Community nationals dropped by 20% between 1965 and 1977, while the number taken out by the Japanese increased by 400%.

To reverse this trend will require action on many fronts, which should be co-ordinated within the framework of the Community. We must exploit our continental market by promoting common technology standards, harmonising regulatory activities, establishing common information networks and supporting research and development on a larger scale. We must develop a genuine Community-wide market in capital and financial services and make it much easier for our companies to operate on a Europe-wide basis in whatever manner is most appropriate to the circumstances of the individual concerns. We need, in sum, a more co-ordinated application of governmental activities and a wider opportunity for private enterprise.

A key rôle should be played by government procurement. In all countries this instrument is used as an arm of industrial policy. That is true of the US and Japan as well as in Europe. In the fields of advanced technology and large scale capital equipment it is particularly important. Within the Community there is

/considerable

considerable scope for the procurement programmes of the ten Governments to be established on the basis of common criteria with complementary objectives and open to companies from all Member States. Obviously they would not all be the same. Their scale and interests are too diverse. But they should be designed and regulated in such a way as to secure benefits for the industries concerned on a Europe-wide basis. The achievement of this aim will require careful negotiation as each Member State must feel that in opening up its own market it is securing commensurate opportunities for its national companies in others.

THE DEFENCE DIMENSION

It is at this point that it becomes difficult to draw a dividing line between industrial policy and defence. The same governments and the same companies are involved in both. Moreover, just as European industry needs the backing of co-ordinated government procurement programmes, so governments need to co-ordinate their defence procurement to a far greater extent than hitherto.

All European countries, however firm their commitment to the Western Alliance, are finding it difficult to maintain and modernize their armed forces. For even the richest and most dedicated the costs are becoming prohibitive. Yet with the Soviet Union constantly increasing its capacity for aggression there should be no question of Europe failing to meet its defence obligations.

Much of the defence equipment that is needed involves technology which pushes at the limits of scientific and engineering development. In the aerospace, electronics and shipbuilding industries, to name only three, defence provides both a major source of orders - 60% of aircraft industry sales within the Community - and an essential stimulus to the technology advance that is essential if they are to remain competitive in world markets.

The need for better European cooperation in defence equipment procurement was one of the main recommendations of the report on European Union produced in 1975 by Mr Tindemans, the then Belgian Prime Minister. The European Parliament has also produced some thoughtful and serious reports on the subject, most recently that of Mr Klepsch in 1978. The reaction of governments has so far been mixed. It has sometimes been claimed that any activity by the Community in this field is impossible because the Community is not a defence institution. It is also sometimes argued that all efforts to improve equipment procurement cooperation should be left to NATO or to the other organisations which are associated with it, particularly the Independent European Programme Group.

In my view, it is a mistake to view this issue in purely institutional terms. Of the existing Members of the Community, all except Ireland are Members of the

/North

North Atlantic Alliance, and of the two countries which are negotiating for membership, Portugal is already a Member of NATO and Spain may well become one soon. All these countries share a common view of how Europe's defence should be assured, namely in partnership with the United States of America and Canada, but with a strong European defence capability as well - broadly speaking, the concept first elaborated by President Kennedy of the twin pillars of North Atlantic defence. In addition, all the European members of the Alliance are committed to the maintenance of a strong and sophisticated European defence industry able to compete, in broad terms if not necessarily in every single individual field, with that of the United States.

INSTITUTIONAL IMPLICATIONS

By comparison with this underlying consensus on defence philosophy, the choice of institutional arrangements is of much less significance and ought to be treated as a practical problem. Though the Community as such is not involved institutionally in defence matters, its members form the core of the European arm of NATO. Once the Community is enlarged to 12, only Norway, Turkey and Iceland, of NATO's European members, will not belong to it. Moreover, as Mrs Thatcher pointed out in 1978 in a notable speech in Brussels in which she called for closer co-ordination between Community and NATO affairs, the Headquarters of

/NATO and

NATO and the principal site of the Community's institutions are in the same city. It is wrong therefore to talk, as is sometimes done, as though the Community and the European pillar of NATO are worlds apart. It is for the most part the same countries and governments who comprise the two.

If therefore there are practical advantages in involving the Community, or some of its organs, in defence industrial matters, there is surely no need to raise doctrinal objections to this. In my view, such advantages may well become apparent. The Community has responsibilities in the industrial field, for example on industrial policy generally, on state aids to industry, and on research in certain areas of high technology. The Commission has within its services a supply of expertise and experience in some of these areas. Could not this expertise and these responsibilities be of relevance to European cooperation in the defence industries as well as in the civil industries?

In putting this question, I am not advocating a dirigiste approach since I do not favour this in the defence industrial sector any more than I do in the civil sector. The impetus for industrial reorganisation and integration has to come from the companies and industries concerned. But the Community, and particularly the

/Commission,

- Commission, has a rôle to play as a catalyst. Governments and parliaments rightly look to the Commission to be active in the industrial field. If we are to develop European industry, particularly the modern high technology industries, on a Community-wide basis in order to be able to hold our own against American and Japanese competition, then we must accept that the defence and defence related industries will be involved as well. We cannot draw an artificial dividing line between the civilian and defence industrial sectors.

