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EC

## The Community of Ten after the Athens Summit

by Rudolf Hrbek, Tübingen\*

**Twenty-five years after its foundation, the European Community is in a blind alley. Not one of the urgent problems facing it was brought closer to solution at the summit conference held in Athens at the end of last year. Professor Rudolf Hrbek takes stock.**

The background, conduct and outcome of the European Council meeting in Athens at the beginning of December 1983 leave one no option but to pose the question, in fundamental terms, as to the future of the Community of Ten. Since at least the end of the seventies a host of problems has awaited attention by the Community, which has sought partial and interim solutions, taken procedural decisions and adopted delaying tactics. These efforts were in vain, however – the problems refused to go away. If anything, the catalogue of problems has grown longer, as have the odds of resolving them.

In the customary EC manner, the problems were bundled together in an attempt to solve them as a package. Assembled in Stuttgart in June 1983, the Heads of State and Government of the ten EC member countries declared their resolve “to take broad action to ensure the relaunch of the European Community”. Before the Athens summit “a major negotiation” was to take place “to tackle the most pressing problems facing the Community so as to provide a solid basis for the further dynamic development of the Community over the remainder of the present decade”.<sup>1</sup>

The governments of the member states subsequently formulated concepts setting out their respective national “essentials” with regard to the aims and means of further development. As these diverged widely, the preliminary negotiations and eventually the Athens summit had to seek a common denominator that would allow the package to be adopted. In this they failed. No consensus was reached on any of the individual problems, let alone on a successful comprehensive solution. The participants even parted without issuing a joint final declaration. Little wonder that commentators spoke of failure, collapse, ruin and admission of Europe’s political bankruptcy, asserted that the Community’s existence was at stake and in some cases even prophesied its inevitable disintegration. The

conference participants themselves frankly admitted failure, but almost ostentatiously declined to apportion blame and left no doubt that there is no alternative to the EC.<sup>2</sup>

But what is the purpose of a Community whose members are clearly incapable of resolving problems, cannot agree on tackling issues described as important and will soon run out of funds simply to continue with policies that have already been placed on a Community footing? To put it more starkly: what can become of the Community, if its members are in dispute about the basis on which it operates?

### Unresolved Problems

It is precisely this basis of operation that is at the heart of the hitherto unresolved problems, which date back to the seventies. They may be summarised as follows:

□ *Formulation of new policies.* If the Community is perceived as a framework for resolving problems, then the question must always be asked whether member countries should not react jointly to external challenges or domestic difficulties, since Community solutions have a better chance of success. This has applied for years to such matters as industrial and research policy, but also measures to combat unemployment. Such additional activities have to be funded. One way of achieving this is to make savings elsewhere, which leads on to the problems of reform of the Common Agricultural Policy.

□ *Reform of the Common Agricultural Policy (CAP).* Approximately two-thirds of the Community budget is used to finance the Community’s agricultural policy. The budget has steadily grown over the years, so that all the Community’s own resources to which it is contractually entitled are now required to pay for agricultural overproduction. Hence reform of the CAP entails reducing surpluses or curbing the increase in

<sup>1</sup> The declaration is reproduced in: Bulletin of the European Communities, No 6-1983, pp 19-20

<sup>2</sup> The German standpoint was set out clearly in the Bundestag debate of 7th December 1983

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expenditure in this sector. Both measures would have different impacts in the various member states, depending on the respective importance of the farm sector. Hence the reform of agricultural policy is tied up with the further problem of the future of the system of Community finance.

□ *The future of the system of Community finance.* As mentioned above, the issue here is first the use to which funds are put. Secondly, it is a question of the source and level of funds. The Community's own resources consist mainly of customs duties, agricultural levies, and – for more than half – a share of value added tax receipts, the upper limit of which has been set by treaty at 1 % of the common basis of assessment. As the importance and the volume of import duties and agricultural levies are declining in relative terms, thoughts are concentrated entirely on raising this 1 % limit (in 1983 the EC Commission initially proposed a 1.4 % ceiling,<sup>3</sup> but Italy has long demanded an increase to 2 %). However, the CAP is also involved in another aspect of the system of finance: the so-called "net contributors", that is to say the countries that pay more into the Community budget than they receive back in the form of various transfer payments, wish to ensure that additional funds are used for new purposes and not swallowed by further increases in surpluses. The third point in this context concerns the burden on member countries in raising funds, or more precisely the criteria for determining the burden. The United Kingdom complains that the individual member countries' ability to pay is not taken into account; the UK is the only net contributor apart from Germany, despite the fact that other countries are economically stronger in terms of per capita GNP.

