



THE  
EUROPEAN  
COMMUNITY  
IN THE  
NINETIES

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## FOREWORD



AS WE BEGIN 1992, A YEAR OF HISTORICAL SIGNIFICANCE FOR Europe and the United States, it is my pleasure to present this Guide to the European Community in the Nineties.

The Community will fulfill, in the course of this year, one of the important goals of our Founding Fathers - the abolition of internal barriers which divide our twelve member states, and the creation thereby of a Community wholly open to the free and unimpeded circulation of people, services, capital, and goods.

Still more important, 1992 will see great strides towards the "ever closer union" enshrined in our founding Treaties. As we complete the internal market, we will begin to move on immediately to the next steps — economic, monetary, and closer political union.

We will also continue to work closely with our United States partners in helping to build a new world order. Beginning on our doorstep, the nations of Central and Eastern Europe as well as the new Commonwealth of Independent States look to us both, the EC and the U.S., for help and support in the task of rebuilding their shattered economies and constructing durable, pluralistic democracies. Together we will at last realize the vision of a Europe whole and free.

1992 is also a historic anniversary year commemorating the meeting of the cultures of the old world and the new. In celebrating 500 years of shared history, we can appropriately rededicate ourselves to ever closer partnership across the Atlantic in building a world in which all citizens will enjoy peace, prosperity, personal fulfillment, and genuine respect for their rights as individuals.

Yes, we have our differences within Europe and across the Atlantic. Happily they are differences amongst friends, and with good will on all sides we are almost always able to arrive at mutually agreeable solutions.

In visiting cities and towns throughout the United States, I am constantly gratified at the warmth and friendship of the American people towards Europe, as well as the intense interest manifested everywhere in the historic events unfolding on our continent. I hope this short guide will help to introduce the European Community to those of you who are learning about it for the first time, and that it will serve as a useful source of reference for those who are more expert in EC affairs.

Let me assure you that we welcome your enquiries. We are sincerely committed to providing as much assistance as we can to those in search of information about the European Community.

A handwritten signature in dark ink that reads "Andreas van Agt". The signature is written in a cursive, flowing style.

AMBASSADOR ANDREAS VAN AGT  
Head of the EC Delegation to the United States  
Washington, D.C.  
January, 1992



## CHRONOLOGY OF COMMUNITY EVENTS

**1950**

•

**May 9**

French Foreign Minister Robert Schuman proposes placing Europe's coal and steel industries under a common European authority.

**1951**

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**April 18**

Treaty creating the European Coal and Steel Community (ECSC) is signed in Paris by the Benelux countries, France, Germany and Italy.

**1957**

•

**March 25**

Treaties creating the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) are signed in Rome.

**1965**

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**April 8**

Signature of the treaty merging the institutions of the three European Communities.

**1968**

•

**July 1**

Customs union is completed 18 months early. Remaining industrial tariffs between the Six are abolished. Common external tariff enters into force.

**1973**

•

**January 1**

Denmark, Ireland, and the United Kingdom join the Community. Free trade agreements with European Free Trade Association (EFTA) countries begin to take effect.

**1975**

•

**February 28**

First Lome Convention with African,

Caribbean and Pacific countries is signed.

**1979**

•

**March 13**

European Monetary System (EMS) becomes operative.

**June 7-10**

First direct elections to the European Parliament. Direct elections are held every five years.

**1981**

•

**January 1**

Greece joins the Community.

**1985**

•

**June 29**

EC Heads of State and Government endorse a "White Paper" outlining a strategy for creating a true common market by 1992.

**1986**

•

**January 1**

Spain and Portugal join the Community.

**1987**

•

**July 1**

The Single European Act, amending the EC treaties, enters into force.

**1989**

•

**May 21**

President George Bush renews the U.S. commitment to a "strong united Europe" in a speech at Boston University.

**June 26-27**

The Heads of State and Government meeting in Madrid endorse a plan for Economic and Monetary Union.

**July 14-16**

Western Economic Summit in Paris asks the EC Commission to coordinate

Western assistance to Poland and Hungary.

**December 17**

A new political partnership between the Community and the United States is outlined by Secretary of State James Baker in Berlin.

**1990**

•

**October 3**

The five Laender of the former German Democratic Republic enter the Community as part of a united Germany.

**November 20**

The Community and the United States adopt a Transatlantic Declaration.

