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BEFORE  
THE BRITISH CHAMBER OF COMMERCE FOR BELGIUM AND LUXEMBOURG  
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ON  
"REFLEXIONS ON THE EUROPEAN COMMUNITY TODAY AND TOMORROW"  
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Mr. Prime Minister  
Mr. Chairman  
Excellencies  
Ladies and Gentlemen,

It is a great pleasure for me to be able to speak before such a distinguished audience tonight, in my home town of Luxembourg, and I would like to take this opportunity to congratulate the British Chamber of Commerce for Belgium and Luxembourg for their never-tiring efforts under the dynamic chairmanship of Mr. Winby, in order to bring about closer relations between the economic and financial operators that are so essential to this country's well-being, and stand as a model for such forms of cooperation within the Community.

Mr. Chairman, Ladies and Gentlemen,

## I. Introduction

The European Community was created some thirty years ago for reasons both idealistic and pragmatic. Idealistic because the founding fathers wished to create a new form of international society. A new society which, going beyond traditional models of international relations, would link its members in an irreversible process leading to political union in place of the bloody conflicts and temporary alliances of the past. Pragmatic because in all areas of life, particularly the economic, the countries of Europe could do more together than if each acted in isolation. The whole was more than the sum of the parts. In fact it would be something quite different to the simple juxtaposition of its different elements. Daily life in the Commission provides plenty of examples and I shall mention some of them in the course of the next few minutes.

Coming to the end of my four years at the Commission it is natural to want to take stock of the situation. Life has certainly not been easy - at some moments it seemed rather like running along an unending obstacle course.

Over the past few months, however, I've gained the impression that the way ahead is opening up - the Community is coming out of what may prove to have been the most difficult phase in its existence.

A number of important decisions have been made. Decisions which mean the reform of the present Community. Decisions which provide the material for a relaunch. Perhaps more important still, there seems to be a change in mood. What we in the Commission have been saying for years has suddenly become part of the conventional wisdom. Concepts such as internal market, economic and monetary

integration, a common research and development effort, a common foreign policy, even political union are not just appearing in the Sunday speeches of national politicians. They've being translated into concrete action. Of course we have a long way ahead and it is not clear how far each Member State wishes to go on the road to European Union but movement there is. What I have called the Europe of the second generation has a chance to become a reality.

## II. A series of challenges

The present Commission was sworn in at a time when the Community was facing a series of major challenges. First of all, the Community economy was stagnating and unemployment rising rapidly. This took place at a moment when there was growing awareness of the technological gap opening up between the Community and the United States and Japan. In short, the world was changing fast, what would be Europe's place in it ? Secondly, the Commission had to come to grips with a debilitating budgetary conflict which had spilt over on to other policy matters. In addition, a decision had to be made on how to increase the Community's "own resources" as the maximum VAT call-up rate of 1 % would very probably be reached in the lifetime of the Commission. It did indeed !. Finally there was a need to review policies. In the case of agriculture this need was urgent. These considerations formed the background to the activity of the Commission.

## III. Policy and Budget Reform

Four years later, the economic indicators, with the tragic exception of unemployment, are more promising than they have been for a number of years. Decisions on policy and budget reform

reached in Brussels and Fontainebleau earlier this year can revitalise the Community. What are these decisions ? They concern agriculture, the budget and the development of Community policies.

1. Agricultural Policy, a victim of its own success

The agricultural policy has been a victim of its own success. Productivity has grown constantly, food supplies are readily available at reasonable prices, markets are as stable as they can be given climatic conditions and a fair standard of living is provided for the farming community. Success of policy however has given rise to a new problem. Over the last twenty years the growth rate of agricultural production has been about 1,5-2,0 % a year whereas that of consumption was only 0,5 %. The Community had become more than self-sufficient for the majority of agricultural products and policy has been adapted, had to be adapted or run the risk of having its principles and achievements put into question.

There is now only a limited guarantee for products in surplus or likely to become so. - One third of final agricultural production corresponding to 60 % of feoga-guarantee expenditure has come into this system. In the dairy sector production quotas have been introduced.

Certainly, agricultural expenditure is not going to drop from one day to the next but it is under better control. Updating policy has been painful - witness the protests of the farming Community everywhere - even in the UK. Further tough decisions will be necessary. But rigour at Community level must not mean laxity at national level. There is no point in cutting Community expenditure if national governments are going to hand out subsidies to their farmers in return as is already happening in some countries. First of all, the common market for agricultural produce would be broken.

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Secondly, the absence of common disciplines would lead to ten national governments spending more to protect their farmers than the Community ever did. One Community policy for agricultural is cheaper than ten competing national ones. This has to be remembered when talking about the place of agriculture in the Community budget.

## 2. The budget - decisions which give us a breathing space

The Commission launched the debate on budgetary reform with a green paper published in 1978 by my predecessor, Roy Jenkins. It dealt with the question of new own resources. Since then the Commission has made a number of proposals all of which were designed to respect existing budget principles and allow for the expansion of our activities.

A number of decisions on budgetary reform have been made this year. From the point of view of the Commission they are not at all satisfactory. They do however have the very great merit of existing. They provide us with a breathing space for a few years. Let's use it !