□ *The admittance of Portugal and Spain.* This raises a further problem, in that it requires all the above questions to be settled beforehand. It would not simply be gross negligence but a deliberate invitation to conflict

<sup>3</sup> See Commission of the European Communities: Communication to the Council on the Future Financing of the Community, COM (83) 270 final, 6. 5. 83.

if new members were admitted before agreement had been reached on the basis of operation of the Community; the experience gained with the first enlargement should serve as both a warning and a deterrent. Both Portugal and Spain will raise the cost of the CAP and they will wish to make claims on the Community budget in the economic and social fields as well because of the disparity between them and most member countries in this respect. This throws attention back to the existing Community of Ten and a problem that became more acute upon the accession of Greece, at the latest:

□ *The removal or at least reduction of the North/South disparity within the Community.* This task also requires additional funds and is therefore closely interwoven with the other problems set out above.

### The Roots of the Problems

It is obvious that the problems are interrelated, so that the attempt to solve them as a package is understandable and dictated by circumstance. Before we look at various ways of arriving at a solution, it is worthwhile recalling the roots of the problems once again, as they help explain the difficulties in finding consensus and the lack of success so far.

First, the CAP itself has grown rank: the principles on which it is based have led to continuously rising surpluses and a corresponding steady increase in the resources absorbed. The scope for action in other fields is therefore hampered and the quality of the EC as a framework for the common solution of problems suffers.

Secondly, the two enlargements have had repercussions. At the time of the first, the basis of operation with respect to the further development of the Community was not clarified and agreements were imprecise and incomplete. The rules that had been laid down originally, and in particular those relating to the system of finance and the CAP, had a widely differing impact on the new members: whereas Denmark benefited to a disproportionate extent in GNP terms – is

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thus a "net recipient" – the British point to their special problem, which Mrs. Thatcher presents in the form of a *ceterum censeo* ("I want my money back!"). Moreover, the specific circumstances of individual new members, such as Ireland's strong dependence on agriculture, make generalised adjustment and reform difficult, as they can show that they will be hit disproportionately hard. The first stage of southward enlargement accentuated the disparities in the level of development within the Community – Prime Minister Papandreou speaks of the contrast between the metropolises and the periphery, with all that this choice of terms implies – and forces the EC into the hitherto unaccustomed role of a development community, thus reinforcing the demands for resource redistribution.

Thirdly, the roots of the problems lie in the consequences of developments in the world economy: increasing economic and social difficulties in member states, which therefore pursue national interests – or what the respective governments understand and declare to be such – with greater energy and even ruthlessness (whereby their freedom of action in domestic affairs tends to decrease and with it their ability to display solidarity in a Community context). Growing unemployment, the medium and long-term dangers of the technological lead enjoyed by Japan and the USA as well as the emergence of newly industrialising countries as competitors in traditional sectors are seen as a challenge that must be met by the increased expenditure of resources.

### Proposed Solutions

In recent years there has been no shortage of proposals for resolving the problems, in other words for comprehensive reform of the EC, but member states have lacked the ability and willingness to agree on a common concept.<sup>4</sup> This must have serious consequences for a Community that takes decisions on the basis of consensus, and therefore requires agreed solutions.

In June 1981 the Commission submitted proposals for reform in a report prepared under its mandate from the Council.<sup>5</sup> The proposed overall strategy comprised three main elements: the further development of existing policies and determined steps to establish new Community action, reform of the CAP and the establishment of approximate budgetary balance or a

"fairer" transfer of resources within the Community. With regard to reform of the CAP as the linchpin of the strategy, the report proposed an active trade policy, the fixing of production targets and the penalisation of producers if they exceeded pre-determined production ceilings. A permanent solution to the "British problem" was to be found by comparing the United Kingdom's share of the Community's GNP with the proportion it obtains of expenditure from the EAGGF and making adjustments accordingly. Finally, the Commission left no doubt as to the need to increase the Community's own resources by raising the 1 % ceiling on transfers of VAT.

