A Letter from Europe

A monthly update on the European Community from its Delegation in Washington

From: Roy Denman
Head of Delegation

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EUROPEAN COMMUNITY SUMMIT MEETING IN ATHENS

Leaders of the 10 EC countries will hold a critical summit meeting in Athens next week - on Dec. 4 - 6. Unless the meeting makes at least a beginning towards solving some major problems, progress towards European integration will be blocked.

What are the problems which have to be solved? At root is money, which as an uncle of mine once observed, is the most frequent cause - apart from sex - of human dispute. At issue is the Community budget. As the Community Treaty does not allow borrowing to cover a budget deficit, EC expenditure cannot exceed revenue.

Now the Community derives its revenue from three sources: a.) customs duties collected at the frontiers of the Community (about 32% of EC revenue); b.) agricultural levies (just over 10%); and c.) value added tax assessments (in effect the sales tax applied by European countries - about 58% of EC revenue). This revenue amounted this year to about $23 billion - some 0.8% of total Community GNP. In comparison, federal expenditure in the US - with a GNP just over one-fifth higher than the Community's - amounted to over $800 billion.

Two-thirds of the EC budget - $16 billion out of $23 billion last year - was spent on agriculture; again a modest sum compared with US expenditure this year of nearly $20 billion on price supports alone. But even within these modest limits the cash is running out. In the immortal words of Mr. Micawber "Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness.... annual expenditure twenty nought and six, result misery". Community spending on agriculture grew at an average annual rate of 23% between 1974 and 1979. But between 1982 and 1983 the cost grew by 30%, straining the Community's budget to the limit.

An increase in EC revenues is at present blocked. There is a strict limit on the Community's income from VAT assessments. Present rules allow the EC to collect only up to 1% of the VAT assessment base in its Member States. That 1% ceiling has now been reached.

The EC Commission has thus taken two sets of actions. It has temporarily suspended some advance farm program payments to guard against a potential budget shortfall. It has also proposed changes in the Common Agricultural Policy (CAP) that would cut the cost of administering the CAP by discouraging costly farm product surpluses. These proposals would save the EC $2.2 billion in the 1984-85 agricultural year alone.

However, the present situation has led to three sets of problems. Firstly, many European farm groups and some Member States see the Commission's plans for penalizing grain and dairy farmers for surplus production as having gone too far. While some changes in the CAP may be needed, they say why not increase the value-added tax revenues available to Community coffers. Other Member States, however, are not prepared to agree to such an increase unless the EC's present method of finance is changed. Britain and the Federal Republic of Germany argue that they pay more into the Community's coffers than they get out. Lastly, the present situation creates problems for the accession of Spain and Portugal. Without agreement on increasing revenues, the EC simply will not have the cash to finance Spain and Portugal's integration into the Community, despite its political will to welcome them to the club.

There is a wider consideration. The financial argument is not limited to the three problems I have set out. Without agreement on future finance, the Community will be unable to forge ahead with the programs needed to promote investment and new economic activity and to battle against unemployment.

The approaching summit culminates six months of special negotiations during which officials have tried to pave the way for compromise decisions. But the difficulties are major. Few in Brussels at present would be confident of a complete solution next week. Forecasts centre rather on the degree of progress that could be achieved. If this progress is limited there will no doubt be headlines predicting the Community's collapse. This reminds me of an occasion in 1956 when the original Six members were meeting in Messina to plan the European Community and their meetings were attended by a British observer. Having listened to the representatives of the Six for several days he removed his pipe and addressed the assembly: "you are attempting to agree something which you will never be able to agree. In the unlikely event of it being agreed it will not be ratified. If ratified it will not work. I find it difficult to justify to Her Majesty's Treasury the per diem I need to spend on attending this discussion. So I shall now take my leave."

Let us not make the same mistake again. The United States has had its difficult moments. And compared with the US, the EC is young. Having started in 1950, we are now where the US was in about 1809. How many would have believed in the Union when the windows of Washington were rattling with the thunder of Confederate cannon. The Community, too, will survive and grow.

