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## The Present State and Prospects of the European Communities

by Walter Kittel, Brussels\*

**The image of the European Communities has lost some of its glamour as should be stated bluntly in any attempt to present a fair view of the state and prospects of the European Economic Community, the European Coal and Steel Community and the European Atomic Energy Community – the three communities which have sprung from the Treaties of Rome and Paris. As their organs have since been merged, they will here be designated “The Community”. Walter Kittel, the Deputy Permanent Representative of the Federal Republic of Germany with the Community, states in the following a personal view.**

**T**here are four main reasons for the shadows on the image of the Community which have aroused concern and criticism among the European public:

(1) Next year will be the 25th anniversary of the EEC and Euratom, while the European Coal and Steel Community has now already been in existence for 30 years. In the meantime the institutions have come to be taken for granted as just a part of everyday political life. Their positive effects are not questioned but neither emphasized any more while their faults hit the headlines a good deal more often than their successes.

(2) The Community is said to find it increasingly difficult to arrive at agreed decisions – and so it does. For many years it registered quicker and more conspicuous successes than it does today, especially by negotiating and agreeing on packages providing programmes and dates for future concrete undertakings. The decisions facing us today touch much more directly than formerly upon the hard core of national interests. Besides, not only is there less political will to make common sacrifices when the world is in a difficult economic situation but the objective preconditions for them are more limited.

(3) The European agricultural policy has become a bone of contention because of the surpluses of dairy

produce and some other articles and the burden on the EC budget of financing these agricultural surpluses.

(4) The European public is still woefully uniformed about the nature and working of the Community.

### Is the Community Stagnating?

It would certainly be too simplistic to answer this question by merely pointing to the important decisions of the last two years but we are entitled to allude to four major decisions in each of the two years 1979 and 1980 which have brought on great advances. The most important events in 1979 were:

- ☐ The first direct elections to the European Parliament,
- ☐ the setting-up of the European Monetary System,
- ☐ the completion of the Tokyo round of GATT, and
- ☐ the signing of an – improved – second Lomé Convention.

Among notable developments in 1980 were:

- ☐ The political solidarity of the Community shown by the embargo measures in the Afghan and Iranian crisis,
- ☐ the settlement of the dispute with the European Parliament concerning the budget,
- ☐ the disposal of the difficulties caused by disproportionately heavy contributions to the

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\* Ständige Vertretung der Bundesrepublik Deutschland bei den Europäischen Gemeinschaften.

Community budget on the part of Great Britain, and last not least

□ the enlargement of the Community at the beginning of 1981 by the accession of Greece.

On the empirical evidence it may thus be stated straight away that the Community has become stronger, and not weaker, as a result of these important decisions and events in the last two years. A proper assessment of the state and prospects of the Community requires however a detailed review of the salient Community activities.

### **The Enlargement of the Community**

When President Pompidou did away with the French reservations against the admission of Great Britain to the Community, he referred to the generally accepted "Triptych" proposition: The enlargement of the Community must go hand in hand with its completion and consolidation. An essential element in the moves at the time was the adoption of a resolution on progress in stages to an economic and monetary union.

Monetary cooperation is playing an important role also today but the real counterweight to an attenuation of the Community as a result of its enlargement by the Mediterranean countries – Greece, Spain and Portugal – is now the strengthening of the political stability, primarily of the acceding countries, but indirectly of course of all member states.

The effectuation of the Greek accession on January 1, 1981 caused no significant changes in the work of the Council of Ministers and its sub-committees. For one thing, Greek ministers and delegates have been attending all meetings since last autumn as observers. Besides, the material problems ensuing from the integration of the Greek economy, and more especially of Greek agriculture, are transparent and mitigated by the transition period of seven years.

The integration of Spain with the Community will involve considerably more difficult tasks. In some sensitive industrial areas, e. g. in steel and shipbuilding, Spanish enterprises are quite competitive; in others Spain will have to make great efforts to keep up with other European competitors after the end of the transition period. Spanish competition will present tough problems in the agricultural area – for citrus fruit, wine and, especially, olive oil of which the country is a highly competitive producer. Farmers in the old EC countries have been aware of this problem for a long time but the negotiations have not yet touched its hard core. The Community is still far from an internal

consensus on the agricultural sphere. In addition to the mentioned industrial and agricultural areas in which the Community may have reason to worry about the effects of Spanish competition there are wide areas in which big performance differentials are likely to involve correspondingly large net transfers to Spain of Community budget funds.

Portugal's accession will in principle raise the same problems but since its agricultural prices are in some areas higher than in Spain and in the Community, the problems will in the main be confined to wine as far as marketing is concerned. Net transfers to Portugal will be required chiefly in the structural area.

