

TIME FOR TRANSITION

THE TRANSITION I WILL BE SPEAKING TO YOU ABOUT IS NOT, I CAN ASSURE YOU, THE ONE WHICH IS IN THE MINDS OF MOST PEOPLE IN WASHINGTON TODAY. I SHALL INSTEAD ADDRESS MYSELF TO THE PROBLEMS OF CHANGE AND TRANSITION THAT WE CURRENTLY FACE IN THE EUROPEAN COMMUNITY. I SHALL TRY TO CHART OUT THE COURSE WE MAY BE FOLLOWING IN THE COMING MONTHS AND YEARS, POINTING OUT AT THE SAME TIME WHERE THE MAIN OBSTACLES LIE IN THE DIFFICULT WATERS IN WHICH WE HAVE TO NAVIGATE.

IT IS WORTH RECALLING AT THE START THAT IN ITS EARLY YEARS THE COMMUNITY MADE PROGRESS WITH RELATIVE EASE, FOR TWO REASONS: IN THE FIRST PLACE THE TREATY HAD MAPPED OUT, STEP-BY-STEP, THE WAY THE SIX ORIGINAL MEMBERS WERE SUPPOSED TO MOVE; IN THE SECOND PLACE THE ECONOMIC...

... SITUATION

SITUATION WAS ONE OF UNPARALLELED PROSPERITY WITH A RAPID AND CONTINUOUS GROWTH OF OUR ECONOMIES; ALL OF WHICH WERE PART OF A STABLE AND ACCEPTED INTERNATIONAL MONETARY SYSTEM.

WE MOVED INTO THE 70'S, WITH THREE NEW COUNTRIES ABOARD, UNDER THE VERY REVERSE OF THOSE PREVIOUS CONDITIONS. WE WERE NOW NAVIGATING IN UNCHARTED WATERS, THE MAIN GUIDELINES OF THE TREATY HAVING BEEN LONG FULFILLED. FURTHERMORE, WE WERE FACING A MAJOR WORLD RECESSION WITH ITS UPS AND DOWNS WHICH IS STILL WITH US TODAY. THE INTERNATIONAL MONETARY SYSTEM ALSO NO LONGER EXISTED.

FOR EUROPE THE CONSEQUENCES OF THE RECESSION AND EXCHANGE RATE INSTABILITY WERE DRAMATIC. FOR THE FIRST TIME IN A GENERATION, UNEMPLOYMENT REAPPEARED. COUNTRIES WHICH FOR DECADES HAD HAD TO RELY ON IMPORTED LABOUR SUDDENLY FOUND THEMSELVES FACING LARGE SCALE AND INCREASING UNEMPLOYMENT. THIS WAS TO PERSIST EVEN AFTER A GRADUAL BUT SIGNIFICANT RETURN OF FOREIGN WORKERS TO THEIR HOME COUNTRIES TODAY THE UNEMPLOYMENT RATE...

RATE IN THE COMMUNITY STANDS AT 6.7% WITH OVER SEVEN MILLION PEOPLE OUT OF WORK.

ECONOMISTS FORECAST THAT THE COMMUNITY WOULD NOT BE ABLE TO WITHSTAND SUCH STRESSES. SOCIOLOGISTS PREDICTED THAT THE SOCIAL FABRIC OF THE COMMUNITY WOULD BE TORN APART.

IN THE EVENT, THE PROPHETS OF DOOM WERE TO BE PROVED WRONG.

ON THE INTERNAL FRONT THE EUROPEAN COMMUNITY DID NOT DISINTEGRATE. ON THE CONTRARY, WE MADE SUBSTANTIAL STEPS FORWARD. THE DIRECT ELECTION OF THE EUROPEAN PARLIAMENT, THE CREATION OF THE EUROPEAN MONETARY SYSTEM, THE ENLARGEMENT OF THE COMMUNITY TO TEN, SOON TO BE TWELVE.

