

FOIRE INTERNATIONALE DE LISBONNE

13th May, 1980.

Speech by Mr. Richard Burke,

Member of the Commission of the European Communities.

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Ministers, Ladies & Gentlemen,

It was with great pleasure that I received your invitation to represent the Commission of the European Communities at this 21st International Lisbon Fair, and thus gained the opportunity of speaking to you at this important moment in the process of Portuguese integration into the Community. The negotiations for the accession of Portugal were begun in October 1978, and in view of the satisfactory rate of progress which has been maintained, they will soon reach the stage where important decisions have to be taken.

But before addressing myself to this critical subject of the adhesion of your country to the Community, I would first like to say a few words on the present state of relations between Portugal and the Community. I am thinking first of our commercial relations, the development of which is, after all, the principal objective of the organisers of the International Lisbon Fair. Their efforts and those of the other interests involved in trade have brought genuine results, and I congratulate them.

Total Portuguese exports to the Community have recovered impressively after the difficult years we all experienced from 1973 to 1975. In 1976 and 1977 alone there was a volume increase of 7 and 6% respectively, in 1978 an increase of 13% and last year of fully 23%.

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More important still than this overall growth is the fact that the diversification of exports has proceeded well, both in respect of the products involved and their destinations. In 1960 agricultural goods, together with wood and cork products, still represented 50% of your exports; but by 1978 this figure had fallen to 30%, while for example machinery and transport equipment had increased their share of exports from 3% in 1960 to nearly 14% in 1978.

As for the diversification of trading partners, it was still the case at the beginning of the 1970s that Portuguese exports remained largely concentrated on the colonies and ex-colonies - to the tune of about 25% - and on Great Britain (between 20 and 24%) while exports to France and Germany totalled only about 5%. A better balance is now beginning to emerge, and in 1978 both France and Germany nearly doubled their volume imports from Portugal, whilst British imports dropped slightly to 18%, thus assisting a more even distribution of trade. Overall, the Community share of Portuguese exports continues to rise, reaching a total of 60% in 1979.

It can be seen therefore that our commercial relations have been developing in a highly satisfactory way. They have, moreover, received a further stimulus from the conclusion of the additional protocol at the end of last year. In this recent agreement we have been able to achieve a freeze on tariff reductions - an essential move in view of the adhesion negotiations - and we have also agreed a further opening of our market to a certain number of Portuguese products, as well as a satisfactory arrangement regarding the import of cars.

At the same time we have accepted your demand to have the funds agreed under the financial protocol made available to you more quickly. We believe that in doing so we have taken an important step towards the more rapid integration of your economy into that of the Community.

It is clear that if this process of integration can be undertaken immediately there will be fewer problems after you have become members.

I would like to mention now the negotiations for adhesion. These are proceeding well and I should emphasize that the European Commission is convinced not only that they are going to succeed, but that they will succeed quite rapidly.

Obviously it is the Portuguese government which must, along with the Community, negotiate agreement in the months to come on the conditions of accession. But it is also true that

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4 governments alone cannot accomplish the profound economic and political transformation implicit in the kind of step you have taken. So it is, I suggest, for the business community, the manufacturers, the farmers and their co-operatives, the transport operators, the trade unions, and administrators, and all those who have a part to play, to bend their efforts now towards ensuring that everything possible will be done in their varied spheres to see that membership of the Community is from the beginning a successful undertaking.

As you know, it is my colleague Vice-President Natali who has overall responsibility in the Commission for the accession negotiations. I therefore mean to confine myself today to three specific topics - Value Added Tax, the problems of transport infrastructure and of transport in general, and the protection of consumers and of the environment, which is a portfolio on which I share responsibility with Mr. Natali. In selecting these topics I have very much in mind the fact that each concerns you directly and urgently, in your varied capacities as economic agents, whether as manufacturers or distributors, or finally as consumers - and, in the end, we are all consumers. If the economic interests concerned - of which you are each in some way representative - can be as well prepared as possible for membership, then accession will be a straightforward process, the negotiations will gain in clarity and efficiency, and the risk of later complications will be reduced.