**December 13-14**

Opening of Intergovernmental Conferences on Economic and Monetary Union (EMU) and Political Union.

**1991**

•

**October 21**

The European Community and the European Free Trade Association (EFTA) agree to form the European Economic Area (EEA), a single market of 19 countries.

**December 9-11**

The European Council meeting in Maastricht agrees to treaties providing for economic and monetary union, and closer political union.

**December 16**

Poland, Hungary and Czechoslovakia sign far-reaching trade and cooperation agreements with the European Community.

**1992**

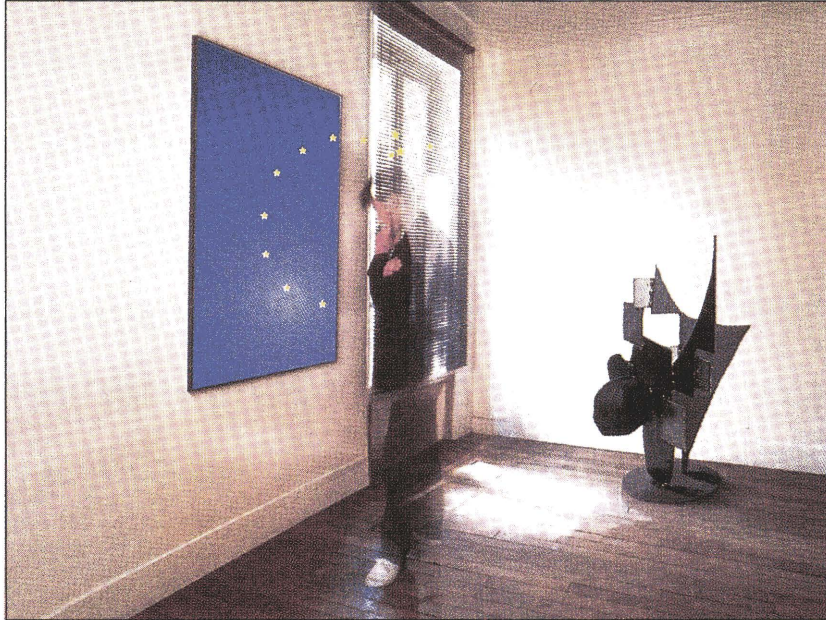
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**February 7**

Treaty of Union and Final Act signed in Maastricht.



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# What is the European Community?

**T**

he European Community provides an institutional framework for the construction of a united Europe. It was created in the wake of World War II, as a devastated Western Europe sought ways to rebuild its economy and prevent future wars. The Community represents a unique relationship between nations. It used to be referred to as the “Common Market” because it is a single trading entity. But it is much more than that. The European Community is a political creation, committed by its founding treaties to seek “an ever closer union among the peoples of Europe,” as stated in the EEC Treaty.

The Community is often compared to the United States, and there are some similarities. EC member countries have agreed to pool some of their sovereign powers for the sake of unity, just as American states did to create a federal republic. In the fields where such delegation of national sovereignty has occurred—for example, in trade and agriculture—the Community acts as a full-fledged country, and negotiates directly with the United States and other countries. EC member states retain their full sovereign powers in such fields as security and defense matters.

Although the U.S. federative model continues to inspire the Community’s search for political unity, Europe will have to construct its own model for unification, ensuring respect for its richest asset—the historical, cultural and linguistic diversity of the European nations.

## The Community’s Origins

**O**n May 9, 1950, the French Foreign Minister Robert Schuman put forward a bold plan for lifting Europe out of the rubble of World War II. Schuman proposed to pool European coal and steel industries as a first step towards a centuries-old ideal that in the past had been attempted or achieved only by



THE EUROPEAN COMMUNITY





posal, signing the European Coal and Steel Community (ECSC) Treaty in Paris on April 18, 1951. The Six set up a novel institution, the ECSC High Authority, to which member governments transferred portions of their sovereign powers. The ECSC was so successful that coal and steel trade between the Six increased by 129 percent in the first five years.

The United States was among the first countries to accredit a diplomatic representation to the ECSC High Authority (and to the EEC and Euratom). Secretary of State Dean Acheson declared that, in matters of coal and steel, the United States would deal directly with the ECSC, rather than with the individual member states.

