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EUROPEAN UNION

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Annual Report by the Commission

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INTRODUCTION

1. This report is the latest in a series prepared in response to a request made by the European Council in 1976. It is also the Commission's contribution to the report which the European Council is required to present to Parliament "on progress towards European Union" in accordance with point 2.1.4 of the Solemn Declaration on European Union of 19 June 1983 (see 5 below).

2. The Commission attaches great importance to this report. Progress towards European Union calls for a quantum leap, both in terms of institutions and fields of competence. This is evident from the Commission's 1975 Report on European Union and the resolution on European Union adopted by Parliament in September 1983 (see 6 below). But it is equally true that consolidation and development of the present Community are preconditions for any further progress towards European Union.

3. In this context 1983 was a year for taking stock and devising solutions to problems which have dogged the Community for some time. In the wake of the Stuttgart European Council in June, the institutions got to work to provide a sound basis for a further enlargement of the Community and its development during the remainder of the decade. These negotiations dominated Community affairs during the second half of the year. The scale of the problems to be solved meant that 1983 was inevitably a year of transition.

4. At the same time, the Community continued to develop and consolidate its policies. The common fisheries policy was introduced, agreement was reached on the reform of "acquis communautaire" in agriculture and

negotiations for a new agreement with the African, Caribbean and Pacific countries began.

The European Council's Solemn Declaration and the European Parliament's Resolution

5. The Solemn Declaration on European Union adopted by the Heads of State or Government of the Member States meeting in the European Council in Stuttgart on 19 June 1983 had its origins in the joint proposal for a European Act put forward by the Foreign Ministers of Germany and Italy in 1981. In adopting this Declaration - which has yet to be fully endorsed by all the Member States - the Heads of State or Government set themselves a number of objectives: to strengthen and develop the Communities, which are the nucleus of European Union; to strengthen and develop political cooperation; and, to the extent that these activities cannot be carried out within the framework of the Treaties, to promote closer cooperation on cultural matters, approximation of Member States' legislation, and concerted action to deal with international problems of law and order.

6. The second initiative was more grandiose and more ambitious. On 14 September Parliament, by an overwhelming majority, adopted a resolution concerning the substance of the preliminary draft Treaty establishing the European Union. Parliament proposed that the experience of the Community and commitments made in political cooperation should serve as a basis for redefining the fields of competence of the European Union and the Member States and the balance of power between the institutions. The object is to update the Treaties by adding new areas which call for a common European policy, to bring the various forms of integration or cooperation in existence today (the Community, political cooperation, etc.) together in a single clearly-defined institutional structure, and to make the institutions

more democratic, effective and responsible than they are at present. Parliament's Committee on Institutional Affairs is now working on a preliminary draft Treaty based on this resolution.

THE INSTITUTIONS

7. The constant challenges, from within and without, to which the Community is subjected, only serve to highlight the seriousness of the institutional shortcomings to which the Commission has drawn attention on so many occasions.

8. The Council's insistence on the agreement of all Member States, even on matters where unanimity is not required by the Treaties, is a stranglehold on the Community. Insistence on unanimity is not only a drag on progress and a check on new developments; it also makes it difficult to adapt policies to changing economic circumstances since any change is bound to threaten the vital interests of one or other of the Member States. It often leads the Council to seek the lowest possible common denominator and erodes the Commission's right of initiative.

9. It is true that the Council did vote on a number of occasions but these were too rare to be construed as a reversal of the trend. Efforts made during the debates on the Solemn Declaration on European Union failed to alter current practice. Nonetheless, the signs are that the Council has not outlawed voting: it merely needs to make it the general rule.

10. The continuing lack of progress in one particular area - transport policy - over a number of years led Parliament to seek an exceptional remedy. On 22 January it brought an action against the Council in the Court of Justice for failure to act.

11. The Council continued to overload its agenda with issues relating to implementation and management - which, by its nature, it is unable to handle properly - instead of passing responsibility to the Commission, the executive institution, as it is entitled to do under the Treaties. The Council's reluctance to do so places a further unnecessary burden on the decision-making process.