Let me illustrate what I mean by referring to a specific matter which is very close to my own concerns in the Commission. Membership of the Community will mean that your country has to introduce the instrument of taxation which we call Value Added Tax. The adoption of this tax will undoubtedly pose problems for your

government and your administration. Every modification of a fiscal system is a complex business, and the experience of the existing member states clearly demonstrates that the replacement of the cascade system by VAT requires a certain period of adjustment, and a general effort of preparation by all the economic interests concerned.

This is especially true because, as you know, VAT is a tax in whose application the entrepreneur himself plays a preponderant role. It is in fact the businessman who is responsible for the assessment, and even the collection of this tax, and its successful implementation will therefore depend to a great extent on the degree to which the business community is prepared. It is therefore very important, if you are to be equipped to settle rapidly the problems which the introduction of VAT will undoubtedly provoke, that the economic interests involved should prepare themselves without delay and make the necessary dispositions.

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Who do we insist so firmly on the central importance of Value Added Tax? We do so because it is here, in connection with the free movement of goods and the establishment of the customs union, that the Community has registered its principal achievement in the field of taxation. When the Council adopted the first two VAT directives in 1967, it paved the way for the general introduction of this tax in all member states, and for the abolition of cascade tax systems, which had been at the root of serious distortions in international trade. A further important step in the harmonisation process was taken in 1977 with the adoption by the Council of the Sixth Vat Directive, which lays down the uniform basis of assessment for the tax. This move was prompted not only by the aim of fiscal neutrality but also by the need to achieve a further important objective, namely the securing for the Community of its "own resources".

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Alongside customs duties and agricultural levies, these now include a maximum of 1% of the uniform VAT basis of assessment.

As I have said our main achievement has been in relation to Value Added Tax. But it is not the only fiscal achievement; some other significant steps have also been taken.

Community action in the field of taxation is not designed to establish a comprehensive tax system similar to those applied by the Member States. There are several reasons why we must be content with a more limited aim. For one thing the Community budget, although now financed out of own resources, is still very small in terms of the combined budgets of the member states. This means that the role of taxation as a budgetary instrument at Community level has to be correspondingly modest. Secondly, economic and social policy is still very much a national prerogative, so the use of taxation as an instrument of this policy cannot be regulated at Community level. Nevertheless, tax considerations play an important part in the construction of the Community, because we do need fiscal measures if we are to achieve a number of fundamental objectives laid down by the Treaty, notably the free movement of persons, goods, services and capital, and the establishment of a system under which competition is not distorted.

These are the considerations which have led to the concept of harmonisation and to the present attempts to implement it. Harmonisation is therefore not an end in itself but simply one of the instruments given to the Community so as to enable it to perform the tasks it has been set.

The directives adopted to date by the Council, apart from those on VAT, are concerned mainly with turnover taxes, tax-free allowances for travellers, excise duty on cigarettes, capital duty and mutual assistance between tax administrations in the spheres of direct taxation.

So it follows that in the field of taxation, as elsewhere, accession will impose a two-fold obligation on your country: to comply with the provisions of the Treaty and to respect the achievements of the Community to date. The tax provisions laid down in Articles 95 to 99 of the Treaty essentially prohibit member states from taxing imports from other member states more heavily than they would similar domestic products and, conversely, from granting any repayment of tax in excess of that imposed directly or indirectly on exports. These provisions are clearly designed to ensure neutrality of taxation in intra-Community trade. When it comes to respecting the achievements of the Community to date, Portugal must bring its legislation into line with the provisions of secondary legislation relating to taxation. By far the most important task here is to replace the present system, under which a single tax is collected only once, at the wholesale stage, by the common system of value added tax. ^{as I have acknowledged,} This entails a far-reaching reform, but one which is absolutely essential, because VAT is among the main pillars of the European edifice, particularly since it has become part of the mechanism of "own resources."

Mr. President, in discussing VAT I find myself at the very heart of the conundrum - if I may so express it - of Portuguese accession to the Community. That accession will shortly represent the logical culmination of the sustained process of opening Portugal to Europe which successive governments here have undertaken, more especially since the restoration of parliamentary democracy in 1974. I hope it is no longer necessary to say that the Community looks forward to seeing you soon take your place among its member states. Indeed I believe that the progress of the negotiations already demonstrated very clearly the determination of the Community to see an early agreement, and its willingness at all times to adopt an open and sympathetic attitude in regard to the difficulties which Portugal's acceptance of the Community system, in its considerable complexity, may create for your economy.