### Divergences

The divergences that prevented agreement right up to the Athens conference were already apparent in the discussion among EC member countries after presentation of the report. Some countries (primarily France and Italy) give precedence to new policies and therefore advocate an increase in resources, whereas others (Germany and the United Kingdom) give absolute priority to reform of the CAP. As far as the British are concerned, the permanent solution of their specific budget complaint in accordance with Mrs. Thatcher's *ceterum censeo* comes at the top of the list of priorities and in addition they hope for higher payments from a better endowed Regional (and Social) Fund. The divergences and hence the difficulties in achieving consensus are no less great in individual issues. For France, reform of the CAP includes increased Community preference, which means the demand aimed primarily at the British to buy smaller quantities in world markets but more EC farm produce and the call for increased agricultural exports, linked with corresponding import restrictions, which would harm the USA but above all the developing countries.

The other objective (and means to an end) – the orientation of prices to world market levels and hence ultimately a price reduction – must appear unacceptable to all those who are obliged to pay regard to the income position of the agricultural sector because of the latter's high share of total employment. The same applies to the introduction of production ceilings, which would scarcely be acceptable, particularly for countries with a large number of small farms, such as France, unless they were imposed on an individual basis, which in turn would require a massive administrative and supervisory apparatus (one gendarme for every farm, as President Mitterand so vividly put it). Efforts to reform the CAP are further hampered by the demands of the main producers of Mediterranean products that these

<sup>4</sup> A report on the first stage of this reform debate is to be found in R. H r b e k : "Relance Européenne" 1981?, in: *Integration*, No. 1/1982, pp. 3-18.

<sup>5</sup> Bull. EC, Supplement 1/81.

should receive the same treatment as grain, sugar, meat, milk and dairy products, all against the background of an expected steep rise in production after the accession of Portugal and Spain.

### Reform Initiatives

The French Government attempted to influence the reform discussions in its favour by publishing a memorandum on relaunching the Community in October 1981.<sup>6</sup> The memorandum calls for active employment and foreign trade policies, both of which have expenditure implications. The Social Fund was to be used for the first purpose – and would therefore require a substantial increase in resources – while with regard to foreign trade the impact of protectionism was to be offset by granting additional development assistance. Finally, the memorandum calls for Community activity to be stepped up in energy, research and industrial policies. Apart from the different priorities that some of France's partners attached to Community reform, the chances of reaching agreement were diminished by reservations (primarily on the part of the Germans and the British) about the "socialist" line of the new Government in Paris. The lack of convergence in economic policy has proved to be a continual obstacle to any initiative to place new policies on a Community footing and achieve greater integration. The history of the European Monetary System (EMS) to date provides emphatic confirmation of this shortcoming.<sup>7</sup>

Hence the same topics have appeared on the agenda of every European Council, without any durable solutions being achieved. Substantive decisions were again postponed at the Stuttgart summit in June 1983. In view of the positions that the member states then adopted during the preparations for the Athens meeting, any agreement on the basis of a compromise must have seemed difficult if not impossible. The sceptics (or should one call them realists?) were right.

In a further memorandum<sup>8</sup> circulated in September 1983 the French Government favoured joint action in research and industrial policy but combined this plea for specific Community measures with the demand for stronger defences in the foreign trade field. By contrast, the memoranda of the British and German Governments contained a clear commitment to free trade. The conditions in which the internal market is to

be strengthened and expanded are therefore a contentious issue. For Bonn it is an unshakable principle that programmes entailing additional expenditure can be considered only when significant savings have been made. London also requires that the growth in agricultural expenditure be curbed and held substantially below the rise in own resources. Germany also regards the setting of an upper limit on net contributions vitally important in order to ensure that the increase in the Community's own resources that will inevitably come sooner or later will not fall solely on Bonn's shoulders.