The target date for Spain's and Portugal's accession to the EC is still the beginning of 1984. It is probably not too optimistic to expect a Community of Twelve to be in existence by the second half of the eighties at the latest. More tough negotiations will no doubt be needed, and it will probably be a formidable task to find a common platform for the old EC members in these negotiations.

### **Coordination and Harmonization**

It is one of the prime prerequisites for progress in the work of European unification that the economic stagnation is overcome. The economies of the Community members are beset by high and in some countries startling rates of inflation, by unemployment, by retarded or even completely halted growth and by sectoral difficulties aggravated by galloping oil price increases. At the same time the Community is endeavouring to further the convergence of the member states' economic policies and to grapple with the burdens imposed by the economic world situation. In the whole of this area, in which the EEC Treaty envisages only a coordination and not an amalgamation of the national policies, the Community has been fairly successful. Outstanding progress has been made in appreciating that market-economic solutions should be sought for the encountered cyclical difficulties. It is inconceivable that we should have resisted the temptations of protectionism without this basic consensus on the coordination of economic policies, which means in concrete terms, of the cyclical, budgetary and monetary policies, and without a common trade policy integrated in accordance with the treaty.

In German circles there has always been a special commitment to the aim of developing the internal market further in keeping with the treaty objectives, i. e. to unobstructed movement of goods, capital and labour and to fair competition over the whole area of the

Common Market. It would of course be best if all these kinds of free movement could be achieved by merely removing the different national legal arrangements. Most subject matters, however, unfortunately require regulation as an objective necessity; in exceptional cases only can relics of the past be removed without something new being put in their place.

A great deal of concrete work has been done for the development of the internal market through law alignment, i. e. in regard to the right of settlement, free service interchanges, dismantlement of technical obstacles to trade, and the harmonization of company law. Without the sedulous work on the alignment of the laws a firm interested in exporting a product would have to manufacture it in up to nine different versions to meet the different safety requirements of other member states. Harmonization of the safety regulations does not only do away with additional formalities at the frontiers but permits production of larger series at lower cost.

The Community has so far passed 77 directions regarding the law of settlement. Members of many professions can already settle anywhere in the Common Market without discrimination on the strength of a generally recognized diploma. In other professions, e. g. architecture, this has not yet been possible despite great efforts over a number of years because of differences in training and the rigid attitude of national professional associations.

The field of company law is also most important for the economy and by no means merely an outlet for the talents of specialists in the company laws of the various countries. Seeing what intricate capital ramifications exist within the Community, uniform protection for creditors and comparable transparency of financial accounts is no luxury but very important indeed for business decisions.

The Community policy on competition concerns an important sphere of the internal market in which the Commission, which has sole responsibility for cartel affairs in the EEC, has exerted itself to the utmost, for the temptation to resort to new aids for production in the member states is, as the malaise in the steel industry shows, greatest when the business cycle turns downwards.

### Spending on Structural Problems

Desirous to lessen structural differences by means of grants which are of no relevance to competition, i. e. in particular by horizontal and infrastructural grants, the Community has established the regional fund and the social fund as mechanisms which will be of increasing

importance in the future. The record of the social fund which is a fund for the promotion of vocational training and mobility of the labour force is gratifyingly positive (as witness a current annual volume of over DM 2 bn and more than 1,000,000 beneficiaries, mostly in structurally weak regions of Europe). The regional fund currently approaches a volume of DM 4 bn. The deployment of the fund's resources is however subject to very tight quotas, which amount to a division of the return flows among the individual member states, so that the fund is at present still more of a means for interregional financial compensation than an operational instrument for a properly targeted structural policy.

Other major financial means of structural assistance are the credits granted by the European Investment Bank (about DM 7.5 bn of investment loans for energy, Euratom and research objectives in 1979) and loans for the financing of investments under the auspices of the

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so-called New Community Instrument. In addition, special measures with a financial effect in the form of interest subsidies were taken in favour of Italy and Ireland when they joined the European Monetary System and through measures in favour of Great Britain in the compromise package of May 30, 1980; described as additional, they have a volume of DM 6.6 bn (and are for two years). To be objective, these Community measures do not carry much weight compared with the support for agricultural prices (which in 1980 cost DM 29.5 bn = about 73 % of the total budget and will, according to the Commission's calculations, absorb 67 % of the 1981 budget) but may be of considerable importance in specific fields.

