

October 11, 1973 Williamsburg, Va.

Outline of a Speech

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1. Many Europeans have been perplexed by the recent finding contained in a Gallup Poll released this summer by the European Community's Delegation in Washington, D.C.:

Two of every three Americans believe that U.S. ties with Western Europe matter a great deal while only 16% say these ties are not important. But, surprisingly, most Americans (55%), have never heard of nor read about the European Community. Yet, as of the 1st of January 1973, the enlarged E.C. (or Common Market) is the number one client of the U.S. economy. It is the area of the world where U.S. investments have developed most spectacularly.

There is an explanation to the lack of clear vision in the United States about what the New Europe is: the Europeans themselves are still engaged in a laborious process of shaping the economic and political profile of their own continent.

Let us, very briefly look back on the circumstances under which the initial impulse toward European unity was given. One of the sparking incentives was given after World War II by the United States' decision announcing that it would give up occupation of the Ruhr Valley and, furthermore, would forbid any occupation of that vital industrial area of Germany by any other European power. This American decision forced the European leaders into concerted action regarding access to vital production of coal (a prime energy source at that time) and steel (a basic commodity for rearmament). The

pooling of resources and markets in such essential sectors was seen by our "European Founding Fathers" as pre-conditions to exclude even the material possibility to make war between the partners involved: none of them would have a privileged access to the strategic commodities.

2. The first political initiative towards a Coal and Steel Community was taken by the French foreign minister, Robert Schumann on May 9, 1950, it emerged into a grouping of six continental countries: France, Germany, Italy, Belgium, Luxembourg, and Netherlands. Britain refused to join the enterprise at that time. (1950)

The attempt as such was successful. Technically, the goals of the European Coal and Steel Community were rapidly fulfilled. After a period of hesitation and after the unseccessful attempt to create a European Defense Community in the mid-1950's, a renewed effort towards a European unity was made in 1957 when the Roman Treaties were signed establishing a European Economic Community and a European Community for Atomic Energy. These treaties form the constitutional basis on which the European construction was further developed. The immediate target of the Economic Community was to establish a customs union where industrial and agricultural goods, services, capital, and labor force would move freely from one country to another. Common policies were prescribed in a limited number of areas: agriculture, foreign trade, and antitrust.

Having been personally involved with european affairs over the past twenty years, I can assure you that the practical results scored in these twenty years in terms of European economic unification are more spectacular than what the most optimistic minds dared to forecast in the early 1950's: the volume of internal trade multiplied sixfold or even sevenfold among the Six member states of the European Community. This fabulous development of internal

trade did not take place at the expense of trade with non-member countries. A striking example is the development of our trade with the United States: from a value of \$2.9 billion in 1958, the figure of U.S. exports had climbed to 9 billion in 1972. Between 1958 and 1972, the rate of economic growth was more vigorous in the European Community than in any of the neighboring European countries. Our economic growth was actually the most dynamic in the world, except for Japan.

Incidentally, I would like to say here that the European unification process which, in the words of the French foreign minister, Robert Schuman, started as "a leap in the unknown" in the early 1950's was precisely taken at the initiative of France, the most rational and cartesian people of Europe, whereas the very pragmatic minded British did not initially want to join this movement. Indeed, Britain said "no" to Europe, both in 1952 and in 1957 when it was formally invited to join. When our British friends changed their minds and asked to become members, they were in turn confronted with two French vetos, in 1963 and in 1967.

Today, Britain, together with Ireland and Denmark, have become effective members of the European Community. As of the 1st of January this year, the European Community of nine member states is the number one commercial entity in the world. Its gross national product is second only to the United States. Yet the political, and to a large extent, the economic and social profile of this new economic power remains largely to be determined.

3. We were fortunate that the European Community was launched in a period of monetary stability. Even while using different currencies, European businessmen felt very much like in a large internal Market characterized by monetary stability provided by the fixed parities system which was the basis

of the Bretton Woods agreement. Only after the French devaluation in 1968 and the German re-evaluation in 1969, did the Europeans feel the need for a monetary union. Before that time, monetary union had remained largely out of their thoughts. The monetary union became one of the two main issues of discussion at the Summit Conference of the Six European Heads of State and Government held in December 1969 at the Hague. The other important item of that conference was the decision to enlarge the European Community to Great Britain, and other European states wishing to join.

