Mr. President, Your Excellencies, ladies and gentlemen. You do me a great honour in asking me here tonight, and after hearing the President's introduction, I can't wait to hear what I have to say. But there can be, perhaps I should start incidentally by apologising for speaking in English, but I'm afraid the English are not noted for their ability to speak foreign languages, and, as the President said, it may be that towards the middle of what I say I won't be able even to speak English, because my voice seems to be disappearing rather rapidly. But there can be few more suitable places than Hamburg for a British Foreign Secretary to deliver a speech on Europe.

Mr. Nehru once came to Hamburg and he said – I like it and I like the Hamburgers, who are just like the British, only less mad.

Well, the links between Britain and Hamburg are ancient, numerous and warm, and Hamburg itself, whose resurgence in the past 30 years is one of the more remarkable success stories of Europe and I know because I was here in a rather different capacity in March 1945. Hamburg itself has a powerful claim to be one of the mainsprings of the present day European Community.

For centuries the hub of the Hanseatic League – through which incidentally, Britain was partially Europeanised – the city played a key role in the establishment of the Zollverein. The latter, I suppose, provided the most conspicuously successful example in the 19th century of the political dynamism that can be generated by creating a common market.

It not only paved the way for the political unification of Germany but was the true forebear of the Economic Community conceived after the second world war.

Since the war, Hamburg has thrown itself with enthusiasm into the task of building the Community. I am glad to acknowledge with gratitude, with much gratitude, the consistent support we received from all of you and your fellow citizens for British membership of the European Community through the long years when we were striving for admission.

You, like us, clearly believed that Europe could only realise her full potential with Britain as a member of the Community, and I am convinced myself of exactly the opposite, that Britain can only realise her full potential as member of the Community.

The European Community is perhaps the most remarkable example in history of the political dynamism that trade and custom links can generate.

I make no apology for devoting my speech tonight to the Community's future, as did that long list of speakers from Britain, and their politics show how ecumenical you are in Hamburg, which I suppose is a good thing as the Pope is visiting Germany. Of course, there are elements in my country who remain opposed to Europe. But for my government, membership of the Community is fundamental to our foreign policy and increasingly to our domestic policies. We believe that a strong Europe is the best way to achieve a strong Britain.

The more Europe has a voice in the world's affairs, the better Britain's own interests will be served. And the stronger Britain can become, the stronger Europe will become.

And I think that in the building of Europe there is a place for rhetoric. Europe's future is a noble cause to work for and it is every politician's duty to try to convey some of the inspiration that that task will require. But rhetoric is not enough – it seldom is. What Europe requires is a sense of purpose and a programme of work.

Ans I hope to show you in what I have to say that the British Government does have that sense of purpose and wants now to get down to work in colla-
boration with its partners on that programme for Europe in the 1980's.

I hope to show you that our approach to existing policies and problems is thoughtful and constructive, that our ideas for the development of Europe are practical and imaginative and that we intend to play our full part in the negotiations that lie ahead.

The basic philosophy behind the European Community was that a process of economic and commercial cooperation would lead inevitably to a greater political unity.

The present state of the EC bears witness I think to the soundness of that philosophy. Europe today is much more than merely an economic grouping.

Nevertheless, the economic and financial aspects of the Community remain fundamental to its success. If the Community is to make progress its financial structures must be in good shape and its budgetary mechanisms must work smoothly.

No speech about the Community or the future of the Community can realistically take as a starting point other than the problem of finance and of the Community's budget.

We are up against the financial limits laid down some years ago and the first challenge we face is to adapt our policies to that reality. That is why the task of restructuring the Community budget is so vital to the future wellbeing of the Community.

The agreement we reached after some difficulty on May 30 in the Foreign Affairs Council was doubly significant in that it not only recognised that the budgetary imbalance which had risen was rightly unacceptable to us but also that it was contrary to the good of the Community as a whole.

Britain's problem was the Community's problem. It recognizes that the long term solution to that problem must be sought by fundamental structural changes to the Community budget.

Now no one, at least no one who has any knowledge or sense, pretends it will be easy to reform the Community budget. The task will be to find ways of curbing excessive or wasteful expenditure while working for a mix of policies designed to produce a more equitable balance of cost and benefit for everyone.

The implications of the imminent exhaustion of the Community's own resources will have to be faced. It is well known that some time in the next two years, and maybe earlier than two years if the present pattern of Community expenditure continues, the ceiling of one percent of Members States VAT revenues will be reached.

We believe, the British Government believes, that the Community budget must be subject to the same kind of financial discipline as any other budget. And I am glad that the Chancellor today and my Prime Minister agreed specifically on that. Holding to the one per cent ceiling offers the only chance of achieving a sensible and lasting reform of the Community's expenditure.

