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Europe and the US : the way forward

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INTRODUCTION

EU-US RELATIONS TODAY

Almost everything which happens in the world today is of interest to the EU and the US. Both are global players in economic and political terms. They are also linked by close security ties and a common interest in handling effectively a wide variety of political and security issues across the globe. They share a broadly similar set of values, belief in democratic government, human rights and market economics and have a common interest in confronting global challenges such as threats to security and stability, weapons proliferation, unemployment, environmental degradation, drugs, crime and terrorism as well as other issues such as urban decay, ageing populations etc. Moreover, both share common interests in developing coherent strategies in order to favour harmonious economic development in the wider world and to promote, in particular, the stability of the international economic, financial and monetary system as well as the integration of countries in transition and developing countries.

How each of the partners decides to deal with the many global challenges which confront them and whether they decide to do so separately or together, will inevitably colour and influence their bilateral relationship but disagreement on particular issues is not necessarily a sign of drift in the relationship. Differences of view in the past have reflected the strong commitment of each side to an active role in international relations. They have not undermined the basic strength of the relationship or its commonality of purpose. For in spite of the growth of other relationships, for each party the EU-US relationship is, and should remain central, both from a bilateral point of view and as regards its contribution to the political and economic stability of the world.

The EU-US relationship is both multilateral and bilateral. It involves working together in many multilateral fora to advance shared objectives. The bilateral relationship was formalised in the November 1990 Transatlantic Declaration which sets out the common goals of the partners, the principles of their partnership and provides an institutional framework for consultation. The relationship is of necessity complex. Nonetheless its depth and scope can be illustrated by reference to a few key facts and figures:

political: EU relations with the US are comprehensive and of the first importance. At every level, from twice yearly Summits to debriefings on working groups there are intensive and frequent contacts. By virtue of their political and economic weight, the EU and US are present in critical areas around the world, (e.g. in the Middle East peace process and in helping to transform the countries of central and eastern Europe and the former Soviet Union), often acting together, on occasions disagreeing, but always needing to be in close contact to exchange information and views and, where

appropriate, following an agreed approach.

- security: there are 100,000 US troops in Europe and through NATO the US plays a crucial part in maintaining stability in Europe.

- economic: the EU is responsible for over 50% of all foreign direct investment in the US, while US investment in the EU represents 40% of total US direct foreign investment. Around 3 million jobs on each side of the Atlantic depend on these investments. In 1994 17.6% (95 bn ECU) of EU exports went to the US and 17.3% (93 bn ECU) of EU imports came from the US. US exports to the EU represented 22% (83 bn ECU) of total US exports and imports from the EU totalled almost 16.4% (87 bn ECU) of total US imports.

Of course, the end of the Cold War has changed the nature of the relationship. There is no longer a single, common adversary and the need to guarantee military security has ceased to be the overriding feature of the relationship. In the new multipolar world both the EU and US are developing new relations with other partners, the US within APEC and with South America and the EU with Central and Eastern Europe and the Mediterranean. However these are not exclusive zones of influence. The EU is present and active in Asia, Africa and Latin America just as the US is deeply involved in central and eastern Europe and the Middle East. Both partners have interests in all regions of the world.

There can be no return to the time when political and economic issues were subordinate to the central question of security. Today it is necessary to demonstrate anew why this unique partnership is more valid than ever, for reasons which have more to do with the future than a past common heritage. Over several decades both main political parties in the US have supported moves towards European integration. In each new political generation on both sides of the Atlantic it is necessary to maintain consensus on the importance of the EU-US relationship. Changes in the EU in recent years such as the completion of the Internal Market, the adoption of the Maastricht Treaty and the prospects for EMU as well as the growing international role of the EU in supporting the efforts of economies in transition and of developing economies have made it increasingly possible and necessary for Europe to respond as never before to the challenge of being a full and equal partner for the US.

How can we ensure that the relationship is responsive to the continuing needs of both parties, so that it remains the stable central core of their relations with the rest of the world? The purpose of this Communication is to review the main elements of the relationship - security, political and economic - and to sketch out areas for consideration which can then be brought together in a new framework. In order to be complete it goes beyond the traditional areas such as trade and suggests ways in which all aspects of the relationship might be advanced. It makes proposals, taking account of the changes which have occurred in the EU and in Europe as a whole since the adoption of the 1990 Transatlantic Declaration. Of course, adapting the EU-US partnership to the needs of the future will take time and will have to wait in part for institutional changes such as those flowing from the IGC and the rethinking of the roles of NATO and the WEU. Nonetheless there is much which can be decided in the coming months which will enhance the relationship and prepare the ground for future decisions. Indeed it is impossible to give serious consideration to the future of the relationship without looking at it in a comprehensive way. In this way a clear signal would

be given at the highest level that the EU and US recognise the need to update the relationship and have set in motion a credible process for achieving that goal.

THE COMPONENTS OF A NEW RELATIONSHIP

It is becoming increasingly difficult in the modern world to maintain a separation between policy areas, such as defence and security, political co-operation and economic relations. In order to revitalise the EU-US relationship it is necessary to look at the whole range of areas for potential co-operation and at the linkages between its security, political and economic aspects.

SECURITY

Both the European Union and the United States attach great importance to international security and stability in the volatile conditions of the post-cold war world. Interests may diverge on specific issues but there is a large measure of agreement on basic principles and overall objectives. The contributions of the EU and the US to international security and stability are to a large degree complementary, given the two partners' different structures and geographical location.

The United States's enduring commitment to European security provides a valuable element of confidence and continuity in a rapidly changing world. The European Union has helped to overcome feelings of insecurity in central and eastern Europe during the period when the parameters of international security are being redrawn. This has favoured the transition to systems based on political and economic freedom in remarkably peaceful conditions, except in the tragic conflict centred on Bosnia and in parts of the former Soviet Union.

Hitherto the European Union's contribution to international security has been largely indirect. Its network of agreements with the countries of central and eastern Europe, covering political as well as economic issues, as well as the prospect of Union membership, provide an incentive to associated countries to work together and to overcome possible sources of tension. Its partnership agreements with Russia, the Ukraine and other countries of the former Soviet Union, link them with the wider process of European integration. The Union has also contributed to European security through multilateral channels, notably the Security Pact initiative, and the Organisation for Security and Cooperation in Europe, to which the Pact has now been transferred. The United States's involvement in these frameworks has proved valuable in ensuring their success.