ON THE EXTERNAL SIDE, WE REGISTERED THE SUCCESSFUL CONCLUSION OF THE MTN NEGOTIATIONS, OF THE LOME II AGREEMENT WHICH LINKS 60 DEVELOPING COUNTRIES TO THE COMMUNITY, A COOPERATION AGREEMENT WITH THE ASEAN COUNTRIES,

THE MULTI-FIBER AGREEMENT, AND LAST BUT NOT LEAST, WE HAVE SEEN THE GRADUAL IMPLEMENTATION OF POLITICAL COOPERATION BETWEEN THE NINE MEMBER STATES OF THE COMMUNITY.

MOST IMPORTANT, IN THE FACE OF A GLOBAL RECESSION, WE SUCCESSFULLY HELD OUT AGAINST THE WORST EVILS OF PROTECTIONISM BOTH AMONGST ONE ANOTHER AND BETWEEN OURSELVES AND THE REST OF THE WORLD.

THIS DOES NOT IMPLY THAT ALL OF OUR PROBLEMS ARE BEHIND US, FAR FROM IT. THE FIRST PROBLEM WE CONTINUE TO FACE IS THE QUESTION OF THE COMMUNITY'S OWN INTERNAL BUDGET. THIS IN TURN IS CLOSELY LINKED TO THE QUESTION OF THE FUTURE ROLE AND FINANCING OF THE COMMON AGRICULTURAL POLICY. IT IS ALSO AT THE ROOT OF THE PROBLEMS THE COMMUNITY IS FACING IN THE CONTEXT OF THE COMING ENLARGEMENT.

THE CAP WAS ORIGINALLY ...

...DESIGNED

DESIGNED TO INSURE THE FREE MOVEMENT OF AGRICULTURAL COMMODITIES WITHIN THE COMMUNITY AT A LEVEL OF PRICES WHICH WOULD INSURE THAT THE INCOME OF THE AGRICULTURAL POPULATION WOULD PROGRESSIVELY COME UP TO LEVELS COMPARABLE TO THOSE OF OTHER SECTIONS OF THE POPULATION. THIS WAS TO BE ACHIEVED THROUGH INCREASES IN PRODUCTIVITY WHICH WOULD AS A COROLLARY FACILITATE AND PROMOTE THE ORDERLY TRANSFER OF LABOR FROM AGRICULTURE TO INDUSTRY AND SERVICES. THE CAP SUCCESSFULLY ACHIEVED THESE GOALS.

A MAJOR REVOLUTION TOOK PLACE THAT IS COMPARABLE TO THAT WHICH OCCURRED IN GREAT-BRITAIN IN THE 18TH CENTURY AT THE TIME OF THE ENCLOSURE ACT, OR MORE RECENTLY IN THE UNITED STATES IN THE 1930'S.

IN OUR CASE IT WAS A REVOLUTION THAT WAS ACCOMPLISHED WITH THE MINIMUM OF SOCIAL AND POLITICAL UPHEAVAL.

IN A 20-YEAR PERIOD THE AGRICULTURAL POPULATION OF THE COMMUNITY WAS MORE THAN HALVED. IN SOME OF OUR MAJOR COUNTRIES, LIKE ITALY AND FRANCE WHERE IT REPRESENTED A QUARTER TO A THIRD OF THE ACTIVE POPULATION, IT WAS REDUCED TO 10% OR LESS.

THE CAP BECAME ONE OF THE MAIN INSTRUMENTS FOR REDISTRIBUTING WEALTH IN THE COMMUNITY. THE IMPLEMENTATION OF THE CAP HAS, HOWEVER, IN RECENT YEARS BEGUN TO HAVE THE OPPOSITE EFFECT.

THE UNITED KINGDOM, FOR EXAMPLE, WITH A LARGE AND RELATIVELY WEAK INDUSTRIAL STRUCTURE, AND A SMALL EFFICIENT AGRICULTURAL SECTOR, HAS FOUND ITSELF TRANSFERRING INCREASING NET AMOUNTS TO THE RICHER PARTS OF THE COMMUNITY.