We cannot just spend our way out of our present difficulties by authorising further increases. The exhaustion of our own resources must be a spur towards a restructuring of the budget which ensures that funds are channelled to the right objectives.

And if I may say so, nowhere is this truer than in the case of the CAP. The British Government is often accused of wanting to destroy that. Well, that is not true.

The CAP is part of the fabric of the Community. The existence of the policy and the need to work together to make it function effectively are not something we contest.

There is nothing at all wrong with the objectives set out in article 39 of the Treaty of Rome: enhanced productivity, secure supplies, fair returns for farmers and reasonable prices for consumers. Well what's wrong with that?

Indeed the CAP has gone a long way towards fulfilling a number of those objectives. Europe has been spared the shortages that have afflicted so many parts of the world, and has been able to alleviate them thanks to its agricultural productivity. World prices of many basic foodstuffs have fluctuated wildly: Europe has avoided such fluctuations.
But things have gone wrong with the CAP and they must be put right if it is going to survive. The surpluses that have arisen and the cost overruns which have become an endemic part of it – agricultural expenditure rising by 23% every year. They were never intended by those who designed the policy. Their continuation cannot be tolerated in a period of global financial stringency when every other sector of our economy is being asked to make considerable sacrifices. Nor was it intended that between two-thirds and three-quarters of the whole Community budget should go on agriculture with some 80% – 80% of that money going to the storage and disposal of surpluses.

Nor was it intended, I would have thought, that subsidised Community butter should be sold to Russians at a quarter of the price that our own people pay for it.

Well these problems have got to be tackled. That is the only way to sustain the objectives and principles of the policy and to refuse to do it is to condemn the CAP to eventual collapse, and not all that far off either.

We are under no illusions about the difficulties of achieving a satisfactory reform. There are no magic solutions. It probably does not make sense to look for one single overall scheme. We may have to look for different types of measures for different commodities.

We accept that the changes required will take time to work but provided that something is achieved straightaway and the Community adopts and sticks to medium term programmes to achieve further improvement we shall have turned the corner.

In tackling the problem of CAP reform, we shall need to be clear exactly what we are trying to achieve. In my view, these are the principal objectives.

First, that we should aim to preserve a healthy European agricultural industry. Second, that we must reduce agricultural expenditure as a proportion of the total Community budget. Third, we must eliminate structural surpluses, especially in the milk sector. And fourth, we must move towards prices for agricultural products which result in the production of the food we need, and the food we need to eat and to export without subsidies, to give away to prevent famine in developing countries and to provided a good store to guard against bad harvests – and not more.

Only that way will we bring benefits to consumers, reducing the resources costs and inflationary effects of the present system.

It will be for the Commission to present proposals for change in the context of the 1981 restructuring of the budget. But this is very unlikely to happen much before the middle of 1981.

And it is obviously important that before there should be a wide ranging debate in the Community so that the issues are thoroughly examined and the most appropriate methods of change adopted. And I do not think that can begin too soon.

Of course, the restructuring of the Community budget is not just about the CAP, as the Community is not just about agriculture.

It is a fundamental objective of the Treaty that the Member States should work to achieve the convergence of their economies. So far, the role of the Community budget in that task has been negligible, indeed I think it could be argued that its overall impact in some cases has actually been perverse.

But if savings can be made in the CAP, then the proportion of the budget devoted to policies designed specifically to help the less prosperous members of the Community can grow.

Policies like the regional fund and the social fund are of particular concern, for example, to us. To the average citizen in Britain, it must be admitted, they seem much more relevant than the CAP. Though I here should declare an interest and point out that I am a farmer and do not go wholly along with all of that.

I am sure that there is scope for improvement in the operation of these funds as well as for the development of policies in other fields such as transport infrastructure, urban re-development and energy, in particular the development of coal where Europe has vast under-utilised indigenous resources.

Before the 30 May Agreement, Britain, a country, alas, well below the
Community average in income per head, was by far the biggest net contributor to the Community budget. The budget settlement reduced our contribution to more reasonable proportions though we are still second only to Germany in the net contributions league.

One of the basic purposes of the restructuring exercise is to prevent unacceptable situations arising again for any Member State, for any Member State, whether before or after enlargement.

Mr. President, so far I have concentrated on the budget and Community spending. But, you know, many Community policies and activities call for virtually no expenditure at all.

How much has the initiative in the Middle East cost the Community budget? How much does reciprocity in the payment of Social Security Benefits cost it?

It is a great mistake to judge the effectiveness of Community policies solely by the amount of money spent on them.

It is high time that the Common Market for goods and services was made a reality. How can we expect the Treaty of Rome to contribute to its long term aim of a more unified Europe when its specific objective, the Common Market, is still so imperfect?