12. Even when the Council does pass responsibility for implementation and management to the Commission, the decision is usually hedged with conditions which severely limit the Commission's powers and provide no guarantee that a decision will be taken.

13. Repeated undertakings by the European Council to increase the Commission's executive powers have so far failed to produce any tangible improvement. This applies equally - at the time of writing at least - to its latest commitment, written into the Solemn Declaration on European Union.

14. Only on rare occasions has the Council shown itself willing to improve the position and enhance the role of Parliament within the existing institutional system, despite the fresh legitimacy conferred on it by the direct elections of 1979.

15. The Council's failure to agree on a uniform electoral system means that the second direct elections to the European Parliament will be conducted under very different electoral procedures, adversely affecting both voting rights and representation.

16. Even in the context of the Solemn Declaration on European Union, the Council failed to agree on improving and extending the conciliation procedure. The need here is obvious and the Commission has been advocating improvements since January 1982.

17. By contrast, the Commission is pleased to note that the European Council included two provisions in the Solemn Declaration in response to its representations. The first of these states that, in addition to the consultations provided for in the Treaties, Parliament will be heard before the conclusion of any significant international agreement by the Community and before the accession of a new Member State. The second provides for the extension to all significant international agreements of existing procedures for informing Parliament of the progress of negotiations.

18. Institutional problems have been given a new dimension by the impending enlargement of the Community: the inevitable loss of homogeneity will increase the risk of conflicts of interest. This is why the Commission sent the Council a communication on 1 March on the institutional implications of enlargement. In this communication, which supplements the 1978 "fresco", the Commission proposed that some of the issues on which the Treaties now require unanimity should be decided by a qualified majority in the Community of Twelve. It also proposed that the Treaties be amended to ensure that implementation and management are routinely entrusted to the Commission and to enshrine guarantees of effective decision-making.

DEVELOPMENT OF INTERNAL POLICIES

From Stuttgart to Athens

19. The interim solution adopted on 30 May 1980 to the problem of the United Kingdom's contribution to the Community budget was accompanied by a mandate from the Council to the Commission which placed this problem in the context of a general review of Community policies: the reform of the common agricultural policy, the strengthening of structural policies and instruments, and the development of new policies. This review failed to produce a permanent solution at the London European Council in November 1981 and Parliament's rejection in December 1982 of the budget to finance a further interim solution for 1982 made a new comprehensive approach imperative.

20. The Stuttgart European Council examined a series of Commission proposals and decided to take far-reaching action to revitalize the Community. It launched "a major negotiation ... to tackle the most pressing problems facing the Community", agreed decisions on the outcome to be reached at the Athens European Council in December.

21. The negotiation was to examine "all the existing policies with particular attention to the common agricultural policy". Its purpose was "modernizing and making effective the existing policies and to determine the priority areas for new Community action, and on the other hand to ensure that policies are cost effective and that economies are made wherever possible". A further objective was "a more balanced and equitable situation, also in financial terms from the point of view of the interests of the different Member States and of the Community as a whole".

22. The Stuttgart declaration incorporated the following guidelines:

"The basic principles of the common agricultural policy will be observed in keeping with the objectives set forth in Article 39 of the Treaty establishing the EEC". The policy was to "be adapted to the situation facing the Community in the foreseeable future, in order that it can fulfil its aims in a more coherent manner". This includes in particular "effective control of agricultural expenditure by making full use of available possibilities and examining all market organizations". The Commission was asked to submit proposals.

With reference to new policies, the European Council expressed its determination "to develop and make more effective Community action in research, innovation and the new technologies with a view to facilitating cooperation between enterprises. On the basis of proposals by the Commission, decisions will be taken on new Community actions making use of the Community dimension to improve the international competitiveness of European enterprises".

Non-agricultural expenditure was to be controlled too in cooperation with Parliament. "Policies are to be developed within the bounds of financial feasibility and supplemented through new actions which must be incorporated in an economically suitable way into Community policies." The Council asked the Commission to "present a report with proposals for increasing the effectiveness of the Community's structural funds (the Regional Fund, the Social Fund and the Guidance Sector of the EAGGF)".