The European Union is also a force for stability in the Mediterranean region, an area where the United States, too, has security interests. The Union's agreements with countries on the southern and eastern shores of the Mediterranean, and its particularly close links with Cyprus, Malta and Turkey, now backed up by the important package of financial assistance decided by the Cannes European Council, can help to build support for the principles on which international peace and cooperation are based, and to counter tendencies which threaten international stability.

The European Union can also work closely with the US in certain areas of Africa where they

share a similar analysis of conflict situations and can contribute to developing mechanisms for conflict resolution. To that end the EU and the US should exchange information on developments in the region and promote joint initiatives in order to favour political dialogue, and to provide humanitarian assistance as well as joint responses to rehabilitation needs.

The Common Foreign and Security Policy, provided for by the European Union Treaty, considerably enhances the Union's capacity to contribute to European and international security, together with the United States and other partners. By providing the means for the Union to act together, and to marshal the different instruments at its disposal, the CFSP makes the EU a more tangible partner for the United States. Political will is needed, of course, if the CFSP's full potential is to be realised. The 1996 Intergovernmental Conference will be seeking ways to improve policy analysis, to streamline decision-making, and to give the Union more effective forms of external representation.

As far as security and defence are concerned, the European Union Treaty indicates that the Western European Union will be developed as the defence component of the Union and as a means of strengthening the European pillar of the Atlantic Alliance. Even though its operational development is at an early stage, the WEU has already proved its value as an instrument for implementing EU policy decisions, notably in the enforcement of the embargo against Serbia and Montenegro on the Danube, and, together with NATO, in the Adriatic. The WEU also plays an important role in security aspects of the EU's administration of the city of Mostar in Bosnia. The WEU decided at its meeting at Petersberg in Germany in June 1992 that peace-keeping and crisis management should be priorities for future action.

The IGC will be considering how to develop relations between the WEU and the EU within the final perspective of its integration into the European Union. Another important issue is the complementarity of the relationship between NATO and the WEU. The WEU should develop specific operational capacities in such areas as peacekeeping, crisis management and humanitarian operations. There is also a potentially important role for the WEU in taking action in pursuit of European interests outside of the NATO area. These developments will add significantly to the EU's capacity to act as a partner for the United States in security related fields.

Recommendation

The 1996 Intergovernmental Conference, as well as the enlargement of the European Union and of NATO, raise many security related issues which should be the subject of regular dialogue between the Union and the United States. Pending future developments in relations between the EU, the WEU, NATO and, indeed, the OSCE, in Europe's overall security arrangements, and recognising the special role of NATO in transatlantic security relations, the EU and the US should also concentrate in their dialogue on specific issues where each has a particular contribution to make. These issues could include:

- EU and NATO enlargement*
- non-proliferation of weapons of mass destruction*
- prevention of the illicit sale of nuclear materials*

- *controlling international arms trade*
- *export controls (dual use goods)*
- *the early identification of conflict*
- *preventive diplomacy*
- *the monitoring of human rights and minority problems*

FOREIGN POLICY

The objectives of the Common Foreign and Security Policy of the European Union and the foreign policy of the United States are broadly similar, taking into account differences in the structure and the geographic location of the two parties. These objectives, as set out for the EU in article J.1 of the Treaty, include the preservation of peace and the strengthening of international security, in accordance with the principles of the UN Charter, the Helsinki Final Act and the Paris Charter, the promotion of international cooperation and the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms. This broad consensus on fundamental values and objectives is reflected in the 1990 Transatlantic Declaration.

The first main challenge in developing EU-US relations in the area of foreign policy is to derive specific policies from these broad objectives and to agree on an effective mechanisms for cooperation. The EU-US Summit in Washington on 14 June 1995 provided guidance on substantial issues where progress can be made through closer cooperation. These include:

- human rights
- nuclear safety
- co-sponsorship of the "Friends of the Federation" between Bosnia and Croatia
- assistance to the Palestinians
- environmental issues in central and eastern Europe
- assistance to emerging democracies in their fight against crime
- the administration of justice in Haiti

Before the end of 1995, concrete projects for joint action should be developed by the EU and the US in these areas. Other fruitful areas for foreign policy co-operation include humanitarian and development assistance.

Humanitarian Assistance: Between them the EU and US provide 86% of official humanitarian aid (EU Member States 31%, EC 27%, US 28%). Although only 15% of foreign aid (development plus humanitarian) is channelled through the Commission almost 50% of the EU's humanitarian assistance is managed by the Commission. This makes the Community the prime interlocutor for the US in this area and explains the close relationship which has developed. There are regular exchanges of views on general and operational issues. Since the end of 1993 the European Community Humanitarian Office (ECHO) and the US Office for Disaster Relief (OFDA) exchange data. Joint assessment missions are also carried out. ECHO staff has participated in training in disaster management at the invitation of the US government and the US Agency for International Development (USAID) now has an official posted to the US Mission in Brussels. A further ECHO-USAID meeting is scheduled for September.

Development co-operation: The United States and the European Union are also major actors in the field of development co-operation. In 1994 the United States was the second largest donor, after the Community and its Member States. However in terms of its percentage of GDP, the United States' foreign aid is currently the lowest of all official donors - 0.15%.

This situation is likely to deteriorate in the coming years since American official development assistance is under pressure in the US Congress, in the context of efforts to reduce the fiscal deficit. Therefore a substantial reduction in development assistance is to be expected in the next few years.

The US Administration is working to reinforce its co-ordination with the European Union in this field. The European Union has a strong interest in re-inforcing co-operation with the US. It is in our mutual self-interest as donors and trading partners with the developing countries, to support the efforts of the US Administration to keep development assistance on the political agenda. Indeed, strengthening co-operation with the US would also allow the EU to further develop its ability to influence donor policies.

For its part, the Commission envisages formalising and reactivating its co-operation with the US Administration in the field of development co-operation, with a view to:

- strengthening modes of co-operation with the US Government in priority areas;
- jointly reassessing ways of improving the impact and effectiveness of development aid.

The second challenge on furthering co-operation in foreign policy is to establish effective mechanisms for consultation and dialogue.