**European Economic Community and European Atomic Energy Community**

**E**ncouraged by the success of the ECSC, the Six attempted to pursue integration in the military and political fields. A Treaty establishing a European Defense Community (EDC) was signed by the Six on May 27, 1952, and even more ambitious plans for the creation of a European Political Community (EPC) were launched. However, these plans failed with their rejection by the French Parliament in August 1954. European leaders decided to continue the unification of Europe through further economic integration which was relaunched at a historic meeting held in Messina, Italy, in June 1955, by the six Foreign Ministers. They began to negotiate treaties to establish both:

- A European Economic Community (EEC) to merge separate national markets into a large single market that would ensure the free movement of goods, people, capital and services with a wide measure of common economic policies
- A European Atomic Energy Community (EAEC or Euratom) to further the use of nuclear energy for peaceful purposes.

On March 25, 1957, in Rome, the Six signed the treaties creating these two Communities. Both were ratified before

**T**here are three European Communities governed by separate treaties: the European Coal and Steel Community (ECSC), the European Atomic Energy Community (Euratom) and the European Economic Community (EEC).

However, since the three Communities form a single political whole, the expression "European Community" — also abbreviated "EC" — has become common usage, except in legal texts. The new Treaty signed in Maastricht on February 7, 1992, provides a legal definition of the European Community for the first time.

force—a united Europe.

Declaring that "the gathering of the nations of Europe requires the elimination of the age-old opposition of France and Germany," it proposed that Franco-German coal and steel production—at that time every country's war arsenal—be placed under a common authority within an organization open to other European countries. The long-term objective of the Schuman Declaration was to provide a structure to pursue the political unification of Europe through concrete economic integration—starting with coal and steel. According to the Declaration this would constitute the first step towards a European Federation.

Belgium, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands accepted the French pro-



the end of the year by the parliaments of the six member countries.

### Enlargement

**C**ommunity membership, which is open to any European democracy, has doubled from six to twelve since the first treaty was signed.



THE DUTCH CITY OF  
MAASTRICHT WAS THE  
SITE OF THE SIGNATURE OF  
THE TREATY OF  
EUROPEAN UNION,  
FEBRUARY 7, 1992.

On January 1, 1973, Denmark, Ireland and the United Kingdom joined. Norway had signed an accession treaty as well, but its parliament refused ratification after voters rejected accession in a referendum. Greece joined the European Community in 1981, and Spain and Portugal in 1986. On October 3, 1990 the five Laender of the former German Democratic Republic entered the Community as part of a united Germany. Turkey applied for membership in 1988, Austria in 1989, Malta and Cyprus in 1990, Sweden in 1991 and Finland in 1992. The new democracies of Eastern Eu-

rope have also stated their interest in eventual EC membership.

### Political Union

**T**he EC institutions jointly declared on the occasion of the 40th anniversary of the Schuman Declaration, "After forty years of pooled sovereignty between six and later twelve countries, the Community has fulfilled the aspirations of the Declaration's authors: it has become an economic success for its inhabitants, a focal point for Europe and a force for peace in the world at large."

Although the EC's founding treaties confine themselves to the economic sphere, political union has always been at the core of the Community's action. The Single European Act (SEA) of 1987 amended the Community's founding treaties to facilitate concrete progress towards European unity through more majority voting, strengthened common action in the economic and social fields, and increased cooperation in the sphere of foreign policy. The SEA also gave a more prominent legislative role to the European Parliament.

The European Council in Dublin on April 28, 1990 declared that "further, decisive steps should be taken towards European unity as envisaged in the Single European Act." On December 14, 1990, in Rome, EC leaders launched an Intergovernmental Conference on Political Union. Its task was to draft a Treaty incorporating new provisions to give the Community a political dimension commensurate with its economic power and international responsibilities. The Conference, which was conducted in parallel with a separate one on Economic and Monetary Union, concluded on December 11 in Maastricht, the Netherlands, where EC leaders agreed on a "three pillar" Treaty of European Union, establishing a framework for a common foreign and security policy, as well as the legal basis for full EMU. The Treaty was signed in Maastricht on February 7, 1992, and is subject to ratification in the parliaments of the 12 member countries.