The European Council set the following objectives for the future financing of the Community:

- . "to secure the financing of Community policies and actions and their further development over a longer period of time taking into account the additional financial requirements which would flow from the accession of Spain and Portugal, while exhausting all possibilities for savings";
- . "to agree measures which, taken as a whole, will avoid the constantly recurrent problems between the Member States over the financial consequences of the Community's budget and its financing".

"On the basis of the conclusions reached on development of policies, improving budgetary discipline and the examination of the Financial System, the extent and timing of the Community's requirements in terms of Own Resources will be determined."

23. On this basis, comprehensive negotiations got under way using a special urgent procedure. The Council held a number of special meetings attended by Foreign, Finance and, in some cases, Agriculture Ministers. At the end of July the Commission presented proposals on the common agricultural policy and a report on the structural Funds. It followed these with a number of proposals and communications. Intensive work on all four aspects of the Stuttgart declaration (common agricultural policy, structural Funds, new policies and Community financing) was done at all levels. The Court of Auditors, which had been asked to review the sound financial management of Community activities, reported in October. Parliament debated the common agricultural policy, the future financing of the Community and the structural Funds on a number of occasions and gave its opinion at its November part-session.

24. The European Council agreed that "the accession negotiations with Spain and Portugal will be pursued with the objective of concluding them, so that the accession Treaties can be submitted for ratification when the result of the negotiation concerning the future financing of the Community is submitted." The agreement reached on 18 October on the adjustment of acquis communautaire for Mediterranean products enabled accession negotiations on agriculture to begin.

Other internal developments

25. One of the highlights of 1983 was the establishment of a new common policy. In January, after many years of negotiations, the Community acquired a fisheries policy. This covers equal access for fishermen from the Member States to Community waters, subject to certain restrictions on fishing in coastal areas, management and conservation of stocks, the common organization of markets, modernization of production structures and joint action at international level. However, implementation of this policy is still giving cause for concern.

26. Existing policies were consolidated too, beginning with the internal market, the cornerstone of the Community and a key factor in the development of a competitive industry. Complaints from Community citizens about restrictions on freedom of movement continue to increase and the Commission has stepped up its campaign to prosecute infringements of Community law. The Council has become aware of the need to take more effective steps to do away with formalities and other barriers to the single market. Significant progress was made this year on standards, business law and the simplification of frontier formalities.

27. On the industrial front the Community, with its special responsibility for steel, had to take decisive action to deal with the steel crisis. With the Council's backing, the Commission tightened up its policy which is designed to restore the competitive position of Europe's steel industry by drastically reducing production capacity so that it can survive without subsidies from 1985, when all state aid must cease. This move was accompanied

by measures to ensure a satisfactory price level for steel products and to regulate the penetration of imported steel into the Community market.

28. Industrial recovery can best be achieved by meeting the challenge of new technology. Fresh policies are needed if the Community is to win the battle for industrial competitiveness and close the widening gap between Europe and its major industrial partners. As a first step towards creating an environment for the development of advanced technologies, the Commission made proposals for action on information technology (the ESPRIT programme), telecommunications and biotechnology, put forward a multiannual programme on energy and energy research and developed a Community R&D strategy. This strategy, and the first framework programme for 1984-1987, has already been approved by the Council.

29. In anticipation of more general measures to increase the effectiveness of the structural Funds (see 22 above), the Council approved the revision of the European Social Fund, a large part of which will be used for the training and employment of young people, especially those in the worst-hit regions.

30. Development of the European Monetary System (EMS) should encourage convergence, monetary stability and growth. The Commission proposed that the ECU be given the same status as other convertible currencies to encourage the private sector to make ECU-denominated transactions. The realignment of central rates within the EMS on 20 and 21 March was important for two reasons: it involved all the currencies in the system for the very first time and it was accompanied by an adjustment of domestic policies, notably in France, which should guarantee greater stability in future.