It became clear that a customs union and a common market for goods and services, capital and labor, can only survive and develop smoothly if the exchange rates between the member countries remain constant. Hence, this common market had, sooner or later, to become a monetary union. Otherwise, countries with strong or rising currencies would inevitably attract new investments and become a privileged economic area in terms of employment, income, etc (An illustration of this development is given by Switzerland whose strong currency has become a magnetic pool of attraction not only for finance and capital but also for direct industrial investments and labor.)

The monetary union brought us nearer to the blueprint that the founding fathers of the European Community had in mind: "From one factual solidarity to another factual solidarity, we must create an ever closer union". Evidently, the monetary union meant a step in the direction of that closer union which ultimately means a political union.

This decision in relation to the monetary union brought us in sight of political union but showed at the same time more clearly than ever that a Community of the six countries: France, Germany, Italy, and the three Benelux countries gave too strong ponderation to the German economic weight.

Indeed, around 1965 it had become clear that West Germany alone counted for more than 1/3 of the G.N.P. of the Community of the Six. Consequently, those who always had been in favor of an enlargement to Great Britain found a new argument to convince some others who had for so long been against the adhesion of Great Britain.

So, at the Hague Conference of December 1969 the Chiefs of State and Government took two decisions:

- 1) to create the monetary union;
- 2) to start the negotiations for Britain's adhesion to the Community creating at the same time a larger geographical basis that could at the same time be considered a more balanced area for an eventual political union.

The enlargement of the European Community from six to nine member states, from a population of 180 million to 250 million and from a proportion of world trade of 18% to 25% created clearly a new situation not only for the Europeans themselves but for their neighbors as well.

It involved not only a quantitative change but also a qualitative change requiring a reconsideration of the relations between that new entity and its trade partners in the world:

- Special Free-Trade Area Arrangements had to be negotiated with the members of the Free-Trade Area who could not or would not become full-fledged members of the Enlarged European Community: Sweden, Norway, Portugal, Switzerland, and Austria;
- those members of the Commonwealth who had special relations with Great Britain had to be given the opportunity to put their former special relations with Great Britain in the new framework of the Enlarged Community;
- specific arrangements had to be made with a small number of countries such as Australia and New Zealand for which British entry into the European Community created particular difficulties.

But there was more: although we knew that the tariff of the Community was lower than the former tariff of Great Britain and Ireland, although we are convinced of the trade creating effect of our move towards a larger market, we also realized that the sheer creation of a Common Market including countries accounting for almost 40% of world trade is bound to have an impact on world trade patterns. Hence we had to be open to a reconsideration of the relations of the new Community with all the former traditional partners, the United States, Canada, and Japan, etc.

This increased consciousness of European leaders brought about a rapid European-American consensus about the necessity to open a new round of worldwide trade negotiations.

How in fact do we, on the other side of the Atlantic, see the world context of these negotiations?

We believe that the moment is ripe for a major step forward in the freeing of world trade and that we should make the most of the opportunity offered by the United States.

We believe that the Community and the United States have a great deal to contribute and that they also have a great deal to gain in further liberalization of world trade. Between the industrialized countries we must consolidate and continue the process of liberalization, and do so on a reciprocal basis to our mutual advantage.

But it must be clearly stated that the large-scale international benefits which we hope will flow from these negotiations would be seriously jeopardized if ways are not found to shield the world economy from monetary shocks and imbalances such as have occurred in the last few months.

For the less-developed world we must ensure not simply that their interests are not damaged, but, on the contrary, that they secure greater opportunities for their economic expansion as a result of what we do.

We hope we shall achieve a significant further lowering of tariffs.

What we need is a formula for lowering tariffs on industrial products - a simple formula and one that can be generally applied.

We now have big differences between the tariff systems of industrialized countries.