THE SITUATION HAS BEEN TEMPORARILY CORRECTED BY THE AGREEMENT REACHED IN THE COUNCIL OF MINISTERS THIS YEAR. BUT THIS

IS NOT CONSIDERED AS A PERMANENT SOLUTION. THE UNDERLYING TREND, WHICH LED TO THE APPEARANCE OF A SITUATION CONSIDERED UNACCEPTABLE BY THE BRITISH, STILL REMAINS.

IN THE COMING YEARS, THEREFORE, THE COMMUNITY WILL HAVE TO FACE THE DELICATE TASK OF TRYING TO RESOLVE THE RELATED PROBLEMS OF THE SIZE OF THE BUDGET, THE QUESTION OF WHO GETS WHAT OUT OF IT, AND THE PROPORTION SPENT ON THE CAP. THIS FURTHERMORE WILL DIRECTLY INVOLVE THE PARLIAMENT WITH ITS POWERS OVER THE BUDGET, POWERS WHICH ALREADY LAST YEAR IT SHOWED A DETERMINATION TO EXERCISE.

THE SOLUTION WILL NOT BE EASY TO FIND. ALL THE MORE SO AS MANY OF THE PROBLEMS WHICH THE CAP HELPED TO SOLVE IN THE 60'S - REDISTRIBUTION OF INCOME, ORDERLY TRANSFER OF LABOR FROM AGRICULTURE TO OTHER SECTORS OF THE ECONOMY - ARE FACING US AGAIN IN THE FRAMEWORK OF THE NEXT...

..ENLARGEMENT

ENLARGEMENT OF THE COMMUNITY.

IN ECONOMIC TERMS, THE THREE COUNTRIES THAT ARE ABOUT TO JOIN THE COMMUNITY, GREECE, SPAIN AND PORTUGAL, LAG SOME WAY BEHIND THE REST OF THE COMMUNITY. A QUARTER TO A THIRD OF THEIR WORKFORCE IS STILL ENGAGED IN AGRICULTURE.

THE DECISION TO INCLUDE THESE COUNTRIES WAS TAKEN FOR POLITICAL REASONS. ITS PURPOSE WAS TO STRENGTHEN DEMOCRACY IN THESE COUNTRIES - ITS COROLLARY WILL BE TO STABILISE THE SOUTHERN FLANK OF EUROPE.

IT WILL, HOWEVER, IMPLY A MASSIVE TRANSFER OF RESOURCES FROM THE WEALTHY MEMBERS OF THE COMMUNITY TO THESE COUNTRIES. THE CAP CAN HELP TO DO THIS IN AN ORDERLY WAY. BUT, IN COMPARISON TO THESE COUNTRIES, GREAT BRITAIN WILL BE ONE OF THE WEALTHIER NATIONS AND THIS SUGGESTS THE BUDGETARY PROBLEMS THE COMMUNITY HAS BEEN FACING WILL NOT BE ..

..EASY

EASY TO SOLVE.

IN THE SAME WAY, MANY OF THE INDUSTRIAL PROBLEMS WHICH THE COMMUNITY HAS BEEN FACING IN SECTORS SUCH AS TEXTILES, SHOES, STEEL, ETC. WILL BE EXACERBATED BECAUSE THESE NEW MEMBERS OF THE COMMUNITY ARE MOST EFFICIENT IN THOSE SECTORS.

IF THE BASIC TENETS OF COMMUNITY LIFE CONTINUE TO BE OBSERVED, I.E. FREE MOVEMENT OF LABOR AND GOODS, WE SHALL FIND EXPORTS TO THE REMAINDER OF THE COMMUNITY OF TEXTILES, SHOES, STEEL, INCREASING. AND THIS IS A GOOD SIGN. IT IS BY THIS MEANS AND THIS ALONE, THAT THE ECONOMIES OF THESE COUNTRIES WILL EXPAND FASTER THAN THOSE OF MORE DEVELOPED AREAS OF THE COMMUNITY. IT IS BY THIS MEANS THAT THE GAP IN REAL INCOME PER CAPITA CAN BE FILLED.