Over the years a wide range of consultation mechanisms have grown up to foster dialogue and meet different needs. These contacts were formalised in the 1990 Transatlantic Declaration which provides for:

- bi-annual consultations between the Presidents of the Council, Commission and US
- bi-annual consultations between EU Foreign Ministers, the Commission and the US Secretary of State
- ad-hoc consultations between the Presidency Foreign Minister, or the Troika and the US Secretary of State
- bi-annual consultations between the Commission and the US government at Cabinet level
- briefings by the Presidency to US representatives on European political co-operation meetings at Ministerial level.
- in addition there are many Troika contacts at political director and expert level. There are also regular meeting at sub Cabinet level between the Commission and the US Administration. The European Parliament also has regular inter-parliamentary contact with the US Congress.

The wide ranging process of consultation on foreign and security matters which has grown up in recent years now needs to be reviewed to take account of political changes inside the EU since the entry into force of the Maastricht Treaty and to ensure that it represents the most efficient and operational way of meeting its objectives. There are now so many meetings between the EU, in different formats, and the US, discussing such a huge range of issues that it is difficult to have a sense of overall priorities. Serious attention should be given to considering whether fewer, more focused meetings would lead to better follow-up and to a more visible, coherent policy response to some of the challenges currently confronting the partners. Before the end of the year the Commission, together with the Council, and the US Administration, should review the operation of existing consultation mechanisms and explore possibilities for rationalisation and ways of increasing their effectiveness. For example, the periodicity of certain pre-scheduled meetings could be changed, consultations could be grouped so as to permit a more efficient use of resources etc.

Certain structural improvements could also be made to the dialogue. Although there are frequent and intensive contacts there are almost no mechanisms to ensure co-ordination between the various layers. Thus each level sets its own agenda without taking into account problems encountered at a lower level and often without ensuring the necessary coherence between trade and economic issues on the one hand and the second and third pillars on the other.

A more coherent approach is needed, bringing the different strands of the relationship together. The 1994 EU-US Summit meeting in Berlin decided to set up three working groups to study ways of co-operating on assistance to central and eastern Europe, on CFSP and third pillar areas. These groups reported in June 1995 and having completed their tasks were disbanded. The June 1995 EU-US Summit decided to create a high level group charged with assessing progress in strengthening and further developing the relationship and with studying ideas for discussion at the December 1995 EU-

US Summit.

Despite increasing levels of co-operation, the US is critical of the fact that the EU is not always in a position to speak with one voice or has no or insufficient competence to deal with matters on which the US would like to have a dialogue with the EU. For example, attempts to date to begin a process of exchanging information on Third Pillar areas of interest have been held back by reticence on the EU side. Failure to speak with one voice reduces EU influence and can, on occasion, even damage EU interests.

Nonetheless, it is possible to further improve political dialogue with the US. This can be done by building on the process of identifying areas of mutual interest susceptible to co-operation, co-ordination of activities or joint initiatives. It is now important to go beyond the affirmation of common objectives such as the promotion of democratic values and economic prosperity throughout the world to concrete actions such as joint demarches vis à vis certain countries, co-operation on humanitarian and development assistance and in international organisations such as the UN and OSCE. It is also necessary to find ways of dealing with issues where the EU and US approaches differ (e.g. recent examples include Cuba, Iran etc).

Recommendations

- *to intensify dialogue and co-operation in a number of areas including humanitarian and development assistance in addition to the areas identified by the June 1995 EU-US Summit.*
- *to review the current mechanisms for consultation with the US on foreign policy issues with a view to rationalising them and making them more effective.*

ECONOMIC AND TRADE

There is a high degree of interdependence between the EU and US economies, in terms of jobs, incomes, investment and technological development. Each market offers the other a large base with similar levels of development and consumer purchasing power. Annex I sets out details of the economic relationship. In addition, following the completion of the Uruguay Round average industrial tariffs between the partners are low and a high proportion of trade is already duty free. Despite occasional trade disputes, most of this trade is trouble free. However there are many ways in which trade and economic relations can be further facilitated e.g. by removing existing impediments. Some can be advanced on a bilateral basis, others will be best handled in the multilateral context. Tariffs are by no means the most important of the remaining impediments.

The fact that the EU and the US are the two biggest economies in the world affects their relationship. Policies pursued in each economy exert a major influence on the other and on global growth prospects. It is the responsibility of both partners to take account of these effects in their strategy in order to contribute effectively to international economic stability. This warrants a dialogue which should encompass not only the traditional area of trade but also macroeconomic issues. Moreover it involves participation in and follow-up of international initiatives on subjects of global concern such as growth, the environment,

population trends.

The multilateral trade agenda

In working together to achieve the successful completion of the Uruguay Round the EU and US have shown that where they co-operate and aim at the same goal, they can achieve considerable progress. The common commitment of the EU and US to uphold the multilateral process and to establish the WTO on a solid basis is crucial to the future of the open world trading system and is the basis for healthy economic bilateral relationships. Both parties need to work together to build the WTO into a strong, objective and decisive body. The EU is concerned by US tendencies to prefer unilateral and special bilateral arrangements over the multilateral and must use its relationship with the US to stress the advantages for both parties of the multilateral approach and the damage done by the use or the threat of using unilateral measures. The EU will therefore continue to oppose such unilateral measures. The EU is already committed to remaining open to the world, while at the same time developing WTO-compatible trade relations with its neighbours to the East and South, as well as with key partners further afield. In considering any new regional agreements, both the EU and US will need to ensure that they are compatible with WTO rules and, more broadly, do not risk undermining the multilateral trading system.

The EU and US should now concentrate on maintaining the momentum of the multilateral process working together on a new agenda for further world trade liberalisation. The first priority is to complete the unfinished business of the Uruguay Round in areas such as telecommunications and maritime services. The EU must also seek to re-engage the US in the multilateral process designed to achieve a comprehensive agreement on financial services. Then there are the issues already identified by the Community as priorities for further work - investment, the relationship between trade and competition, the environment and social policy. The agreement reached by OECD Ministers in May to begin negotiations on a multilateral investment agreement and to begin discussions in WTO marks an important start to a new phase of liberalisation.