Some have a fairly even tariff that does not vary too much from product to product.

Other countries have a tariff barrier that looks more like a craggy mountain range, with very high duties on some goods and very low duties on others.

I personally think that we should settle on a broad principle that the higher the tariff, the greater the reduction in it for which we should aim.

For the very low tariffs we can set a threshold, so that they don't have to come down any further.

Also non-tariff barriers are clearly going to play a very important role in these negotiations.

But they are so disparate in character, so complex and so inchoate, that simple overall formulae will be impossible to find.

So we should be selective in our strategy here.

We can pinpoint some individual non-tariff barriers in different countries where changes can yield substantial benefits to trade.

We should agree to pick out some of the main fields where we can get rid of a complex of non-tariff barriers, or at least regulate them by codes of good conduct.

Certainly we can draw up a list of the main non-tariff barriers applied against us by our trading partners that we want to see disappear.

But to make the negotiations credible, we will also have to prepare a list of our own non-tariff barriers that we ourselves are prepared to throw into the pot in return, to negotiate away or at least to adapt.

For the most part, these barriers are not imposed by the European Community as such. They are the remainings of national trade legislation of individual member states.

The best we can do is to aim at a package deal that is fair overall.

Let me now turn to agriculture, which will undoubtedly be a crucial element in these negotiations.

Of course, the negotiations on agriculture will be different in character from those on tariffs and non-tariff barriers on trade in industrial goods.

We have to take account of the special characteristics of agriculture.

Both the Community and the United States each apply support policies of one kind or another for the benefit of their own farmers.

We have to take account, too, of the instability of world markets.

Our overall objectives must be to negotiate measures on a reciprocal basis to permit the regular expansion of agricultural trade. However, the European Community will have to resist any attack on the principles of the Common Agricultural Policy, even if it is prepared to apply the instruments of that policy in such a way that the broad objective of expanding agricultural trade in the world can be achieved.

The European Community has already suggested that in the negotiations we should consider drawing up with our partners a code of good conduct on agricultural export practices and that international arrangements should be considered for certain commodities.

Next I come to our contribution to improving the trade opportunities for developing countries.

First of all, it is essential that all developed countries should now apply Generalized Preference Schemes.

The Community has done so.

We are greatly encouraged to hear that in the forthcoming Trade Bill our American friends now intend to incorporate provisions to introduce a Generalized Preference Scheme of their own.

We for our part believe that the best way to help developing countries would be for us and others to extend Generalized Preference Schemes.

It should be stressed in this context that the Community is not asking its partners to grant it some form of preferential treatment. It merely wants them to apply through tariff free arrangements that normally derive from the establishment of a free-trade area. Such a system could incorporate wide ranging derogations to allow for the development requirements of the associated states. An associate state can, if it so desires, extend to third countries, the duty-free entry arrangements enjoyed by the Community. It may do this either unilaterally or by negotiations. Those associates not wishing to follow such a course are free to refrain from doing so. These policy orientations should make it abundantly clear that neither the Europe of the Six, nor the Europe of the Nine pursue a neo post-colonial, protectionist or paternalistic policy with its former colonies in Africa and other areas of the world. We have suffered too much from a false interpretation of what has happened in the last years that I should take advantage of this opportunity to re-formulate again our position as it is.

Sometimes we hear criticism like this from our friends from this side of the Atlantic: we Americans are paying an economic price for a non-existing political union. I would like to challenge this criticism stating that at the Summit Conference of Paris in October 1972, i.e. less than a year ago, we tried to strike the balance of the new situation and tried to define the road for our further development.

It should be abundantly clear that if the Americans are perplexed about the European evolution, the Europeans themselves are still in the process of defining slowly and painfully their own identity and to find the road to "an ever closer unity", that Schumann forecasted 20 years earlier.

The closing paragraph of the official communique of the Summit Conference held in Paris last October stresses again the major objective of the enterprise: to transform before the present decade is over the entire complex of the relationship between the nine member states in a European union. The Community institutions have been asked to prepare before the end of 1975 a report to be submitted to a new summit conference to be held shortly thereafter.