TO AID THE PROCESS, FURTHER PROGRESS WILL HAVE TO BE MADE FAIRLY RAPIDLY IN THE DEVELOPMENT OF THE EUROPEAN MONETARY SYSTEM. THE INCREASE IN THE BORROWING FACILITY UNDER THE EMS SCHEME, AND THE USE OF THE COMMUNITY'S REGIONAL, SOCIAL AND AGRICULTURAL GUIDANCE FUNDS WILL ALLOW THE TRANSFER OF CAPITAL RESOURCES TO THESE COUNTRIES.

HOWEVER RAPID THE DEVELOPMENT OF THE ECONOMIES OF GREECE, SPAIN AND PORTUGAL; HOWEVER GREAT THE BENEFIT OF THE NEW MARKET OPEN TO THEM, THIS PROCESS WILL BE A LENGTHY ONE.

IN THE MEANTIME, THE ELASTICITY OF DEMAND FOR PRODUCTS SUCH AS TEXTILES OR SHOES BEING VERY LOW, IT IS CLEAR THAT CERTAIN PATTERNS OF INTERNATIONAL TRADE WILL CHANGE. IF THE REMAINDER OF THE COMMUNITY BUYS MORE OF CERTAIN PRODUCTS FROM GREECE OR FROM SPAIN, IT WILL TEND TO IMPORT LESS FROM SINGAPORE HONG KONG AND KOREA.

/WE MAY

WE MAY THEREFORE EXPECT SOME DIFFICULT DAYS AHEAD IN THE RENEGOTIATION OF THE MULTIFIBER AGREEMENT OR IN THE AREA OF GENERALISED PREFERENCES.

CLOSER TO HOME, WE WILL HAVE TO KEEP A WATCHFUL EYE ON OUR TRADE RELATIONS WITH THE OTHER COUNTRIES IN THE MEDITERRANEAN AREA. THEY REALLY LOOK ON THE COMMUNITY AS THEIR MAIN MARKET, SOMETIMES THE SOLE MARKET, FOR THEIR EXPORTS INTER ALIA OF OLIVE OIL CITRUS PRODUCTS, FRUITS AND VEGETABLES.

ONCE SPAIN AND PORTUGAL HAVE JOINED THE COMMUNITY, WE SHALL HAVE BECOME SELF-SUFFICIENT IN MANY OF THESE PRODUCTS. IN ADDITION, WORKERS FROM OTHER MEDITERRANEAN COUNTRIES WHO USED TO COME TO THE COMMUNITY MAY WELL FIND THEMSELVES PROGRESSIVELY REPLACED BY SPANIARDS AND PORTUGUESE.

/THE DANGER

THE DANGER WE HAVE TO WATCH FOR IS THAT A SUCCESSFUL POLICY TO STABILISE THE NORTHERN MEDITERRANEAN AREA MIGHT INCREASE THE CHANCES OF DESTABILISATION, FOR ECONOMIC REASONS, OF THE SOUTHERN MEDITERRANEAN.

THE COMMUNITY IS FACED WITH A DAUNTING TASK AND ONE WHICH IS COMMON TO THE ENTIRE WESTERN WORLD. IT IS THE TASK OF TRANSFERRING INCREASING AMOUNTS OF RESOURCES TO THE DEVELOPING COUNTRIES IN OUR CASE, THIS MEANS PRINCIPALLY THE COUNTRIES OF THE MEDITERRANEAN AND THOSE IN AFRICA, THE CARIBBEAN AND THE PACIFIC COVERED BY THE LOME CONVENTION.