Your industry and your trade will face the obligation of adapting to Community rules. On the one hand they will be exposed to new winds of competition with the disappearance of your protective system, although I think it is true here to say that the free trade agreement between us - as well as your participation in EFTA - have already largely prepared you for this situation, so that it will rather be the manufacturers of the other member states who will face notable difficulties in holding their place against the competition represented by your products. On the other hand, these Community rules of which I spoke include a great variety of provisions in the vast area of legislative harmonisation. Among the many diverse sectors touched by this process of harmonisation I would like to mention particularly those concerning the protection of the consumer and of the environment - which is after all the principle theme of the 21st International Fair of Lisbon.

The Community's environment policy, which is intended to contribute to harmonious economic development, has a two-fold objective: to ensure the sound management of natural resources, and to introduce qualitative considerations into the planning and organisation of economic and social development.

The policy, as embodied in the 1977-81 Action Programme, seeks to achieve these two objectives by the following means: first, to reduce, through remedial or - if possible - preventive action, pollution and nuisances detrimental to natural resources, the biosphere and the quality of life; second, to protect natural resources and the natural environment, and improve the quality of life, by means of measures regulating certain activities, and, in the longer term, by new instruments of a preventive kind; third, to organise a complementary programme of research, dissemination of knowledge, economic studies, and educational and information campaigns, and fourth, to search for international solutions to certain problems.

These efforts are underpinned by two main principles, namely that prevention is better than cure, and that "the polluter pays", meaning that the polluter is made financially responsible for making good any damage he does to the environment.

Substantial results have been achieved in several fields covered by the Action Programme in a very short space of time. Within the past seven years the Community has adopted fifty-eight legislative measures - fifteen on water pollution,

11 ten on the reduction of air pollution, seven on waste, eight on noise pollution and four on the protection of the environment, land and natural resources.

These legislative texts are currently the subject of joint examination with the Portuguese authorities in the context of the accession negotiations so as to enable this country to have sufficient time to adopt these texts.

Turning briefly to the field of consumer protection I would say that the Commission is animated by the belief that if we are to have true competition in the Community, and if we are to remove the barriers to trade, it is necessary not only to have common regulation affecting the producer, but to ensure also that the consumers in the different member states enjoy similar conditions and rights. To that end we have defined five basic rights for the European consumer - the right to the protection of health and safety, to the protection of economic interests, the right of redress, the right to information and education, and finally the right of representation. We are now embarked on the adoption of the second consumer programme, which is currently being considered by the Council of Ministers. It is agreeable to note that no difficulties have so far arisen in the Community's discussions with your government on this question.

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The accession of Spain - which we in the Commission hope to see happening simultaneously with your accession - will serve to enhance the geographical links between Portugal and the Community. While it is true that in our modern economic system, trade has become more and more immune to the problems of distance, it remains an indispensable condition of commercial development that the transport infrastructure is adequate to the growth in traffic which successful commerce generates. It is therefore clear that the creation of an infrastructure capable of unblocking the transport arteries of the Portuguese interior, and opening the way to France and the other member states by careful liaison with the infrastructure system of Spain, is an essential prerequisite for the rapid growth of inter-state trade in the enlarged Community.

It is therefore natural that the Portuguese government should attach very great importance to the establishment of this transport infrastructure.

I may say that the Community on its side has recently been turning its mind to the defects in its own transport system. We in the Commission have taken a preliminary step towards the elimination of these difficulties by proposing action at Community level. If the ideas put forward by the Commission fall on fertile ground - as I sincerely hope they will - there may well be an opportunity for a significant Community role in infrastructure development by the time Portugal has become a member.

Our proposals in this field were set out in a comprehensive Memorandum published last November. One of the principal objectives identified is to try to ensure that the general interest of the Community is included in national planning and budgetary processes. Progress is already being made in the installation of a Community presence in planning, and I am now awaiting the approval by the Council of Ministers of a Regulation that will permit Community assistance to be accessible to projects of Community interest - including projects in non-member countries associated with the Community.