31. Financial integration and the creation of a Community "financial area" should help to harness European savings for investment in the Community. To this end the Commission proposed a considerable liberalization of the movement of long-term capital and the inauguration of a large and efficient Community market for risk capital.

EUROPE IN THE WORLD

32. The common commercial policy is the Community's main instrument for acting outside its frontiers. As the European Council reaffirmed in 1982, it must enable the Community to react successfully in defence of its legitimate interests. In March 1983 the Commission proposed to the Council a further strengthening of existing policy instruments so that the Community could react swiftly and in a manner compatible with its international obligations whenever it is faced by unfair competition from non-member countries.

33. The countries represented at the Western Economic Summit at Williamsburg in May 1983 committed themselves "to halt protectionism and, as recovery proceeds, to reverse it by dismantling trade barriers". The Community played a constructive role in the international follow-up to this meeting. It proposed a series of measures which, at a time when a large part of the world economy is still suffering the effects of recession, will clearly signal that the major trading partners of the globe are committed to the defence of liberal world trade.

34. Relations between the Community and the United States were subjected to further strain, notably in relation to agriculture and steel. The Community reacted vigorously to American sales of wheat and butter to Egypt at prices which excluded it from one of its traditional markets. The United States was harshly critical of the external impact of the Community's common agricultural policy and some of the Commission's proposals for reform. In July the US Administration decided to restrict imports of special steels, despite commitments to the OECD and the Williamsburg Summit not to take new protectionist measures. A number of protectionist measures adopted by the US Congress are also giving the Community cause for concern.

35. The Commission and the US Administration held frequent discussions and consultations, sometimes at the highest level, in an attempt to ease commercial and economic tensions.

36. One of the Community's most worrying problems is its growing trade deficit with Japan. The Commission made strenuous efforts to persuade Japan to step up imports of manufactured goods - its imports are among the lowest in the industrialized world despite various measures taken by the Japanese authorities - and to encourage European industrialists and businessmen to sell to and invest in Japan. The Japanese authorities gave further assurances that Japanese exporters will exercise restraint in areas where increased exports could create serious difficulties in the Community.

37. Various steps were taken during the year to develop relations between the Community and Japan. Regular ministerial contacts are now organized in the context of political cooperation and the Community has taken the first steps towards working as an equal partner with Japan in science and technology, industry and development aid.

38. There was substantial development and diversification of relations between the Community and the ASEAN countries during the year, highlighting the Community's interest in the development of relations with these countries and increased regional cooperation, a vital element in the stability of the area. The fourth ministerial meeting was held in Bangkok in March and an EEC-ASEAN Business Council was formed. Development cooperation with ASEAN countries also proceeded apace.

39. In the wake of events in Poland, the deterioration of East-West relations persisted in the absence of any real improvement in conditions in that country. The Community continued to send humanitarian aid to the Polish people and maintained restrictions on certain exports from the Soviet Union. Within various international organizations, notably the OECD, western countries took a close look at economic relations with the eastern bloc and came to the conclusion that caution should be the watchword, especially where finance and security are concerned. The concluding documents of the Madrid CSCE review meeting adopted in September seem to presage some easing of tension.

40. As far as the Community's relations with the developing world are concerned, the main event was the opening in October of negotiations for renewal of the Lomé Convention. Angola and Mozambique are now numbered among the 64 African, Caribbean and Pacific countries which are parties to this Convention which expires in 1984.

41. In the Commission's view, the new Convention should promote the independent development of the countries concerned. One of the primary objectives is self-sufficiency in food, which will inevitably entail development of agriculture, the agri-foodstuffs industry and the distribution network. But concentration on independent and independently-maintained development will not be enough unless there is a change of approach. This is why the Commission is urging the opening of a dialogue which would go beyond the discussion of projects to embrace the definition of development policies.

42. Throughout 1983 the Community made strenuous efforts to intensify its fight against hunger in the world. A new form of action, the food strategy, is already in operation in a number of African countries and will be extended to other countries at their request. On 11 July the Council adopted a regulation on implementation of the special programme

to combat hunger in the world. This is designed to support or encourage the developing countries' own efforts and improve the living conditions of the most needy.