More systematic European cooperation in defence and security matters is in any case likely to flow from the development of political cooperation among the Community's Member States. British Governments have traditionally and rightly seen the political strengthening of the Community as one of the prime assets of membership. In the short term there is a need to improve the practical arrangements and procedures through which political cooperation takes place. Lord Carrington, in a speech made in Hamburg last year, set out some ideas for achieving this. Since then Herr Genscher has produced a proposal that the Member States of the Community should commit themselves in some kind of formal declaration to a more systematic co-ordination of their foreign policies. Signor Colombo, the Italian Foreign Minister, in a speech in Florence in January this year, also suggested that Europe should provide a more co-ordinated and effective contribution to its own security and should develop its institutional arrangements accordingly.

In practical terms the distinction between political cooperation and discussion in the Council of Ministers for which the Council has a responsibility under the Treaty is of course not rigid. Already, we have seen the dividing line between the two become blurred. For example the Community has, during the last few years, discussed policy on agricultural exports to the Soviet Union, sanctions against Iran and aid for Afghan refugees in a manner which combined elements both of political cooperation and of institutional Treaty activity. The Community was able, without anyone nit-picking over the precise framework within which discussion was taking place, to take decisions on these issues. Indeed, when the Community's Heads of Government meet at the European Council they are able to combine political cooperation and institutional Treaty activity most successfully. There is no reason therefore why Foreign Ministers should not more regularly do so as well.

If the commitment to political cooperation is strengthened, it will inevitably spill over into the security field. One of the Community's earliest successes in foreign policy coordination was in the preparations for the Conference on Security and Cooperation in Europe. Not only did the 9 (as they then were) achieve a common approach of their own. They also managed successfully to dovetail their policy within the North Atlantic Alliance.

/Indeed,

Indeed, the CSCE was a good example of how, when it acts together, Europe can be not merely a twin partner but a dominant partner within the Alliance on an issue where specific European security interests are involved.

There will almost certainly be other security related issues in the future where the Community will wish to take its own common view. In time Community Ministers may even develop the practice of political cooperation to the point where it involves issues of defence as well as foreign policy. This would in my personal opinion be a welcome development rather than one to be nervous of. Indeed, it is something which is surely inevitable. If political cooperation is to mean anything at all, it cannot be entirely divorced from the defence and security fields. It is nonsense to expect that Community Heads of Government or Foreign Ministers will discuss happily a common policy towards the Middle East or Southern Africa but decline to involve themselves in the problems of the security of their own continent.

/ It is, of

It is, of course, important that any collective European policy-making on defence should not be divorced from the framework of the North Atlantic Alliance. But when European Defence Ministers meet in the framework of the Eurogroup at NATO Headquarters in Evère they represent to a great extent the same governments whose Foreign Ministers meet down the road at the Charlemagne. The problems of resource pressures, defence equipment costs and the possible need for greater specialisation and more interdependence among European countries in the defence field will increase in the 1980s. These issues have great political significance for Europe's future. They are not merely problems of military doctrine or operational planning. If the Community is to develop its full potential, and by this I do not imply any particular form of new structure, whether federal, confederal or whatever, it cannot but recognise the significance of its security policy.

CONCLUSION

This implies both challenges and risks. If the Community continues to concentrate on wrangling internally about the structure of its budget or the relative amount it spends on certain types of policies, there is bound to be a damaging spin-off effect on Europe's ability to organise its defence in a coherent fashion. If, on the other hand, we succeed in restructuring the budget to

/reflect

reflect the new priorities of the 1980s, and if we can put into effect common policies for maintaining Europe's industrial competitiveness, then there may well be gains in terms of cost effectiveness and rationalisation in the defence field too.

To say this is, I repeat, not to argue for institutional change simply for the sake of it. I am not suggesting that we should discuss defence issues through COREPER when there are better qualified Permanent Representatives at NATO to do so. But it is surely natural for the Community's Heads of Government when they address Europe's problems at the European Council to consider defence and security issues. It may be that the follow-up action to their discussion will take place at NATO Headquarters rather than in the Charlemagne or Berlaymont. This would have the advantage of providing a link with countries outside the Community with whom the Community wishes to have closer relations.

In recent years we have grown accustomed to thinking of Community affairs and defence as if they are distinct and unrelated subjects. But as the President of the European Commission, Mr Gaston Thorn, recently said: "the oversimplified separation of economic policy and defence is absurd". Such founding fathers of the

/Community

Community as Jean Monnet and Paul-Henri Spaak, who indeed went on to become Secretary General of NATO, would have agreed. The links between defence and what have traditionally been regarded as Community affairs should be closer and must be so if the Community is to rise to the challenges that now confront it. We need to accept that there is a Community dimension to Europe's defence, particularly defence industrial, problems, and we should not allow preconceived institutional constraints to prevent us from seeking the most cost-effective and politically natural means of tackling them.