There are far too many barriers to the free movement of goods and to the freedom of our service industries to operate in each other’s countries. I give you only one example, that of insurance, where progress towards liberalisation and the breaking down of national barriers remains pretty slow.

Progress in such fields would help bring home to the general public that the Common Market is a reality and a beneficial one. But there are other areas too where there should be progress.

There are obstacles of all sorts to free interchange of people within the Community. We should try, for example, to accelerate our work on the mutual recognition of professional and academic qualifications.

There are, of course, difficulties and we must keep a hold on standards. But surely the general assumption should be that engineers, insurance brokers, veterinary surgeons, dentists and professors are as good in one EC country as they are in another.

I would like to see greater interchange within our educational systems, not for sightseeing but as an integral part of language and other courses.

We should aim for greatly simplified procedures at frontiers within the Community. And we, I tell you, will work positively for progress in that direction. Easier travel and transport is another area where we would like to see progress. Road transport arrangements within the Community are still very restrictive. The existing high scheduled rates for air travel in Europe are a scandal.

It often costs as much to fly a few hundred miles between European cities as it costs to fly the Atlantic. Why should rates be higher per mile within the Community simply because a frontier is crossed? The whole purpose of the Community is surely to abolish such arbitrary distinctions.

Social Security is another field where more should be done. We believe that health care should be extended to all our citizens who travel to other Community countries.

If we can achieve that, then whole sectors of the population, students, handicapped people, the self-employed, will be able to receive urgent medical treatment in another Community country free or at reduced rates.

The more the people of Europe feel they have a stake in the Community, the better Europes leaders will be placed to undertake new initiatives to carry the Community forward.

The support that we have shown in Britain and you have shown for enlargement stems very largely from our desire to enhance the meaning and the weight of Europe.

I think the negotiations are going to be difficult, the are bound to be difficult, as they were when we joined – and we remember that. And the financial implications have to be examined. But we remain convinced that the case for enlargement remains valid.
I have spoken so far about the Community's internal policies only, but the Community's external policies, the role Europe plays in the world, is only the other side of the same coin.

Europe provides all of us with the framework within which we can best defend overseas interests and promote joint policies on the international stage. And I do not think those are just empty words.

There is ample proof of them in the GATT multi-lateral trade negotiations, in the Lomé Convention with the African, Caribbean and Pacific countries, in our developing relationship with ASEAN and with the countries of the Indian subcontinent, in our dealings with Japan; Europe acting together can accomplish far more than its individual parts acting separately.

We, in Britain, want Europe's voice to be heard in the world. We are convinced that a more active and self-confident Europe will be a force for peace and prosperity and a valid partner to our other Western allies, the United States particularly.

One area where we must find a collective response is in the so-called North/South dialogue. The problem here is to find the right blend of the business-like and the compassionate. Our policies must be generous, but they must also be realistic and they must also be effective.

What is important is to work out what each country really needs. Some of them, the very poorest, will continue to require aid on concessionary terms. For others, the chief need is loans from the commercial banking sector. Others require investment in their new industries. Still others, most others, require markets for their products.

The Community has got to find a response to these problems. We have the expertise and we do not have, none of us have, the ulterior motives that make so many Third World countries understandably suspicious of the aid they are sometimes offered from other quarters.

In all these fields, Britain and Germany are among the most prominent donors. Of course you are richer than we are and can do more. But our record is a good one. It is not always realised that in the vital field of trade and markets, the same proportion of Britain's imports come from the non-oil developing countries of the Third World as is the case with you in Germany.

Mr. President, the challenge which led to the creation of our Community was internal to Europe, but I believe that the challenges to which we will have to respond in the future will increasingly be external.

We already face a world where, outside Europe's own boundaries – and how fortunate we are – there is growing disorder, growing extremism, and increasingly frequent violations of international law.

In the last year alone we have seen the invasion of a helpless non-aligned state, the continuing imprisonment of diplomats taken as hostages, we have seen a war, and are seeing a war, in an area of vital interest to the West. In this difficult and dangerous world it is of importance that the countries of Europe should work together.

We can set a powerful example of democracy, economic rationality and human rights. We can be a force for stability, moderation and international order. Above all we can defend and further our own interests. But we can only do these things if we act together.

We have the dimensions for the task. Europe is more than 260 million people. After the enlargement of the Community, when it comes, it will be more than 300 million people. The United States has 220 million people, the Soviet Union 264 million people.

Europe is the largest trading block in the world. European external trade amounts to more than one billion dollars annually, almost three times United States trade, almost ten times Soviet trade.

The gross annual product of the European Community is 1.8 billion dollars and is close to that of the United States of 2.1 billion dollars. It is twice as large as that of the Soviet Union of 0.96 billion dollars.