In addition to this busy agenda there are other areas which the EU and US could explore with a view to maintaining the momentum of liberalisation and providing a further stimulus to world trade. These include further tariff reductions, harmonisation and simplification of rules of origin, including further negotiations on intellectual property rights, government procurement, strengthening of subsidy disciplines and promotion of deregulation. The EU and US can act as motors for international change and can contribute significantly to the multilateral process. Both partners should also seek to work together to bring countries such as Russia and China into the WTO. As the G7 Summit recognised, we need to develop an ambitious agenda on these lines for the December 1996 WTO Ministerial meeting in Singapore.

Another area which should continue to be addressed is US involvement in the European Energy Charter Treaty, a multilateral treaty to encourage trade, investment and co-operation in energy. A total of 49 states including all Member States as well as Japan and Australia and the European Communities, have signed the treaty. Despite participating in all the negotiations the US has not yet done so.

Recommendations

- *to make a concerted push with the US over the next year or so to identify the scope for further liberalisation and deregulation worldwide*
- *To build up the WTO by completing unfinished business, developing the new WTO work programme and by working together on issues such as the accession of Russia and China to WTO*
- *to oppose unilateral action by the US*
- *to ensure that all new regional arrangements are WTO compatible and would effectively strengthen the multilateral trading system*

The bilateral trade agenda

Without in any way detracting from EU-US co-operation in multilateral fora, which remains a central and integral building block of the bilateral relationship, there are areas of economic activity across the Atlantic where trade and investment flows could be facilitated by appropriate decisions taken on a bilateral basis by the EU and the US. The business community needs to be involved in identifying areas where action is needed. A number of ongoing problems need to be resolved and the development of an early warning system should be further strengthened. At present there are many bilateral negotiations underway which are seen to be of limited relevance, confined to certain sectors and activities, without being fully appreciated in their wider context as part of a strong and constantly evolving EU-US partnership.

Any re-appraisal of EU-US relations should include drawing these different strands together into an overall approach, setting a clear timeframe for the conclusion of negotiations and giving sufficient political backing and momentum to the process to attract public and political as well as business attention. Such a process will be worthwhile in itself but can also serve to provide the building blocks for possible future initiatives once sufficient political and technical consideration has been given to the form and direction of closer economic relations. The degree of openness that already exists in economic relations between the EU and US and the scope for further enhancing relations and removing the obstacles that stand in the way is such that it is not too ambitious to envisage a major new initiative in EU-US economic relations.

Towards a Transatlantic Economic Space: creating the building blocks

A new concept is needed to draw all of these elements together : a Transatlantic Economic Space. This should provide an overall framework within which existing and new initiatives become part of a coherent, political drive towards closer economic relations. What now needs to be done is to identify precisely the areas where bilateral agreements can be realistically achieved which would remove existing obstacles or otherwise enhance transatlantic economic activity. In this way the building blocks for a Transatlantic Economic Space can be created.

There are many areas of current or potential co-operation such as customs co-operation, science and technology, the information society, intellectual property rights, aviation and maritime transport, steel, public procurement, biotechnology, competition policy etc which could benefit from the building block approach. However, given the size of the Union and of the United States, such a Space would have to take into account its effects on the development of the multilateral system of trade - and on trade by and with third countries - as well as the perception of their agreement by the rest of the world.

One of the obstacles to trade most frequently cited by business on both sides of the Atlantic is the absence of mutual recognition of standards, certification etc. The EU and US often have different philosophical approaches to the same issues and find different regulatory responses, thus complicating the operation of businesses which trade in both markets. As a first step towards resolving some of these difficulties, a recent sub-Cabinet level meeting between the EU and US agreed on principles for regulatory co-operation. The aim is to enhance (or where necessary establish) co-operation on technical issues for regulatory projects of joint interest, to make greater use of each others' technical infrastructure to provide early warning of divergent or incompatible regulatory initiatives which may have trade implications. In a number of sectors negotiations are underway aiming to reach agreement on mutual recognition of conformity assessment. This would not change standards on either side of the Atlantic but would enable firms to seek certification for both EU and US standards with locally based testing and certified bodies. The negotiations are currently looking at, inter alia, telecommunications, electrical safety, pharmaceuticals and medical devices. Every effort should be made to conclude these negotiations by the end of 1995. The same principles and techniques can then be extended to many other areas, such as differences in legal and commercial practices.

In the period up to the end of December 1995 the Commission proposes to work with the US Administration to draw up a list of specific objectives to be achieved within a clear timeframe in a range of areas such as those listed above. These could then be submitted to the Council for political approval of the objectives and the agreed action plan could be considered by the EU-US Summit due to take place in December 1995.

It is clear from the above that there are many different options when it comes to choosing the building blocks for a Transatlantic Economic Space. The possibility of including a Free Trade Area component in a Transatlantic Economic Space is a further such option which has attractions but also has a number of drawbacks and therefore deserves serious further study.

Free trade areas involving the elimination of duties and other restrictive regulations of commerce on substantially all trade between the parties can be a way of promoting further international trade liberalisation provided they are compatible with the rules of the WTO. The Commission has recently set out its views on free trade areas in a Communication to the Council¹. Given the recent conclusion of the Uruguay Round it remains to be seen whether there is realistic scope for further tariff cuts between the EU and the US. No informed political decision on whether or not to envisage a transatlantic free trade area at some stage in the future can be taken without first undertaking detailed economic analysis of the existing

¹ Sec (95) 322

tariff levels, the likely gains and losses which would result from their removal, the impact on particular sectors and the possibility of their partial exclusion from a free trade area as well as an assessment of the likely trade creating/trade diverting effects of such a Free Trade Area, and the implications of the creation of so large a free trade area for the multilateral trading system.

The Commission is currently carrying out a technical study designed to provide the elements necessary for political consideration of the issues involved. A similar study is underway in the US. In order to ensure that there is agreement on the basic facts consideration could be given to carrying out during 1996 a joint EU-US feasibility study on the advantages and disadvantages of a transatlantic free trade area. Such a study could also look at the feasibility of making membership of any such area open to third parties.

It is becoming increasingly important to ensure that transatlantic competition policies do not diverge in their application. The recent EU-US Competition Agreement represents an important step in closer co-operation. Consideration should also be given to building on this co-operation with a view to reaching a greater compatibility between the regulatory systems of the EU and US markets. One consequence of the creation of a Transatlantic Economic Space would be that the use of anti-dumping and countervailing duty measures by one side against the other could be gradually rendered unnecessary. This is a longer term objective. It is noteworthy that anti dumping and countervailing duties have been maintained in the US-Canada Free Trade Area and in NAFTA.