### **Monetary Cooperation**

The inauguration of the European Monetary System on March 13, 1979 was a decisive step towards the creation of a zone of monetary stability in Europe. An essential feature of the system are fixed but adjustable exchange rates between the participating member states (Great Britain and Greece stayed outside). The exchange rates may fluctuate by up to 4½ %; a special arrangement for Italy provides for a fluctuation band of 12 %. The central banks intervene when a currency rate reaches the outer band limit. When a currency reaches the divergence indicator, i. e. when it diverges from the central rate by 75 % of the permitted fluctuation margin, the member states examine the situation and initiate counter-measures if called for. The central rates of the participating currencies are expressed in European Currency Units (ECU). The central banks have transferred 20 % of their gold and dollar reserves to the European Fund for Monetary Cooperation to cover part of their claims and obligations arising from intervention, and the previously existing system of stand-by credits was stepped up at the same time to ECU 25 bn. In its present first stage the EMS has worked surprisingly well, also in the view of its critics, although the national inflation rates continue to differ widely. Adjustive central rate changes have been carried out only three times since the EMS came into operation.

### **Common Energy Policy**

The common energy policy illustrates the need for a proper and reasonably balanced division of activities in the Community between commercial enterprises, the member states, the Community and a supra-Community agency in accordance with the principle of complementarity. In other words, the European energy policy must also include the sum total of national energy policies. If it is true that problem solutions must always

be searched for in a dimension commensurate with the problem area, it has to be admitted that for a number of energy problems the Community provides too narrow a framework. The challenge from the oil producing countries strikes at common interests of at the least all western industrialized countries. It was therefore a logical step to set up the International Energy Agency under OECD auspices.

The EEC Treaty contains no regulations referring specifically to energy policy. Coal, as an indigenous source of energy, was covered by the European Coal and Steel Community Treaty while to oil as a raw material applied the general treaty principles in the same way as to other raw materials. After numerous attempts in this direction the Community has equipped itself since with certain instruments in the fields of crisis management, coordination of import objectives, energy conservation and research and development relating to energy. The Community has gathered experience in adopting a coordinated stand in the international sphere, and it has also spent quite substantial sums on measures with a bearing on energy policy; between 1973 and 1979 as much as about DM 2.5 bn has been spent out of Community budget funds.

In the future it will be important to forward the convergence of national energy policies and to supplement it by suitable additional Community measures. In the field covered by Euratom the bilateral external relations with the USA, Canada and Australia have come to the fore. Besides, the Community is active in the field of safety controls for fissionable material and in the sphere of nuclear research.

### **Agricultural Reform and Budget Structure**

In no other field has Community policy reached as high a degree of integration as in agriculture. No other item in the Community budget has as dominant an effect on Community spending as that on agricultural policy, and no other item has come in for as much public criticism as this particular policy. On a closer glance the common agricultural policy does not look by any means as sinister as one would assume in view of the censorious headlines. The agricultural policy has after all helped to carry out a restructuring process of impressive dimensions in the rural areas of the Community during the past score of years without giving rise to any distinct signs of social friction. The common agricultural policy does not cost us more, as a percentage share of the national product, than the spending on similar purposes in other large economic areas like the USA and Japan, and the strong support for all major agricultural products via the prices has still

left enough room for the importation of a substantial part of the agricultural products needed in the Community. The resultant increase of the cost of his food to the consumer has remained below the average rise of the cost of living.

None of this line of argument can however serve as an alibi for spending 73 % of the Community budget on supporting the agricultural market and, more especially, on storage costs and on the expenses of disposing of surpluses in the world market.

The milk sector alone accounts for as much as about 40 % of the outlays on agricultural measures. The lion's share goes to the sale of surplus butter and skimmed milk powder in third markets. This is a problem which could well prove capable of solution if additional burdening of the budget is avoided by selective producer participation — for which the so-called co-responsibility levy is at hand as an instrument — and if the size of the intervention is further reduced by a moderate refunding policy. The same holds in principle good for sugar, beef and wine. Partial solutions by way of producer participation, which give relief to the budget without calling the principles of agricultural policy mentioned earlier in question, are conceivable also for these products.

### External Relations

In the sphere of trade policy the Community has its own definite competences. It deals with its world trade partners as an entity. Trade agreements and trade policy arrangements can no longer be concluded with the member states individually but have to be negotiated with the Community as a whole. In the multilateral negotiations of the Tokyo round which were concluded in 1979 the Community as one of the great world trade partners played a crucial part in settling upon the continuation of an open world trade system through the dismantlement of tariff and non-tariff barriers (the Community's average customs tariff is one of the lowest in the world; following the negotiations it will probably be reduced by 1988 from about 9.8 % in the industrial sector to 7.5 %). Special efforts have been made to let the developing countries share in the Geneva results.