I am aware that, because of the unsatisfactory standard of much of your transport infrastructure, there is a widespread feeling here that some practical assistance should be rendered by the Community immediately - that is, before accession, and indeed before agreement within the Community on the financial regulations. But on this I can only say that while the Commission is sympathetic to the idea of pre-accession aid for Portugal, and while transport infrastructure may well be an appropriate field for the application of such aid, there has yet to be a decision, even in principle, on the proposal for pre-accession aid which is, as you know, without precedent. On this matter, as on others, it is the Council of Ministers and not the Commission which must decide.

If infrastructure is perhaps the question of greatest current interest in the field of transport, I should not neglect the opportunity to mention briefly the other aspects of our common Transport Policy, and to note with pleasure that, during this first phase of the negotiations at any rate, no particular problems arise on your side.

The subject of railways in the Community increasingly occupies my attention, since it possesses some of the most complex and challenging problems in the whole of transport. I am hoping to be able to publish a railway policy review document in the course of the next few months, setting out the main objectives to be sought. Although I cannot anticipate the conclusion of this document it is clear that the overall aim must be to create the conditions in which the railways, with their technical and economic advantages, can best fulfil their potential in meeting commercial and economic requirements.

A broad objective in inland transport is progressively to reduce obstacles to movement, and to improve the scope for the offering of transport services between our Community member countries - and indeed with our neighbours. There has been progress here but more remains to be done. We are supporting this by developing a system of observation of transport markets and trends in them, with an element of forecasting, which must be both original and constructive.

As a Commissioner whose tasks encompass also shipping, I would like to express my real pleasure at being here in the country of Henry the Navigator, of Vasco de Gama and Pedro Alvarez Cabral. Portugal, a maritime country with a great tradition, will soon be joining forces with the traditional maritime nations forming the European Community of today. It will find that a good deal has been happening in the way of legislation and concertation of maritime policy. The Council of Ministers has adopted in two years eight pieces of Community law in shipping, covering

such varied fields as non-commercial competition, the Code of Conduct for liner shipping, and shipping safety and the prevention of marine pollution from ships. There is more to come; for example a regulation on the competition rules, as well as further measures on safety.

Mr. President, these have been a few reflections on subjects which I wanted to raise with you and which I have been discussing this morning and will discuss again tomorrow with members of your government.

I would not wish however to give the impression that the accession of Portugal is an exercise which gives rise only to problems for you. For it will bring with it also substantial political and economic advantages which it will be important to exploit to the full. I would like to argue the truth of this remark - and the reality of the opportunities which the Community offers - by sketching briefly the advantages which my own country has gained from membership.

Ireland, like Portugal, is a country with a troubled past and an unhappy recent experience of poverty, economic stagnation, and emigration on a heartbreaking scale. I would not claim that all of our difficulties have been set aside at one stroke by accession to the Community, or indeed that the improvement in our material circumstances is traceable exclusively to the fact of membership. The Irish economic recovery - for such it has been - began some two decades ago, whereas it was not until 1973 that we became members of the Community. But there is no doubt whatever that membership greatly quickened the pace of our economic improvement, while conferring at the same time a number of remarkable political opportunities.

Our agriculture has shown powerful growth as a direct result of the Community's Agricultural Policy. Our industrial production has been no less remarkable, with a high and steady growth in exports during a period of general difficulty in the western economies.

The political advantages which Ireland has found in joining the Community are less tangible, but no less real. A small country geographically isolated from the main centres of power, facing formidable natural difficulties in the way of closer links with those centres; conditioned by its recent history to be somewhat introspective, even self-absorbed; and at all times conscious of its proximity to a large and relatively powerful neighbour with whom its interests do not always coincide - this is the condition of Ireland. I have the impression, Mr. President, that it is also, in certain respects, the condition of Portugal. But since 1973 these inherent difficulties imposed by nature and by history have been very substantially counter-balanced by the experience of Community membership.

Ireland now participates in the life of Europe as it has never previously done in modern times. Joining the Community has been for us a liberation. There is a paradox here: by ceding sovereignty in certain respects, as required by the Treaty of Rome, we have actually gained sovereignty in other, more important respects. We are freer and stronger as a result. I hope very sincerely that it will be the same for Portugal.

I hope also, Mr. President, that this International Fair in Lisbon will continue to make its handsome contribution to deepening of the relationship between Portugal and the Community, so that we may use this period of courtship to lay the foundation for a long and happy marriage.