In December 1991, President Bush, commenting on the results of the Maastricht summit, reaffirmed United States support for a United Europe: "A more united Europe offers the United States a more effective partner, prepared for larger responsibilities.... A strengthened EC has a vital role to play in assuring a stable and prosperous Europe and a humane world order." In particular, he praised the EC for its assistance to the new democracies of Central and Eastern Europe: "Already today, the European Community and its member states are taking a major role, working with us, to help the citizens of Central and Eastern Europe transform their societies."



“HISTORY HAS MANY MILESTONES. 1992 IS ONE. IT MARKS THE CULMINATION OF AN INSPIRING ADVENTURE, THE EUROPEAN ECONOMIC COMMUNITY, AND AN AWESOME UNDERTAKING, THE TREATY OF ROME. IT MARKS THE BEGINNING OF A NEW ERA, THE AGE OF MAASTRICHT. IT POINTS TO A NEW HORIZON, THE DAWNING OF EUROPEAN UNION.”—*JACQUES DELORS*

RIGHT: SIGNING OF THE TREATY OF UNION AT MAASTRICHT, FEBRUARY, 1992.



CHAPTER  
2

# Community Institutions and Law-Making

The European Community is governed by a quadripartite institutional system, including an Executive Commission, a Council of Ministers, a European Parliament and a Court of Justice. A fifth institution, the Court of Auditors, monitors EC budget spending.

This system, novel in its conception, unique in its assignment of powers, differs from all previous national and international models. It is a Community system in letter and in spirit.

It is different from the U.S. constitutional arrangement, since the Community





THE PALAIS DE L'EUROPE,  
WHERE THE  
EUROPEAN PARLIAMENT  
HOLDS ITS MONTHLY  
PLENARY SESSIONS,  
STRASBOURG, FRANCE.

is not founded on a Constitution, but on international treaties among sovereign nations. The power to enact laws that are directly binding on all EC citizens throughout the EC territory also distinguishes the Community from international organizations.

The Community has been described as a supranational entity. The member states have relinquished part of their national sovereignty to the EC institutions. The member states work together, in their collective interest, through the joint administration of their sovereign powers.

The Community also operates according to the principle of "subsidiarity," which characterizes most federal systems. Under this principle, the Community is granted jurisdiction only for those policies that cannot be effectively handled at lower levels of government, i.e., national, regional, or local.

Overall, the EC system is flexible and inherently evolutionary, since it is supposed to allow for the gradual development of European unification. It is a

system in the making, which has not yet achieved its final form.

### **Commission**

**T**he Commission is the Community's executive and the engine of EC policies. It proposes policies and legislation, is responsible for the administration of the Community and ensures that the provisions of the EC treaties and the decisions of the institutions are properly implemented. It has investigative powers, and can take legal action against persons, companies or member states that violate EC rules. The Commission manages the EC budget, and represents the Community in international trade negotiations.

The 17 Commissioners—two each from France, Germany, Italy, Spain and the United Kingdom, and one from each of the other member states—are appointed for a 4-year term by agreement among the member states. The President and six Vice-Presidents are appointed from among the Commissioners for two years. All terms are re-



newable. The Commissioners act in the Community's interest, independently of the national governments which nominated them. Each is assigned one or more policy areas and each is assisted by a small "cabinet" or team of aides.

The Commission's administrative staff, based mainly in Brussels, numbers about 13,000, divided among more than 20 "directorates-general" and other administrative services.