Trade policy and industrial policy are in one sense sides of the same coin. An industry under strong competitive pressure will first try to secure protection through the medium of trade policy. Many efforts in this direction were in fact made in sensitive areas during recent years; the most recent one occurred in the steel sector. Wishes of a similar kind have already been registered by the European textile industry with an eye

on the renegotiation of the world textile agreement. The same is true of a few sectors affected by Japanese export industries — automobiles, entertainment electronics and machine tools. It is largely the merit of the Government of the Federal Republic of Germany that the Community has resorted to defensive measures of trade policy only in specific instances, selectively, for limited periods and in conformity with GATT rules.

In some respects the Community enjoys in the world at large a much higher reputation than among its own citizens. The shift in international cooperation during the last few years from the bilateral to the multilateral area has provided the Community with considerable additional opportunities to make its influence felt as is shown by the standing of the Community and its larger members at the so-called economic summits. A close cooperation with the USA, Canada and Japan has evolved in the course of the last few years, and this cooperation is underpinned by ever closer bilateral contacts between the Community and the USA.

The close cooperation between the industrialized western countries is one of the essential reasons — the better understanding of economic interrelationships is another one — for the more circumspect and effective response of the industrialized countries to the oil crisis and the stagnation which ensued from it, compared with their attitude to the world-wide economic crisis of the twenties and thirties. It is not implied however that the present situation bears comparison with the dimensions of that earlier crisis.

As far as the North-South relations are concerned, the Community has become an important clearing office for striking a balance between the views of its member states on subjects to be settled in the framework of the UN, such as the Common Fund. At the same time the Community is playing an autonomous role as a partner in the free world. Its special interest — for historic and geopolitical reasons — in Africa as a salient area and its active cooperation through association with important countries on the southern littoral of the Mediterranean call for special mention. Following Great Britain's accession to the EC a number of Caribbean and Pacific countries have joined the group of associated countries, with the result that, including Zimbabwe, 60 countries are now associated with the Community by the new Lomé Convention. With a few exceptions, they are the poorest developing countries and depend more than ever on cooperation with the industrialized countries. The Lomé Convention is aimed at the establishment of a large economic area with a great measure of freedom of movement and effective financial aid.

Under political aspects this is part and parcel of a functioning North-South dialogue. Increasing use is being made of the scope for action which this provides although there are certain limits to such cooperation. No one can expect the partner countries deriving benefits from financial aid from the Community's development fund to take automatically the side of the Community countries in the great international political organizations. Advantages, however, accrue from the Lomé Convention not only to the partner countries through trade concessions and financial aid (of a volume of EUA 5.6 bn) but to the Community as well. Mention may be made in this context of the Convention's contribution to the political stabilization of Black Africa and the stabilization of markets and also of raw material sources.

Contacts have also been established and progressively institutionalized with the ASEAN countries and the group of Latin American countries. These have however also had the effect of arousing certain expectations among these partners about the Community's readiness to render concrete aid.

Moves to give a solid form to the Community's relations with the CMEA and its member countries, on the other hand, have so far – apart from certain bilateral arrangements with individual East bloc countries – failed to make headway, not least because of the cold winds from Afghanistan.

### **New Institutional Grounds?**

While other Community activities are buttressed by its treaties, the European Political Cooperation (EPC) is a matter of entirely pragmatic intergovernmental cooperation lacking the institutional supports which are a feature of the areas covered by the treaties. There is not even an EPC secretariat. The EPC is in practice an apparatus for consultations through which the foreign

ministries of the member states establish a rapport on certain political areas, e. g. Middle East policy, Africa policy or the follow-up of the Helsinki Conference. This cooperation has yielded notable results, especially in the instanced areas, although the EPC has not yet been extended into other critical areas of foreign policy such as the security policy. It is thus only a first step towards integration of the foreign policies of the member states.

A much-discussed subject is at present the Treaty on a European Union suggested by the German Foreign Minister. Under consideration is a union the aims of which could be the evolvement of a common European foreign policy, the elaboration of Community policies in accordance with the Treaties of Paris and Rome, coordination in the sphere of security policy, closer cooperation in the cultural field and harmonization of legislation. Contemplated is a mainframe to allow the existing integration in the European Community and among its ten member states to be given a stronger orientation towards a European Union. If it is true that a large number of technically difficult, financially costly and politically sensitive issues are waiting to be solved, it may indeed be advisable to discuss the great guidelines together rather than to confine the deliberations to individual decisions.

It has to be borne in mind that in difficult times the preservation of the Communities' viability is in itself a priority task. Ideally both should be attempted: The difficulties encountered by the Community should be solved in the available spans of time and attention should be directed at the same time to its progressive development into an organism for the extension of European integration into further areas. The subject of the finality of the Community is now being broached. Such talk must not however be regarded as an alternative to the performance of the ineluctable concrete tasks of the Community in the immediate future.

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