The concept of a Transatlantic Economic Space is also relevant for new Information Society services. Information Super-Highways are such that geographic borders will no longer act as natural barriers to trade in services. Since the economies of the EU and the US are service-driven, it is essential that the principle of mutual recognition be applied in the field of services regulation in order to allow the economic benefits of the Information Society to be attained. Bilateral discussions on this issue should therefore take place as soon as possible.

Recommendations

- *to seek to resolve ongoing problems and to strengthen the early warning system with a view to preventing the emergence of future problems*
- *to identify potential building blocks for the creation of a Transatlantic Economic Space*
- *to make as rapid progress as possible in creating them, especially in the current bilateral negotiations*
- *to consider further the possibility of including a free trade area component by means of a joint EU-US feasibility study to be carried out in 1996*
- *to further develop co-operation on competition policy.*
- *to enter into bilateral discussions on mutual recognition of services regulations.*

Macro-economic issues

There are at least three reasons to strengthen the dialogue on macroeconomic issues between the United States and the Union as soon as possible.

A macro economic framework which helps to avoid excessive and unpredictable fluctuations in financial and currency markets would contribute to the harmonious development of trade between the EU and US. The recent G7 Summit in Halifax pointed out the risks that such fluctuations present for a sustainable, non inflationary growth as well as for the continued expansion of international trade. It is in the interest of the EU and the US to work more closely together in favour of such a framework. Moreover the development of EMU and the introduction of a single currency will have far reaching implications for the international monetary system. It is in the interest of the US and of the EU to make sure that the introduction of the single currency contributes to the stability of the international monetary system. Furthermore, the orientations chosen for the budgetary policies of the Member States and of the US exert a reciprocal influence on economic developments in these countries and are of major importance for international macroeconomic equilibria. Since the coming into force of the Maastricht Treaty, the broad guidelines of economic policy of the Member States are adopted by the Council, after discussion at Heads of State level. Furthermore the orientations of the budgetary policy of the Member States is subject to a Community discipline. These factors taken together make it advisable for the EU and the US to conduct a dialogue, at an appropriate level, on their respective orientations concerning macroeconomic policy.

More and more medium term, structural issues with substantial economic aspects appear on the international agenda, including on the Community agenda. The two most prominent issues are employment and the need to reconcile growth with environmental protection. In both domains, the Union is currently preparing political initiatives. Concerning employment, on which a bilateral dialogue has already commenced in the sub-Cabinet framework. Member States are due to establish pluriannual programmes, to be assessed by the Commission in co-ordination with the Council before the end of the year. The relationship between growth and environment and its political implications are currently discussed by the ECOFIN Council on the basis of a Communication to the Commission. A more intense dialogue with the US on the economic aspects of these two issues and on their implications for economic policies would contribute to deepening the common understanding of these issues.

The US and the EU implement a comprehensive economic and financial strategy in their relationship with third countries. Both parties are deeply involved in central and eastern Europe, in the former Soviet Union and in the Mediterranean area. The policies of the Union and its Member States as well as those of the United States often have a major influence on the development strategy pursued by third countries. Both parties use a wide range of instruments: commercial policy, macro-financial assistance, budgetary support, actions in the framework of Bretton Woods institutions aiming at improving the stability of the international financial system and the strengthening of surveillance mechanisms, participation in regional development banks and financing institutions. It is therefore appropriate that the existing dialogue between the EU and the US, which concentrates at this stage mainly on political aspects, be systematically extended to macroeconomic and macrofinancial issues.

Recommendations

- *to extend the agenda of the EU-US Summit to macroeconomic and macrofinancial issues*
- *to envisage a dialogue, at ministerial level, between the US Treasury and the Union represented by the Presidency of the ECOFIN and the Commission*
- *to reinstate the dialogue between the Treasury and the Commission's services aiming, among others, at preparing the contacts at political level between the US and the EU.*

Other areas of co-operation

The range of issues which affect the EU and US is so large that a very broad range of EU policies are potential candidates for co-operation with the US. Some of those fall within the scope of the EU Treaties, others are matters for which the Member States are also responsible. Rather than attempt to compile an exhaustive list of areas where co-operation does or should take place, consideration should be given to highlighting a limited number of such areas which potentially have significant public appeal. The purpose of such an approach is not to give the areas identified a higher priority but to illustrate to the general public some of the ways in which the EU-US relationship can directly affect their lives and through co-operation produce better results than if each partner acted on its own. A number of areas where this approach could be applied are set out as follows :

Environment

Protecting the environment is a double challenge for the EU-US relationship. First of all each partner needs to aim for the highest possible standards in its domestic policy but also to seek to take account of the others interests in formulating and applying policy. In order to accomplish that aim the annually high level EU-US consultations on environmental issues have provided a forum to exchange information and ideas, present strategies and devise co-ordinated positions on a number of important issues. The dialogue has been particularly fruitful in the areas of air pollution, chemicals and biotechnology in which technical groups hold regular discussions. By pursuing this dialogue on a periodical basis and alerting each other at an early stage to new initiatives - many of which will have clear trade implications - environmental regulations can be made more compatible, more protective of the global environment and also potential trade conflicts may be averted.

Secondly the EU and US need to work together to assist the world at large to meet the global challenge of caring for the environment. The need for close co-operation between the EU and the US is most visible in the international negotiations on global environmental matters. The EU and the US acting together in international organisations can be decisive. This includes a number of energy related issues such as the greenhouse effect and nuclear safety in eastern Europe and the countries of the former Soviet Union. A strengthening of co-operation in this area could have

important results, most notably in negotiations concerning the future work of the Commission for Sustainable Development (CSD), the Intergovernmental Panel on Forest, those in the Trade and Environment Committee within the WTO, and the Berlin Mandate Group, which will negotiate on the further commitments under the UN Framework Convention on Climate Change.

The regular EU-US dialogue on environmental matters has established mutual understanding on bilateral issues and in international fora. Since environmental considerations are gaining strategic importance in the mainstream of international politics - the trade/environment interface is a case in point. This mutual dialogue needs to be further strengthened.