/WE SHALL

WE SHALL CONTINUE TO FULFILL
OUR OBLIGATIONS TO THE LDC'S.
BUT WE CAN ONLY DO SO AGAINST THE
BACKGROUND OF A FREE TRADE SYSTEM
THROUGHOUT THE WORLD.

MAINTAINING A GLOBAL FREE TRADE
SYSTEM IS A COMMON RESPONSIBILITY OF
THE UNITED STATES, JAPAN AND THE
COMMUNITY. IN THE LAST FEW YEARS
IN OUR DIRECT RELATIONS WITH THE UNITED
STATES, WE HAVE BEEN SUCCESSFUL, IN
SPITE OF INCREASING PRESSURE ON BOTH
SIDES, IN CONTINUING TO PRACTICE THE PRINCIPLES
OF FREE TRADE.

AND I WOULD LIKE HERE TO
ACKNOWLEDGE THE UNFLAGGING HELP THAT
WE RECEIVED FROM THE PRESENT ADMINISTRATION.
IT HAS TO CONTINUE IN THE FUTURE.

/WE, LIKE YOU,

WE, LIKE YOU, MAY HAVE PROBLEMS
WITH JAPAN. I DO NOT DOUBT THAT WE SHALL,
FORM TIME TO TIME, HAVE PROBLEMS WITH
ONE ANOTHER. THE TEMPTATION WILL BE TO
RESORT TO TEMPORARY TRADE RESTRICTIONS
IN AN EFFORT TO SOLVE SUCH PROBLEMS. WE
ALL KNOW OF THE VARIOUS MEANS AVAILABLE
TO US TO LIMIT ONE ANOTHER'S EXPORTS.
THE WEAPONRY OF IMPEDIMENTS TO TRADE
IS HOUSED IN A WELL-STOCKED ARSENAL.

OUR TRADE DEFICITS MAY APPEAR
AT TIMES TO BE GIGANTIC AND TO WARRANT
THE USE OF THIS ARMORY. OUR OWN DEFICIT
WITH THE UNITED STATES MAY SOON THIS YEAR
REACH \$20 BILLION, WHILE WITH JAPAN, IT
HAS REACHED SOME \$10 BILLION. THIS DOES
NOT, PER SE, EITHER JUSTIFY OR EXCUSE
RESTRICTING OR HAMPERING TRADE.

/PROTECTION BY

PROTECTION BY ONE SIDE WOULD INEVITABLY LEAD TO A SPIRALLING SERIES OF RETALIATORY MEASURES WHICH COULD ONLY DO DAMAGE TO THE FABRIC OF THE ECONOMY OF THE WESTERN WORLD.

THE TEMPTATION TO RESORT TO PROTECTIONISM HAS TO BE FIRMLY RESISTED.

IN THE PAST FEW MINUTES, I HAVE TRIED TO OUTLINE SOME OF THE MANY CHALLENGES THAT FACE US. I AM CONFIDENT THAT WE CAN MEET THOSE CHALLENGES. BUT WE CAN ONLY DO SO IF WE CAN BE CERTAIN THAT THE INTERNATIONAL MARKET PLACE WILL REMAIN FREE AND OPEN AND THAT WE ARE ALL OPERATING IN AN ATMOSPHERE WHERE THERE IS MUTUAL UNDERSTANDING AND SUPPORT FOR THE UNDERLYING POLITICAL OBJECTIVES WHICH ARE COMMON TO US ALL.

/RECENT HISTORY

RECENT HISTORY HAS SHOWN US THAT WE CAN SOLVE THE PROBLEMS THAT ARISE BETWEEN US IN SUCH AN ATMOSPHERE OF MUTUAL UNDERSTANDING. IT IS A SUCCESS STORY WHICH I HOPE AND TRUST WILL CONTINUE.

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TIME FOR TRANSITION

Roland de Kergorlay, Head of the European Communities Delegation to the United States, addressed the Mid-Atlantic Club on Wednesday, November 26, 1980 in Washington D.C. The topic of his talk: "Time for Transition."