All of the points at issue lead back ultimately to the question of reform of the CAP. In the autumn of 1983 discussion focussed on the milk sector. There is agreement that the imposition of quotas is essential, but there is still dispute as to how it is to be done. The Irish and the Greeks demand exemptions, while France is at odds with the other member countries over the setting of the quotas. In Athens ten Heads of State and Government haggled in vain over quota figures, with the result that questions of principle concerning the future stance of Community policy within the Ten and towards third countries could not even be raised. How difficult it is to find a consensus – and hence how dominant are narrow national interests, even in small sectors – is illustrated by the refusal of the British, who in principle staunchly support reform of the CAP, to set guarantee ceilings for the production of lamb, but equally by the insistence of Bonn on monetary compensatory amounts on agricultural products. The decision taken in the autumn of 1983 to introduce market regulation for Mediterranean products has increased the problems – and the cost – in the agricultural sector and made decisions on savings more urgent, but no easier.<sup>9</sup>

### The Athens Summit

Two events at the Athens summit deserve to be recorded. First, President Mitterand's surprise assertion that the United Kingdom could lay no claim to financial compensation in view of its prior acceptance of the Community rules, including those governing the system of finance. Paris thus distanced itself from a position that up to then had appeared to be held by all member states. Secondly, attempts were made to "unbundle" the package, in other words to settle individual points separately, such as greater accommodation on the part

<sup>6</sup> The document is reproduced in Bull. EC, No. 11-1981, pp. 92 ff. See also Agence Europe, Nos. 3228 and 3229.

<sup>7</sup> See the recent article by N. Klöten: Das Europäische Währungssystem. Eine Zwischenbilanz, in: Europa Archiv, No. 19/1983, pp. 599-608.

<sup>8</sup> Reproduced in Europa Archiv, No. 24/1983, D 695-701.

<sup>9</sup> The well documented study by B. Burkhardt-Reich, W. Schumann: Zur Reform der gemeinsamen Agrarpolitik der EG: Positionen und Handlungsspielräume, Schriftenreihe der Stiftung Wissenschaft und Politik, SWP-AZ 2367, September 1983, draws urgent attention to the difficulties and, ultimately, the hopelessness of radical reform of the CAP within the Ten.

of the "rich" Northern countries towards the poorer members.

The attempt to make final arrangements for the conclusion of the accession negotiations with Portugal and Spain came to nought in Athens. For the moment, however, the Ten themselves face the question how they should now proceed, what policy the Community should pursue, what means are available, how they should be employed and in what direction the Community should develop in any case. Many commentators were unanimously of the opinion that the conference participants held widely diverging views of the meaning and purpose of the Community: a market for industrial goods, a development aid agency to reduce disparities in the level of prosperity, an institution for financing subsidies (which might also be seen as forward investment!), a protected zone for unimpeded agricultural (over)production. No trace of a common "European identity", such as member states had conjured up in various ways and attempted to define. In addition, the commentators felt that the forlorn state of affairs within the Community was bound to tarnish its image in the outside world and reduce it to near impotence. EC – quo vadis?

#### EC – quo vadis?

The question where the Community should go now prompts a variety of replies. They are extremely difficult to assess at present and none of them offers an ideal solution. A knowledge of the spectrum of important concepts and proposals will be a useful aid to understanding the forthcoming round of consultations.

□ *Wait for insolvency.* According to preliminary estimates on the basis of the 1984 budget approved in December 1983, the Community will become insolvent sometime in the late summer. That means that there will be no funds in the EC vaults to finance expenditure, primarily in the agricultural sector. The agricultural surpluses would then have to be financed by member states themselves. The United Kingdom is said to be working towards such shock therapy in order to force agreement on reform of the CAP. Whether durable, workable solutions can be hammered out in this way must be doubted; all Community members, but especially those directly involved, would be facing very tight deadlines, which are prejudicial to durable solutions. If the Community arrived only at ad hoc solutions, the disgruntled parties would inevitably soon come back with further demands and claims for compensation.