To start with, national governments agreed to raise the Community's own resources ceiling. The maximum VAT call-up will be 1,4 % instead of 1,0 %. We would have preferred a higher limit. Indeed, we would prefer that the Community institutions as such had the power to raise taxes. As it is at the moment raising the VAT ceiling means submitting amendments to the Treaties for ratification in all ten (or twelve) national Parliaments.

To seek fiscal autonomy for the Community does not mean that we want to spend the taxpayers' money for its own sake. It is because we are convinced that in a number of areas it makes sense

to formulate and finance policy together at Community level rather than national level. Extra Community taxation should mean lower national taxation. In fact, the net tax burden should drop because Community expenditure on certain policies is cheaper than national expenditure. I have already shown that this is true for agriculture, I will come to the new technologies later on.

A second decision concerns the compensation mechanism for the United Kingdom. Again this mechanism is far from perfect but has the merit of being simple and existing. It is certainly preferable to the wrangling which has gone on over the last few years and which has presented a pitiful spectacle to the general public. I am convinced however that the question of a more generalised mechanism of financial perequation will have to be discussed sooner or later. The Commission made two proposals in 1983 which will be worth looking at again in a couple of years time. In May we suggested modulating VAT contributions according to certain economic indicators such as GDP. In November we made a complementary proposal for a compensation mechanism which makes sure that there would be a minimum Community per capita expenditure level in each country. This level would be based on relative prosperity levels.

The third budget dossier concerns so-called "financial discipline". The Commission, like any responsible public authority, is concerned that the tax-payers' money be spent effectively and efficiently. The Council wishes to commit itself to tightening procedures on budget decision-making though the final form of this commitment remains undecided. If it is a question of managing the Community's resources efficiently in a period of economic difficulties, who can object? If, on the other hand, the intention is to put a straitjacket on the development of Community policies at a time when the degree of integration is still low and to weaken the rôle of the other branch of the budgetary authority - the Parliament,

then the Commission will say quite bluntly no and, if needs be, take Council to Court. Under the concertation procedure I have suggested meetings of the Presidents of Council, Parliament and the Commission to discuss the issues involved.

### 3. Developing Community Policies

Community policies must constantly be adapted to meet changing needs. This means using existing instruments to the full and creating new ones where necessary. The economic crisis of the last few years has led to a whole range of developments some of which I should like to mention here.

#### 3.1. Restructuring Industry

One of the Community's big problems was the aging of its industrial structure. This was particularly true in the iron and steel industry where the present Community had the possibility of using the extensive powers foreseen in the Treaty of Paris. The industry was suffering from heavy overcapacity and the emergence of new competitors all round the world. Not all our industrialists had the necessary foresight to plan for change in the new market situation. When the economy stopped growing in the mid '70s the iron and steel industry plunged into crisis. Under the Commission's surveillance the industry was restructured, capacity reduced and the product mix changed. Thus rationalised, <sup>it is expected that</sup> the industry will be able to operate under normal market conditions at the beginning of 1986.

The iron and steel industry has undergone a major transformation and those of us who are familiar with the Saar-Lor-Lux region know just how big a change it has been. But if we think back a few years when steel production figures were plummeting there was a very real danger of the common market being buried under an avalanche of



national protectionist measures. Once the dam had been breached in this key sector who can doubt that others would have followed. Who can doubt therefore that national governments, in the end, were relieved to see that the Community was there to provide a common discipline. That is the lesson. The Community always needs to have the possibility to act when a problem transcends national frontiers and where common action can produce better results than national governments acting alone.

If there is no Community to impose a common discipline then the protectionist reflex will win the day and frontiers will be closed. Perhaps one or two of the big countries could run a purely national iron and steel industry to meet purely national needs. But where would be the competition which alone can guarantee efficiency and innovation? And what would a country like Luxembourg do? Our home market is far too small to support our own iron and steel industry. It's the same with the internal market. Perhaps some countries can produce efficiently in some industries without having to import or export. But this is not the general case. We all of us need the large home market which the Community alone can provide.

### 3.2. Consolidation of the internal market

The beneficial effects of the internal market have, however, only partly been achieved. Customs duties were abolished long ago but as you well know the number of non-tariff barriers remains impressive. They constitute a spectacular waste of resources. To those who quarrel about minute sums in the Community budget I can only say that if you really want to save big money, the real stuff, start by creating a real common market. It's the best savings plan I can think of.

Nonetheless, things are moving. The turning point was undoubtedly at the Copenhagen meeting of the European Council at the end of 1982. Reacting to a Commission plan the European Council instructed ministers to take action, by specific deadlines on thirty or so proposals in the priority areas identified by the Commission. Council has indeed been galvanised into adopting a series of decisions. Perhaps the most exciting has been the agreement, in principle, to introduce a common customs document to replace the existing seventy or so national ones.

Progress has also been made towards making it easier to cross intra-Community frontiers. The transport blockades of earlier this year and the desire to give Europe's citizens a further concrete sign of its development led to a number of bilateral and Community decisions in mid-1984. (However, I'm not quite sure whether anyone told the people on duty down at Wasserbillig on the frontier with Germany).