The importance of Europe working together, working through the system of political cooperation is evident. But we have also demonstrated I think the weaknesses of European political co-operation at its present stage of evolu-
tion. And here I must say I found much to agree with in the lecture given by the retiring President of the Commission, Mr. Roy Jenkins, at the Royal Institute of International Relations in Brussels ten days ago.

If Europe was called upon to play a serious and continuing role in one of these crisis areas – as for instance the United States has done in the Camp David accords – would Europe as it is organised at present be able to take on such a role? Would the current machinery of political co-operation permit the rapid and flexible decision making that would be necessary?

I believe also that British Foreign Policy must be conducted essentially in a European framework, and I want that framework to be strong enough and flexible enough to respond rapidly to the challenges of the world today.

For all the remarkable progress that has been made in the ten years since European political co-operation began, I really do not think we can rest satisfied with the results as yet. If, one day, we are going to have a European Foreign Policy, we shall have to do much more.

The first thing that we have to do I think is to re-examine our political commitment to co-operation on foreign policy. We must try to find ways of cooperating more closely and of committing a greater part of our national diplomatic efforts to the furthering of Europe's common objectives.

Secondly, I believe that we have to try to organise ourselves better. Now I do not deny, of course I do not, the achievements of political co-operation so far, they have been quite considerable, but we cannot afford to go on for ever with the ad hoc methods and improvised organisation that we have at present.

I have absolutely no doubt that political co-operation must have the support of an experienced foreign policy staff, perhaps seconded temporarily from Member States, which would enable it to give a stronger lead to the Community. Not that this staff need be large – God forbid – but they will need to be of high quality.

We also need to tackle one particular problem, which is that, as it is organised at present, Europe is very slow to react – it was, believe it or not, and I take my share of the blame, three weeks after the invasion of Afghanistan before my colleagues and I discussed the situation and how Europe should react to it.

That sort of pace is not adequate in the 1980's. That is why I have suggested a procedure for convening meetings automatically within 48 hours – applause – well, I have not had that response from some of my colleagues, but that has encouraged me – if any three of us believes there is a crisis which requires rapid consultations.

Speed of reaction is important, so is a solid but adaptable organisation, most important of all is our political commitment to consultation, co-operation and joint action. The foreign Ministers of the Nine agreed recently that they would re-examine the machinery of political co-operation. That was an important decision and it gives us an important opportunity.

So the task we have before us now is twofold, to decide what sort of role we want Europe to play in the world and to equip ourselves with the organisation needed to perform that role effectively.

But if we are to realise our full potential, we cannot limit ourselves to just what is done under the treaties and in the field of foreign policy co-operation.

There are countless opportunities for collaboration between the members of the EEC, their industries and their people, all of which will serve to strengthen the Community itself and deepen the relationship that binds its members. Europe is not just what is done collectively in Brussels.

Europe too is the North Sea Oil flowing to Germany. Europe is the Airbus, Europe is the Concorde and Europe is the Tornado. Europe is the Anglo-German-Dutch co-operation on uranium enrichment, Europe is the Franco-German co-operation on fast breeders.

Europe is German students studying in France, French tourists visiting London, British workers seeking jobs in Germany. Europe is tunnels through the Alps, and bridges across the Rhine.

Europe is everything which serves to bring our people together in their work and in their leisure and the more those links grow the more substance
there will be to the Community and its activities.

So Britain is often accused of not having a vision of Europe. Jean Monnet once said that the English were incapable of recognising an idea when they saw one. If Jean Monnet, for whom I have a very deep admiration, meant that the British are not greatly enthused by a blue print approach to Europe, with dialectical arguments about federalism and confederalism, then I plead guilty with no penitence whatever. We do not like that kind of idea in my country.

But as I have tried to show you tonight we in Britain have a very clear picture of what needs to be done to strengthen the Community, of the tasks that Europe must buckle down to.

Of course, the unique structure of the Community is a precious asset. We must cherish it and encourage this organic growth. Yet, it is what Europe does above all that counts.

Deeds more than words. A Community not of paper and promises and theories and blue prints but of practical policies, seen by the citizen to be helpful.

My programme for Europe is this. In the short term a restructured budget based on a reformed and slimmed down CAP, strengthened expenditure policies in the nonagricultural field, and a lasting solution to ensure that no Member State will feel the burden of membership to be greater than the benefits.

In the medium term we want to see a completed Common Market with free movement of goods and people and services made a reality. We must devise more measures designed to affect ordinary people in their daily lives.

We must work for successful negotiations on enlargement, so that Europe grow in strength as well as in size. We must achieve a coherent approach to North/South issues and we must strengthen our common efforts in the foreign policy field.

But all that is not enough. We must use the framework the Community provides for increased co-operation across the board. As habits of collaboration grow, so Europe will grow in confidence and cohesion to the long term benefit not only of the member states themselves but of the Atlantic Alliance, the West and the world beyond. That is the British idea and aim.