□ *Temporary renunciation of southward enlargement.* Such a move can be justified on the grounds that the

solution of problems has already been made more difficult by the prospect of unavoidable additional burdens imposed by the accession of Portugal and Spain. Yet who can say what consequences and costs might ensue if the door is not opened for these two countries? Nothing has changed in the predominantly political justification for their membership; no-one ever pretended that it would not have attendant costs. Further delay will probably simply incite the two countries to "exact vengeance" when they eventually become members. Member states with an outlook such as this have many opportunities to block the Community's decision-making process and to harass their partners.

□ *Hopes in the French Presidency.* There is speculation that President Mitterand is not particularly disappointed at the Athens fiasco – to which he deliberately contributed by his attitude – because he wishes to use the period of his Presidency of the Council to achieve a breakthrough in the reform efforts and thus score a political success for himself and for his Government. Is this not an overestimation of the ability of French diplomats and technocrats? For why should Paris succeed where her predecessors have failed? As it is not least French positions – indeed, "vital interests"! – that have proved irreconcilable with those of her partners, Mitterand would have to give ground on this or that point and make concessions. He has little scope for flexibility in the agricultural field or elsewhere, given the country's chronic balance of payments deficit and rising unemployment against the background of increasing polarisation in the domestic political arena.

#### Two-tier Integration

□ *Two-tier integration.* The notion of a Community with two levels of integration in which members had different duties (and rights) has been under discussion for about a decade. The arguments cannot be repeated here.<sup>10</sup> All that need be said is that the advantage of greater flexibility and freedom of action is set against a lower degree of coherence and at least the danger of further loss of solidarity. Implementation of the concept would be a stop-gap measure and a belated acknowledgement that the enlargement of the Community of Six had been a mistake. A growing sheaf of special arrangements, such as those concerning the UK's budgetary relief or membership of the EMS to mention but two of those already in existence, would amount to two-tier integration de facto.

<sup>10</sup> See for example H.-E. Scharrer, *Abgestufte Integration – eine Alternative zum herkömmlichen Integrationskonzept?* in *Integration*, No. 3/1981, pp. 123-133.

□ *Bilateral (or multilateral) special agreements.* Such agreements might be conceivable in the technology sector, for example. The Airbus project and the Spacelab venture are examples of the direction in which the Community could move. As individual projects, they clearly pose no problem for the Community, but if entire industrial sectors were made subject to bilateral arrangements this would inevitably have repercussions on the internal market and its future development. Such activities are costly, so that they reduce the ability of the states involved to make higher contributions to the Community budget. If the awareness that Europe is in danger of falling behind Japan and the USA in the technological field grows further, such strategies will become unavoidable, even if they are criticised within the Community as initially divisive.

□ *Consistent application of the majority principle in the Council.*<sup>11</sup> The requirement for consensus in all matters (which is self-imposed and has no basis in law) has a debilitating effect and can ultimately lead to paralysis. The Community could surely tolerate majority decisions now and then. However, they cannot apply to "vital interests", which are at stake in the current debate about reform and relaunching of the Community. The Treaty lays down that certain decisions, such as the admittance of new members, require unanimity, in other words the express consent of all members. Reform of the system of finance requires treaty amendments that have to be ratified. Nevertheless, it might have an "educational" effect if voting on normal business were conducted in accordance with the provisions of the Treaty. Here the Presidency of the day certainly does have opportunities. But will France be the country to give a lead in this field?

### Political Initiatives

□ *Conclusion of a Treaty establishing European union.*<sup>12</sup> In concrete terms this involves at present the initiative of the European Parliament, of which its main proponent, the Italian Altiero Spinelli, says that the draft text is "in substance a true constitution", but in form "a treaty, as it can come into force only if it is ratified by prospective member states".<sup>13</sup> This is not the place to set out the details of the draft treaty.<sup>14</sup> It is more pertinent to inquire into the chances of implementing a quasi-

federal constitutional structure at the present stage in the development of the Community. To overlay the Community with such a "constitution" at the present time cannot succeed. The purpose of the plan therefore comes down to keeping discussion of the objectives and prospects of integration alive, a most important function in view of the present lack of movement. It can be compared to the Genscher-Colombo initiative, which was adopted as the "Solemn Declaration on European Union" in a modified, slightly less integrationalist form by the Stuttgart summit in June 1983.<sup>15</sup> The original objective of giving the Community fresh impetus at a difficult time was scarcely achieved – at least, the initiative has achieved nothing in important matters. Nevertheless, one purpose of the document is surely to give members something to evoke in particularly difficult situations and to remind partners what they have signed, to what they have committed themselves. This certainly does not solve individual problems, as Athens proved, but it erects an additional bulwark against disintegration or against individual members falling out of line. As these remarks demonstrate, integration remains a painstaking business in which "crises" are an integral part.