Recommendations

to strengthen the existing framework for regulatory co-operation in the environmental area, paying due attention to cost and efficiency aspects when setting up new schemes.

to extend co-operation in the chemical area by including additional aspects, in particular the issue of Prior Informed Consent

to implement a new phase of co-operation in the area of biotechnology

to explore the possibilities of finding comparable emission test procedures and standards for cars, trucks and other mobile sources which could eventually lead to similar technical requirements in more and more sectors of the type approval, and to include common work in international bodies (UNECE) as a means to decrease emissions from all kinds of mobile sources

to consult regularly before High Level International Meetings, and to co-ordinate negotiating positions with a view to furthering progress at the multilateral level.

Information Society, Information Technology and Telecommunications

The development of advanced communication and information technologies are leading the world to a Global Information Society. This will be the backbone of the economy in the future. The EU and US alike recognise the importance of improving global interconnection and interoperability of information networks and services. The G7 Conference held in Brussels on 24-25 February 1995 and the two dialogue meetings on the Information Society held in November 1994 and July 1995 have helped reinforce views and paved the way to further co-operation in international fora vis-à-vis OECD, GATS, NGBT etc.

However key issues having an impact across the world on telecommunications (ie global satellites, standards, IPR linked to multimedia) need further co-operation rather than the unilateral approach that the US has so far undertaken.

Recommendations

- *to strengthen co-operation on regulatory issues having a global impact i.e. satellites*
- *to strengthen co-operation in the fields of standards and research for the important interoperability of networks, services and information technologies*
- *co-operate in order to make the best of OECD work on the subject.*

Social Policy and Employment

The G7 Summit in Detroit raised the profile of employment on the international agenda and since then the Commission has maintained contact with the US Administration. A teleconference was held in April 1995 to discuss financial incentives to create jobs, and the Halifax G7 Summit reiterated the urgent priority to create good quality jobs and reduce unemployment. During meetings over recent years between the President of the US and the President of the Commission, social issues and employment in particular, have been discussed regularly. There is clearly scope for further bilateral contacts with the US in the context of implementation of both the White Paper on growth competitiveness and employment and the White Paper on social policy.

Equally a range of social policy issues, such as industrial relations, health and safety at work, public health, social protection and equal opportunities have received much attention on both sides of the Atlantic. Here again, there is scope for building further co-operation.

A particular example is the challenge posed by the ageing of their societies. Managing this transition throws up a huge number of opportunities and challenges. The impact on the health care sector, on public finances, on transport, on employment, on information technology are among the more obvious areas where the EU and US systematically exchange information as to the nature of the problems and evolving policies for dealing with them, as well as consider the possibility of co-operation for specific purposes. Furthermore, the ageing of population will also have implications for the equilibrium of public finances, in the EU as in the US, and consequently for the investment/saving ratio in the world. It is therefore in the interest of both partners to co-operate in the preparation of political responses to these developments.

Recommendations

- *to pursue exchange of information and discussions with the US in the field of employment*
- *to explore further with the US the possibility of developing a more systematic exchange of information and identification of areas of further co-operation on social issues.*

to examine the usefulness of a joint study with the US on the ageing of the population and to co-operate in order to make the best of OECD work on the subject.

Justice and Home Affairs

Apart from building on the initiative, launched at the EU-US Summit in Berlin in July 1994, for co-operation in the fight against organised crime and drug abuse, the EU and US could also usefully explore the possibilities for co-operation on immigration and asylum issues. These are areas where the EU and its Member States on the one hand, and the US on the other, have both shared interests and responsibilities and different experiences based, among other things, on history and geography. Comparing these experiences as well as co-ordinating approaches to new developments could be of real benefit to both sides.

to explore possibilities for co-operation in the fight against organised crime and drug abuse as well as on immigration and asylum

Science and Technology

The EU and US have been co-operating for many years in the area of science and technology. At first, co-operation was limited to nuclear research. Later it expanded into other areas, such as renewable energies, minerals technologies and biotechnology, but the accent still lies on the nuclear sector. Co-operation takes place under a number of bilateral agreements as well as through informal contacts and exchanges of information.

Over the years both sides have felt the need to upgrade their co-operation and to give it a better structure. This led to the establishment of the EU-US Joint Consultative Group on Science and Technology in November 1990.

However both sides continue to feel the need for widening the areas of co-operation and for a clearer situation as regards mutual access, intellectual property rights protection, equal treatment etc. In May 1994 the US State Department proposed to the Commission the negotiation of a Framework Agreement for Science and Technology Co-operation. This proposal still is the subject of exploratory discussions between the two sides.

Recommendations

continue the discussion of a comprehensive S&T co-operation agreement, including the examination of the possible benefits for the EU, the areas to be included and the modalities and conditions for co-operation

in the meantime further develop co-operation under the existing specific co-operation agreements, while renewing those that have expired;

examine and exploit opportunities for co-operation at the multilateral level

Education and Training

Following a two-year exploratory phase of co-operation in higher education, a draft Agreement for co-operation in higher education and vocational education and training has been negotiated and is now before the Council and Parliament for decision. The main activity proposed is the provision of seed-funding on a competitive basis for a limited number of EC/US joint consortia projects. Through the stimulation of innovative forms of transatlantic co-operation and the sharing of experience, the aim is to improve mutual understanding and bring balanced benefits on both sides. Other actions within the draft agreement provide a framework for developing other complementary modes of co-operation in education and training.

Transport

Both the aviation and maritime sectors offer opportunities for closer EU/US co-operation.

In the maritime sector, the US has a considerable marine interest and the EU fleet is still significant in global terms. The EU and US have common interests, in particular in areas such as safety, crew qualifications and market access.

The US has already indicated its interest in negotiating with the EU in the aviation sector. In 1992, over 30 million passengers travelled between the EU and the US. At present, a network of bilateral agreements between individual Member States and the US govern this trade. So that Member States are able to gain the additional benefits from acting together in this area, the Commission has already proposed that there should be an EU/US aviation agreement. The aim being to obtain full and equal access for US and Community carriers to the US and Community markets. This would bring benefits to consumers and airline companies on both sides of the Atlantic, and could be a first step in building much closer EU/US links in this area.