The European Community has faced recently and will confront in future a number of basic challenges linked to the development of the CAP and its consequences on the EC budget - especially in the context of the Community's enlargement. In turn, the enlargement of the EC towards the South poses difficulties for Europe's relations with the developing world. These problems can only be solved through worldwide free trade.

Despite the economic and social crisis of the past 4 years, the basic structures on which the European Community rests have held firmly under great pressure. "The prophets of doom were to be proved wrong" Ambassador de Kergorlay pointed out, "on the internal front the European Community did not disintegrate. On the contrary, we made substantial steps forward. The direct election to the European Parliament, the creation of the European Monetary System, the enlargement of the Community to Ten, soon to be twelve.

On the external side, we registered the successful conclusion of the MTN negotiations, of the Lome II Agreement which links sixty developing countries to the Community, a cooperation agreement with the ASEAN countries, the multi-fiber agreement, and last, but not least, we have seen the gradual implementation of political cooperation between the Nine member states of the Community.

Most important, in the face of a global recession, we successfully held out against the worst evils of protectionism, both amongst one another and between ourselves and the rest of the world."

The EC Budget

The EC Ambassador outlined some of the challenges the Community will face in the near future. In this respect: "in the coming years, the Community will have to face the delicate task of trying to resolve the related problems of the size of the budget, the question of who gets what out of it, the proportion spent on the Common Agricultural policy. This furthermore will directly involve the Parliament with its powers over the budget, powers which already last year it showed a determination to exercise."

The Enlargement

This budgetary issue assumes even sharper significance given the imminent prospect of the Community's enlargement to include three new Mediterranean members. "In economic terms, the three countries that are about to join the Community - Greece, Spain and Portugal - lag some way behind the rest of the Community. A quarter to a third of their workforce is still engaged in agriculture.

The decision to include these countries was taken for political reasons. Its purpose was to strengthen democracy in these countries - its corollary will be to stabilize the southern flank of Europe.

It will, however, imply a massive transfer of resources from the wealthy members of the Community to these countries. The CAP can help to do this in an orderly way.

In the same way, many of the industrial problems which the Community has been facing in sectors such as textiles, shoes, steel, etc. will be exacerbated because these new members of the Community are most efficient in those sectors.

If the basic tenets of Community life continue to be observed, i.e. free movement of labor and goods, we shall find exports to the remainder of the Community of textiles, shoes, steel, increasing. And this is a good sign. It is by this means and this alone, that the economies of these countries will expand faster than those of more developed areas of the Community. It is by this means that the gap in real income per capita can be filled."

North-South

The danger we have to watch for is that a successful policy to stabilize the Northern Mediterranean area might increase the chances of destabilisation, for economic reasons, of the Southern Mediterranean.

The Community is faced with a daunting task and one which is common to the entire western world. It is the task of transferring increasing amounts of resources to the developing countries. This can only be done against the background of an international free trade system.

Free Trade

"Maintaining a global free trade system is a common responsibility of the United States, Japan and the Community. In the last few years in our direct relations with the United States, we have been successful in spite of increasing pressure on both sides, in continuing to practice the principles of free trade.

And I would here to acknowledge the unflagging help that we received from the present Administration. It has to continue in the future. We, like you, may have problems with Japan. I do not doubt that we shall, from time to time, have problems with one another. The temptation will be to resort to temporary trade restrictions in an effort to solve such problems. We all know of the various means available to us to limit one another's exports. The weaponry of impediments to trade is housed in a well-stocked arsenal.

Our trade deficits may appear at times to be gigantic and to warrant the use of this armory. Our own deficit with the United States may soon this year reach \$20 billion, while with Japan, it has reached some \$10 billion. This does not, per se, either justify or excuse restricting or hampering trade.

Protection by one side would inevitably lead to a spiralling series of retaliatory measures which could only do damage to the fabric of the economy of the Western world.

The temptation to resort to protectionism has to be firmly resisted."

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