Roy Jenkins

Window on the European Community

US AND EC TO HOLD CABINET LEVEL TALKS IN BRUSSELS...

...EC Commission officials will hold talks with members of the US cabinet in Brussels on December 9. The agenda for the meeting has not yet been set. EC Commission President Gaston Thorn will head the EC delegation. The US delegation will include US Secretary of State George Shultz, Treasury Secretary Donald Regan, Agriculture Secretary John Block, Commerce Secretary Malcolm Baldrige and US Trade Representative William Brock.

EC TO INTRODUCE MINIMUM PRICES FOR STEEL PRODUCTS...

...The EC Commission announced this month it would impose mandatory minimum prices on sales of key steel products in an emergency effort to halt price declines that threaten the EC's efforts to restructure Europe's steel industry. The Commission said weak demand had sent steel prices tumbling to levels well below guide prices agreed upon last year by the Commission and the EC's Council of Ministers. For example, hot-rolled coil, one of the most important steel products, is now trading in the EC for the equivalent of $238 per ton, compared with the $323 per ton guide price for that product, the Commission said. EC Industry Commissioner Etienne Davignon said such price declines have encouraged steelmakers to compensate for shrinking profit margins by increasing production, thus putting further downward pressure on steel prices. The Commission, acting under the European Coal and Steel Community treaty, proposed implementing the new minimum prices before the end of the year. Steelmakers selling products at less than the established minimums would be penalized. The Commission said it would inform non-EC countries with which the Community has steel import arrangements about the new minimum price requirements. In announcing the new measures, the Commission also urged the Council of Ministers to act as quickly as possible to extend steel production quotas through 1985.

DEADLINE ON US-EC SPECIALTY STEEL TALKS EXTENDED...

...The EC's Council of Ministers agreed to extend until January 14 the deadline for reaching an agreement with the US whereby the EC would receive compensation for sales losses resulting from US import restrictions on specialty steel. The Council said that while there had been progress made in the negotiations "real improvements and clarifications" in the US compensation offer were still required. The Council also agreed on an undisclosed list of retaliatory actions the EC would take against US products unless the negotiations reached a satisfactory conclusion by the new deadline.

EC MINISTERS GIVE GO-AHEAD FOR NEW RESEARCH INITIATIVE...

...EC Research Ministers agreed in principle this month to give the go-ahead to the first phase of a 10-year program to help Europe catch up with American and Japanese competitors in the field of information technology. The EC Commission proposed the program after European firms issued a warning that the European information technology industry, which has long lagged its foreign competitors in innovation, faced extinction without a major research push. The new program, nicknamed "ESPRIT"(European Strategic Program for Research and Development in Information Technology), will be aimed at research to provide a technological base for a new generation of products and systems in the area of microelectronics, advanced information processing, software technology, office automation and computer integrated manufacturing. The research will be focused at the "pre-competitive" level, well short of actual new product development.

Research Ministers agreed that the first five-year phase of the program would be financed by a $595 million contribution from the EC. That sum would be matched by the European information technology industry. The project was undertaken at Community level because no single company or EC country was in position to bear the financial risk of the research investment needed to bolster the European industry's competitive position. Information technology is expected to be a major growth industry for the 1980's.

EC TO SIGN COOPERATION AGREEMENT WITH ANDEAN PACT...

...The European Community and the Andean Pact will sign an agreement in Bogota, Colombia on December 17 aimed at promoting closer trade and economic ties between the EC and the Andean Pact nations. The Andean Pact is an organization of five countries--Bolivia, Colombia, Ecuador, Peru and Venezuela--seeking to encourage regional development in Latin America through economic integration.

The new EC-Andean Pact agreement will provide a framework for industrial, technical and scientific cooperation between the two parties. The five-year agreement, the first of its kind between the EC and a Latin American economic group, provides for the establishment of a Joint Commission to study and promote projects beneficial to both sides. Under the new agreement, the EC and the Andean Pact will accord each other's members Most-Favored-Nation status in trade.