□ *A new "Conference of Messina".* Let us remind ourselves: after the failure of the ambitious plans to establish the European Defence Community (EDC) linked with the concept of a Political Community for which a federal constitution was also envisaged, a number of individual politicians and statesmen called a conference in Messina which sowed the seed of the EEC (and Euratom) and hence of the present-day Community. In retrospect, this must be regarded as a particularly bold and visionary action. In the light of the present setback, it is tempting to call for similar action. Its mandate would be to give the Community a new and universally acceptable basis of operation. In view of present-day needs, it would undoubtedly have to include a transfer and redistribution of resources along the lines of a development community, a technological community looking towards the twenty-first century and not least a security community that would attend to military security and defence policy. The proposal has a certain fascination, but does it promise success? Who would take part – the Heads of State and Government or independent personalities, whose proposals would then have to be accepted nationally? Anyone expecting such a conference to make a breakthrough would have to

<sup>11</sup> Highly lucid remarks on this subject are contained in R. Lahr: *Die Legende vom Luxemburger Kompromiß*, in: Europa Archiv, No. 8/1983, pp. 223-232.

<sup>12</sup> The European Parliament document (1-1200/83/A) of 19. 12. 1983 bears the No. PE 87 000/final/A

<sup>13</sup> A Spinelli: *Die parlamentarische Initiative zur Europäischen Union*, in: Europa Archiv, No. 24/1983, pp. 739-746 (in this connection p. 745)

<sup>14</sup> Issue 1/1984 of the journal "integration" is given over entirely to this subject

<sup>15</sup> Reproduced in Bull. EC, No. 6-1983, pp. 24 ff. A semi-official interpretation is contained in I. Stabreit: *Die "Feierliche Deklaration zur Europäischen Union" – eine Etappe auf dem Weg zu einem Vereinten Europa*, in: Europa Archiv, No. 15/1983, pp. 445-452.

explain why the European Council was not equally capable of solving the present problems. Consensus is lacking on the ideals of the Community, principles relating to economic order (the problem of convergence) and the tokens of intra-Community solidarity. Might it be resurrected as a result of a second Messina conference?

□ *The second direct elections to the European Parliament as a stimulus.* In June 1984 the European Parliament will be elected by direct suffrage for the second time. The first direct elections were already expected to have a stimulating effect on the process of integration. The Parliament in Strasbourg has undoubtedly achieved successes, but they lie in the influence exerted on small steps, not in the accomplishment of spectacular deeds or a "great leap forward".<sup>16</sup> Expectations for the second direct elections should not be set too high, for on the one hand the

<sup>16</sup> For details in this respect see G. Schöndube: *Das Europäische Parlament vor der zweiten Direktwahl. Bilanz und Perspektive*, Bonn 1983

European Parliament is in danger of being made the scapegoat for the ruinous state of the Community (who else can European electors punish!) and secondly, the elections will be used by the parties for domestic political purposes, as in 1979. For example, the middle-class opposition in France wants to score a success over the Government, as does the Social Democratic opposition over the Kohl-Genscher coalition in Germany. A European Parliament with a fresh mandate will certainly not cease to generate momentum after the elections, and certainly not only with regard to the draft "constitution". However, that is a long-term strategy that does not resolve the present problems.

In practice, European politics will obviously not adhere rigidly to one path or another. There are also further activities that leave their mark on the Community, such as the work of the European Court of Justice. Nevertheless, the failure in Athens calls for answers that go beyond the confines of routine – what answers will 1984 bring for the Community?

# EAST ASIA

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