### 3.3. The technological gap

Earlier on I referred to the technological gap opening up between the Community and the United States and Japan. The nature of the problems arising and the remedies are such that no individual European country can hope to compete successfully on its own on world markets in goods making use of the new technologies. This isn't just an economic problem but one with profound political implications. Total dependence on other suppliers would considerably reduce the Community's autonomy.

Community research and development activities grew on a sectoral basis up until the beginning of the 80s. The Commission then proposed a programme later adopted by the Member States which outlined a joint strategy for R&D. I should like to mention two

specific actions. First of all the programme on controlled thermonuclear fusion which gave rise to the JET project now underway in Culham. This is an instrument unique in the world at the present moment and puts Europe ahead in the 21st century energy race.

Secondly we have the Esprit programme, finally launched this year. It is a crucial part of the Community drive to stimulate industrial innovation. The programme's major aim is to encourage EEC-wide projects at the advanced "pre-competitive" phase of information technology research and development. Because there is no immediate commercial application, common action can greatly reduce wasteful duplication of R&D efforts without creating competition problems.

The programme took two years to approve because approval was used as a tactical weapon in the running battle on the budget. Let's not now spend a further two years congratulating ourselves. There are other areas where such joint action is vital. I am thinking very much of telecommunications and biotechnologies.

#### 3.4. The EMS is a success story

Completion of the common market requires progress towards economic and monetary union. The European Monetary System set up in 1979 is a sophisticated technical device designed to contribute to the process of monetary and economic integration. Its workings may be described as one of the most successful innovations in European affairs in recent years. Apart from the greater stability in intra-Community exchange rates, it has quite clearly led to a convergence of general economic and monetary policies.

The EMS can and must be developed and the Commission will be proposing a number of measures at the Dublin European Council next month. In particular, we will put forward a proposal for the full integration of the Pound Sterling into the system.

3.5. I hope that this series of examples will have shown that despite the difficulties of recent years, despite the obstacle race I referred to earlier, the Community is extending and deepening its policy base.

#### IV. The Community in the world - its contribution to peace

It helps us to get our own problems into perspective if we look at the rôle of the Community in the world. If you're standing in Caracas or Djakarta it is quite natural to see the Community as a single entity. It is here that the Community is particularly appreciated as a civilian power because it allows other countries and regions of the world to diversify their commercial and political relationships. Such diversification makes it possible for countries to avoid total dependence on one or other of the super-powers.

Naturally, up until now the instruments at the disposal of Community foreign policy are based largely on its trade. The Community, as the world's most important trading partner has made strenuous efforts to stop moves towards protectionism. We have been fighting for open trade in all possible world institutions, notably GATT.

The Community's lines of communication with the United States have been considerably improved and a regular "crisis management" installed to deal with the inevitable trading clashes as they

arise. It is significant of the quality of Community-US relations that five American ministers visited their counterparts in the Commission in the course of 1984, and in December next, four of them, including Secretary of State G. Shultz, will be paying a visit to the Commission.

We are constantly developing our relations with the other industrialised countries, particularly in Western Europe. On Tuesday I discussed the creation of a European industrial zone with Ministers of the EFTA countries meeting in Geneva.

The Community has contractual relationships with most countries of the developing world. We are on the point of signing a third agreement with our partners in the 65 ACP States.

In a general way the Community is interested in the regional groupings which it has inspired. One of the major elements in our policy towards the Pacific region, the region of the future, is our relationship with the ASEAN countries with which we have had institutional links since 1980.

The recent meeting of Community foreign Ministers with their counterparts in Central America in San José allowed us to see what can be done in this troubled region of the world. The root cause of the problems in Central America is socio-economic. The Community intends to provide assistance and has started talks with a view to signing a general cooperation agreement.

My recent visit to Latin America allowed to appreciate the vitality and dynamism of this continent whose society and culture are so near to those of Europe. For the Community, alas, it has long been considered a far-off place. It is a continent we must rediscover and the forthcoming enlargement to Spain and Portugal will help us enormously.

The negotiations with these two countries are now coming to an end. It is to be regretted that the procedure has taken so long. The political significance of the full return of the Iberian peninsula to the mainstream of European affairs cannot be overestimated. All sides have expressed a strong political will to come to a rapid conclusion to the negotiations. I have no reason to doubt their success.

#### V. Towards European Union

Decisions have been taken, new vistas are opening and yet a major debate has come up on the future of the Community, on its transformation into a Political Union. The Parliament has drafted a Treaty of Union. The Fontainebleau European Council set up the Dooge Committee to look at the future of the Community. Is there a contradiction ?

No, it is precisely because so many past problems have been dealt with, so many new policies are in gestation and the Community is expanding to twelve Members that a new look has to be taken at the future of the Community, what our objectives are and our institutions and decision-making machinery. The situation has changed since the first days of the six in the fifties. There are new challenges, not the least of which is the organisation of our common security. Our countries form a Community of destiny. Serious thought must now be given to our common future and how best to organise all our relations be they economic, political or in the area of security.