I think Mr. Ortoli, President of the European Commission, made a very clear statement on October 3, after his recent conversation with President Nixon: "The European Community, which is already an equal partner in the formulation of the world's trade policy, is beginning now to speak with one voice in monetary affairs and has very recently shown its political dimension during the Copenhagen Conference on the future of U.S.-European relations. In this way--through common efforts--our European identity emerges."

Very often, we hear a criticism that the Europeans are inward-looking and that they go on with the edification or construction of their internal policies looking after their own interests and neglecting their external responsibilities.

Overall, however, I personally contend exactly the opposite: we are making a more satisfactory progress in defining our external identity and our policies relating to our external partners than we are elaborating our internal policies.

It will be very hard for us to coordinate the internal economic policies that will be necessary to run successfully the monetary union. It will be difficult for us to create a social solidarity that is necessary in a monetary and economic union. It will be difficult for us to develop a regional policy so as to establish a regional solidarity between areas of a very different standard of living and state of economic development without which any successful monetary and economic union and social solidarity is impossible.

It will be particularly difficult for us to create a political superstructure that is implied by the common policies that I just mentioned. Indeed, a political union means reinforcement of the European Parliament and direct elections to that Parliament, workable voting procedures in the European Council of Ministers where majority rule (instead of unanimity) should be restored, etc.

From now on, the European Community is in a situation where for each measure that it has to take it brings about the necessity to consider a whole range of related measures. You can compare this with the rosary: when you take out of your pocket one bead you get into your hand the whole rosary. However, for the moment, public opinion as a whole, governments, and national parliaments are not ready to be confronted with the whole rosary.

From this standpoint the enlargement of the Community creates on the one hand a solid and balanced basis for ulterior development, on the other hand it engenders, right now, difficulties in the European decision-making machinery for the development of all these policies, especially if decisions have to be taken unanimously. (Majority voting within the Council of Ministers, the ultimate decision-making institution of the Community, has unfortunately not been practiced since the Gaullist crisis created in the Community in 1966.)

Regarding our relations with the outside world, the recent decision of the Copenhagen Conference on the future of U.S.-European relations and the

definition of the European identity has a particular meaning. It does enable us to enter into constructive dialogue and carry out common tasks with our partners, and particularly with the United States. Discussions are now going on with President Nixon and Secretary of State Kissinger in this context. I share President Ortoli's confidence that it will help confirm common objectives to the European Community and the United States.

This declaration of common objectives will be important. But equally important will be the decisions to come in the near future. Among these, the most vital are:

- The success of the worldwide trade negotiations undertaken in Tokyo on the initiative of the Community, the United States and Japan. We await with great interest the final vote of the U.S. Congress on the pending Trade Bill;
- rapid progress in negotiations on the reform of the international monetary system. Agreement between the United States and Europe will be decisive for a return to stabilization, without which no sound constructive progress would be possible in other fields;
- a deeper commitment by all rich countries, by Europe, the United States and other industrialized nations, in favor of the developing countries.

An encouraging recent political development in Europe is worth mentioning in this context. For the first time, we see an important political party emerging out of national boundaries into a European party. At the forthcoming Conference of November 1973 in Bonn all the Christian Democratic parties of Europe will have to decide on a resolution suggesting or proposing:

- that at the end of 1974 the powers of the European Parliament should be reinforced in the legislative and budgetary areas;
 - that for 1980 we should have in Europe one European government, a European House of Representatives, and a European Senate.
- In this last institution, the legitimate interest of these member states will be represented. This future is clearly one of a European Federation. After this will be, I hope, accepted, the fight will start for passing that idea of European Federation to public opinion against all those who believe that we can make a unified Europe by cooperation between nine sovereign governments.

It will probably be the greatest service that the United States will have rendered to Europe by providing the incentive and, in a certain way, a model for future development. At the end, however, Europe will be a construction "sui generis" that has no clear-cut and exact precedent in history and for which we will need a vast amount of imagination, a deep sense of compromise and an enormous patience.