Information and Culture

Informing the general public about developments in the EU and US as well as of the mutual benefits of closer relations is an essential part of the dialogue. For example, decision makers and opinion formers in the US need to be aware of the process of European integration and of its impact on international security and economic relations. The Commission is currently preparing a medium-term communications strategy in relation to the US which will be designed to meet some of these needs. Greater understanding can also be achieved through the strengthening of cultural activities and links between people on either side of the Atlantic.

Urban Decay

Given the importance which urban problems hold for the EU and for the US which has given rise to the development of major programmes aimed at tackling problems in crisis areas, as well as the increasing importance of the urban dimension in EU policies such as environment, energy, transport and social policy, it is proposed that a system should be set up to provide for more systematic exchange of experience between the EU and US. This could take the form of an annual forum involving the relevant Community and US federal administrations as well as high level outside experts.

OTHER LINKS

It is important to involve a wide range of participants on both sides of the Atlantic for a number of important reasons. Firstly to provide a clear signal of the seriousness of intent with which both the EU and the US are proceeding with the process of updating the relationship. Secondly, in order to provide both the EU and the US with fresh ideas of practical value which can be taken aboard in the process of updating. Thirdly, meaningful progress cannot be made without substantial non-governmental involvement.

The business community, parliamentary and Congressional opinion, the academic world and major foundations are among the sectors of society that should be included in this process.

Parliamentary links

As the section in this Communication on political dialogue shows there are arrangements for extensive EU-US consultation at Ministerial and administrative level. However there is also a need to involve elected representatives in discussions about how to strengthen the relationship as well as on the issues of the day. The new generation of elected representatives in Europe and in the EU is less deeply rooted in their belief in the primacy of EU-US relations and more regular contact between the two sides would contribute to better understanding. Some formal links already exist. For example, the North Atlantic Assembly meets to discuss NATO related issues. A delegation of the European Parliament meets regularly with the International Committee of the House of Representatives, and some national EU parliaments have their own links. However there seems to be a need for a forum which brings together both Houses of Congress, members of the European Parliament and representatives of EU national parliaments to discuss the full range of EU-US relations. A decision on this issue is essentially one for the parliaments themselves to take, but there is no reason why the EU and the US Administrations should not consult parliamentary leaders on both sides to see whether the creation of such a forum is considered to be a useful step and to discuss how it could relate to the updating of the EU-US relationship as it develops.

Involving The Business Community

Many organisations exist to foster contacts between businesses in the EU and the US and these regularly contribute to the identification of policy areas where action is needed. Recent soundings taken on both sides of the Atlantic reveal a desire among business leaders for a forum which brings together the Commission and the US Administration and business leaders in which transatlantic business developments can be discussed. As a result of these expressions of interest the Commission and the US Administration have decided to launch a Transatlantic Business Dialogue which will hold its first Conference in the autumn of 1995. The Dialogue will allow business leaders to identify problems and opportunities which should be tackled by the public authorities. The high degree of convergence on both sides of the Atlantic in terms of preliminary identification of areas for action has already proved to be of value in helping both administrations to set priorities for their own and the bilateral agenda.

Recommendations

to consult European Parliament, EU national parliaments and Congressional leaders as to their interest in creating a joint forum, and if the response is positive, to discuss how such a forum could be involved in the ongoing updating of the EU-US relationship

to proceed with the Transatlantic Business Dialogue conference in autumn 1995 and to consider how to develop the Dialogue further in the light of that conference

to consider further with the US the possibility of developing new fora for Transatlantic dialogue in the academic community and other sections of society.

The longer term

As has been said, some of the components of a revitalised EU-US relationship will take time to mature, particularly those in the area of security policy. Therefore any overall formalisation of the relationship cannot be envisaged in the near future. On the EU side, for example, the IGC will in any event need to be concluded before the nature of such a formalisation could be given serious consideration. However once the various components of a new relationship are in place it will then be possible to consider the desirability of bringing them all together in a single solemn Agreement such as a Transatlantic Treaty.

CONCLUSION

The EU-US relationship is complex and is changing. It needs to find new ways of working together and of being seen by the public as relevant and enriching the lives of citizens on both sides of the Atlantic. As explained in this Communication the Commission proposes that over the next six months the Council, Commission and, where appropriate, the US Administration should work towards creating a new framework for the EU-US relationship. Some of the components are already identified and progress can be made now, others can only be decided

in the coming years. However the aim should be to have the EU-US Summit in December 1995 raise the political profile of the relationship and by expressing a clear decision to update all aspects of the relationship and launching the measures which give practical expression to that intent. Such a decision can begin a process which will ensure that the EU-US relationship continues in the next century to fulfil the role and the promise it has shown in the twentieth century.

This Communication started by expressing the view that the EU-US relationship remains central for each of the parties and for the world, whether it is judged in political, economic or security terms. However, it cannot be relied upon to function in the future on the basis of structures and priorities relevant to the Cold War era. Therefore, in their common interest, the EU and US need to invest time and effort in building the framework which will ensure that the relationship continues to function and prosper in the future.

This Communication contains proposals in all of the main areas of the relationship and reflect the institutional responsibilities of the Commission, Council and Parliament. Each of the proposals made would be worth pursuing for its own sake. But for the relationship to be effectively updated it is necessary to put these individual proposals under a common umbrella, thereby showing the seriousness of purpose which both the EU and US bring to these vital tasks. It is therefore proposed that the European Council meeting in December 1995 should formally endorse the EU's wish to update and strengthen its relations with the US in the framework of a structured partnership, covering the areas described in this Communication. In the period up to December 1995 the Commission, Council and, where appropriate, the US Administration will work to develop the proposals set out in this Communication with a view to producing an action plan to accompany a joint statement to be adopted by the EU-US Summit in December 1995.

Recommendations

- *that the European Council in December should formally endorse the EU's wish to update and strengthen its relationship with the US in the framework of a structured partnership and approve an action plan, based on the proposals in this Communication.*
- *that this action plan be submitted in the next EU-US Summit for adoption together with a political statement on the strengthening of the relationship.*

Background note

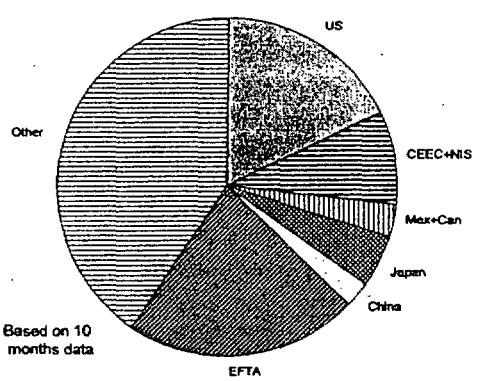
Subject: Key data on EU - US trade

The current status in transatlantic trade

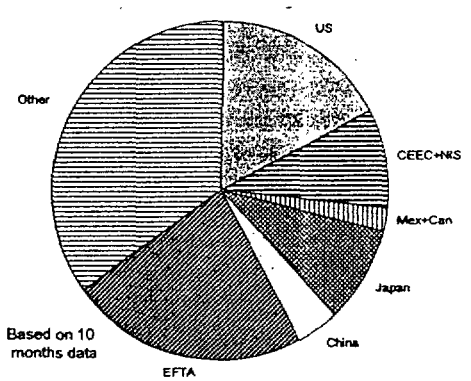
The EU and the US are leading players in the international trade system. Their weight in global trade and their openness to it are roughly equal: both have a 15-20 % share in world trade and both have an export/GDP ratio of about 10%.

For the European Union, the US is the single most important trading partner. In 1994, 17.6 % of EU exports went to the US and 17.3 % of EU imports originated in the US. All the other trading partners of the EU had export and import shares of less than 10%.

EU exports 1994

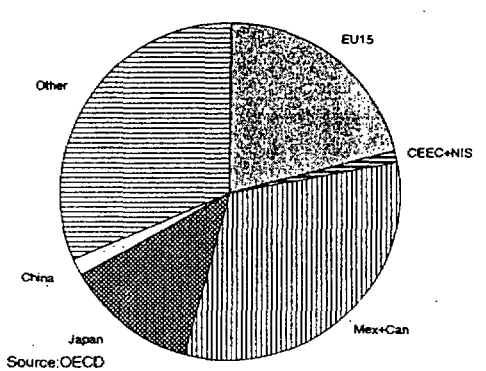


EU12 imports 1994

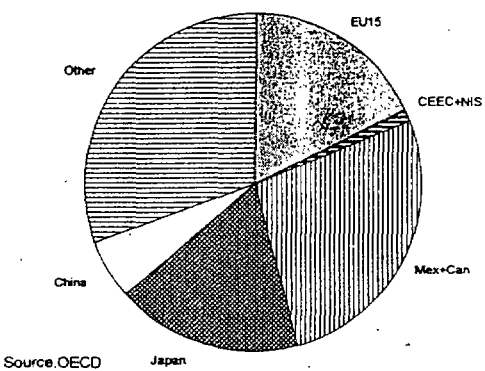


For the United States, trade with the EU is second only to trade with Canada. In 1994 21.8 % of US exports went to the EU and 16.4 % of US imports originated in the EU.

US exports 1994



US imports 1994



Recent trends in EU-US trade

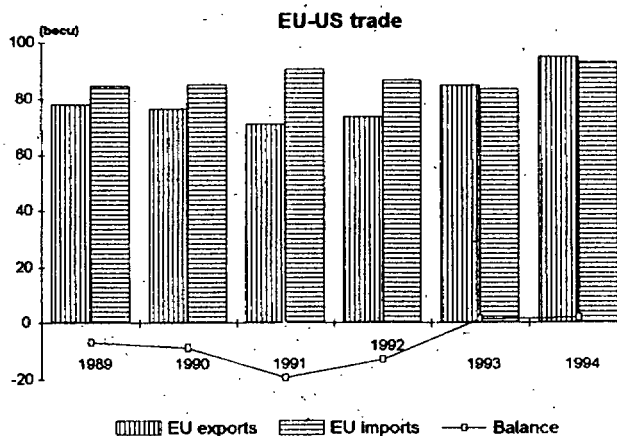
The EU has lost ground as an exporter to the US in recent years. Canada's and Japan's exports have grown much faster since 1990 which means that the EU has moved from top position to third place among exporters to the US market. In relative terms China/ASEAN have shown the fastest growing exports to the US with an increase in their share of US goods markets from 8.7% in 1990 to 13% in 1993. If this trend is maintained, this group of countries will become the third largest exporter to the US in about three years time.

Regarding exports from the US, there is a similar decline in the relative position of the EU: the share of US exports which go to the EU has fallen from 25% in 1990 to 21% in 1993. Canada and Latin America, on the other hand, have increased their shares of US exports and in 1993 Canada became the largest market for US exports with 21.6%. On current trends, Latin America will also, in two years, surpass the EU as destination for US exports.

These trade figures indicate, to some extent, a relative shift from inter-regional trade to intra-regional trade in the case of the US. For EU trade, such a trend only exists on the export side and it is less pronounced than for US trade.

The bilateral trade balance

The balance of EU-US trade does not show any significant or structural disequilibrium. Transatlantic trade flows in goods amounted to about ECU 95 billion in each direction in 1994. This contrasts with the pronounced structural deficit in US bilateral trade with Japan (ECU 60 billion in 1994).



Sectoral trade data show that the single most important category in EU-US trade is "machines, electrical equipment, optical and photographic instruments" which represented 41% of bilateral trade in 1994. The US had a considerable bilateral surplus.

in this category with exports exceeding imports by 28% (ECU 9.4 billion). The US also recorded a surplus on agricultural products with exports exceeding imports by about 30%. The EU had surpluses on transportation equipment; textiles & footwear; and wood, stones & base metals.

Bilateral trade by product group, 1994, billion ECU

	EU exports to US	EU imports from US	EU trade surplus with US
Agriculture + food industry	5.1	6.7	-1.6
Mineral products, oil incl.	3.0	2.5	0.5
Chemical & plastic products	12.8	12.8	0.0
Textiles, footwear & misc. manuf.	7.2	3.3	3.9
Wood, articles of stone & base metals	13.5	9.6	3.9
Mach. & electr. equip. / opt. & photo. instr.	33.6	43.0	-9.4
Vehicles, aircraft & transport equipment	15.4	9.8	5.6
Others	4.3	5.4	-1.1
TOTAL	95.0	93.2	1.8

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