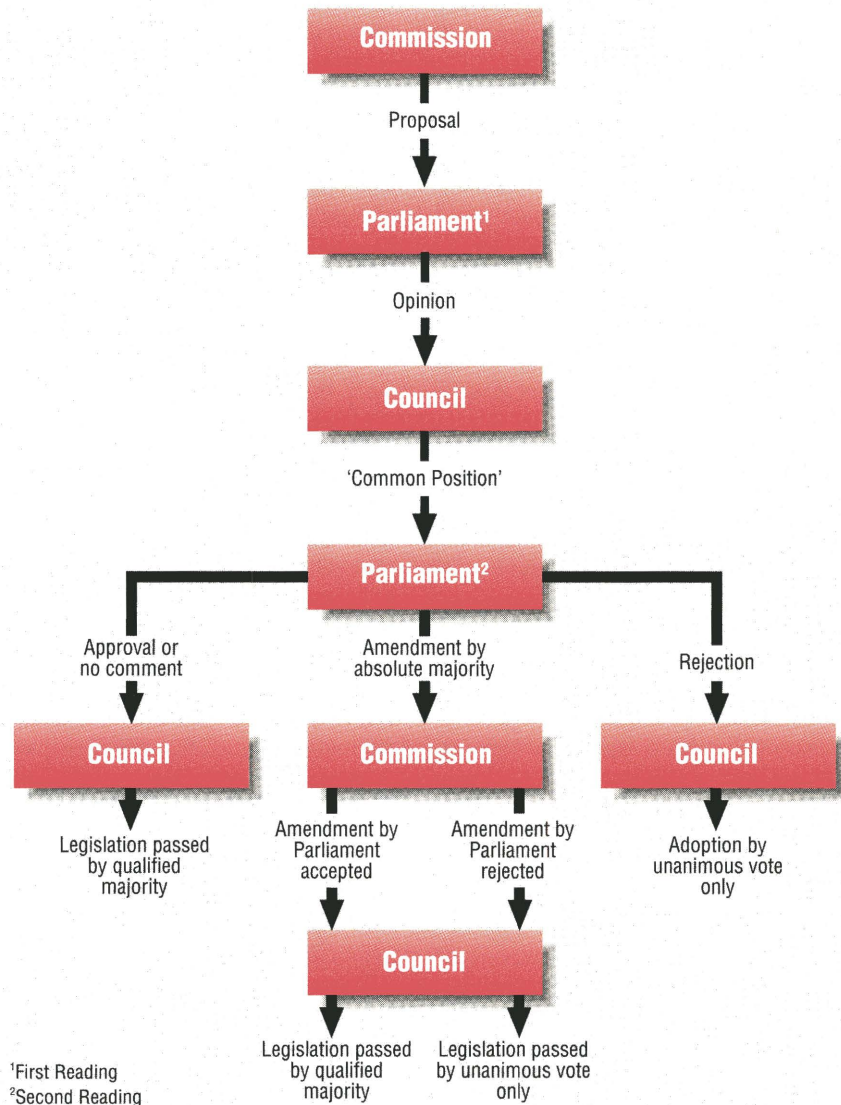
**Council of Ministers**

The Council adopts laws acting on proposals submitted by the Commission. It is composed of Ministers representing the national governments of the member states. Different Ministers participate in the Council according to the subject under discussion. Agricultural Ministers, for instance, discuss farm prices, and Economic and Finance Ministers discuss monetary affairs. The Ministers for Foreign Affairs coordinate the more specialized work of their colleagues. They also discuss foreign policy issues within the framework of European Political Cooperation (see Chapter Five). Each Government acts as President of the Council for six months in rotation.

The Council can take certain deci-

**The Commission President Jacques Delors has been the President of the EC Commission since January 6, 1985. He was previously Minister of Economy and Finance from 1981 to 1983 and Minister for Economic and Financial Affairs and the Budget in 1983-84 in the French Government. In 1979, he was elected to the European Parliament, where he chaired the Parliament's Economic and Monetary Committee. Mr. Delors can claim considerable credit for relaunching the European Community in the 1980s after the stagnation of the 1970s. His international stature has been enhanced through the prominent role he has played in world economic summits and other gatherings.**

**The Interinstitutional Cooperation Procedure**



sions by majority vote, without requiring unanimity. When decisions are taken by majority, France, Germany, Italy and the United Kingdom have ten votes each; Spain has eight votes; Belgium, Greece, the Netherlands and Portugal have five votes each; Denmark and Ireland have three votes each; and Luxembourg has two votes. Out of a total of 76 votes, 54 are needed to approve a Commission proposal and enact it into law. Since the entry into force of the Single European Act, majority voting has been extended particularly in relation to the completion of the single market, research and technology, regional policy and the working

EC  
DECISION-MAKING:  
THE COOPERATION  
PROCEDURE.



environment. Unanimity is still required for the Council to take decisions in certain sensitive areas, notably taxation. The Council can alter the Commission's legislative proposals only by unanimous agreement.

The Council is assisted in its work by the Committee of Permanent Representatives, Coreper, which is composed of member states' government officials holding ambassadorial rank, and by a general secretariat, with a staff of about 2,000 people.

### European Council

The European Council brings together Heads of State and Government and the President of the Commission. It meets at least twice a year, at the end of each EC member state's six-month presidency of the Council. In 1987, the Single European Act formalized the existence of this institution, which was not contemplated in the original EC treaties.

### European Parliament

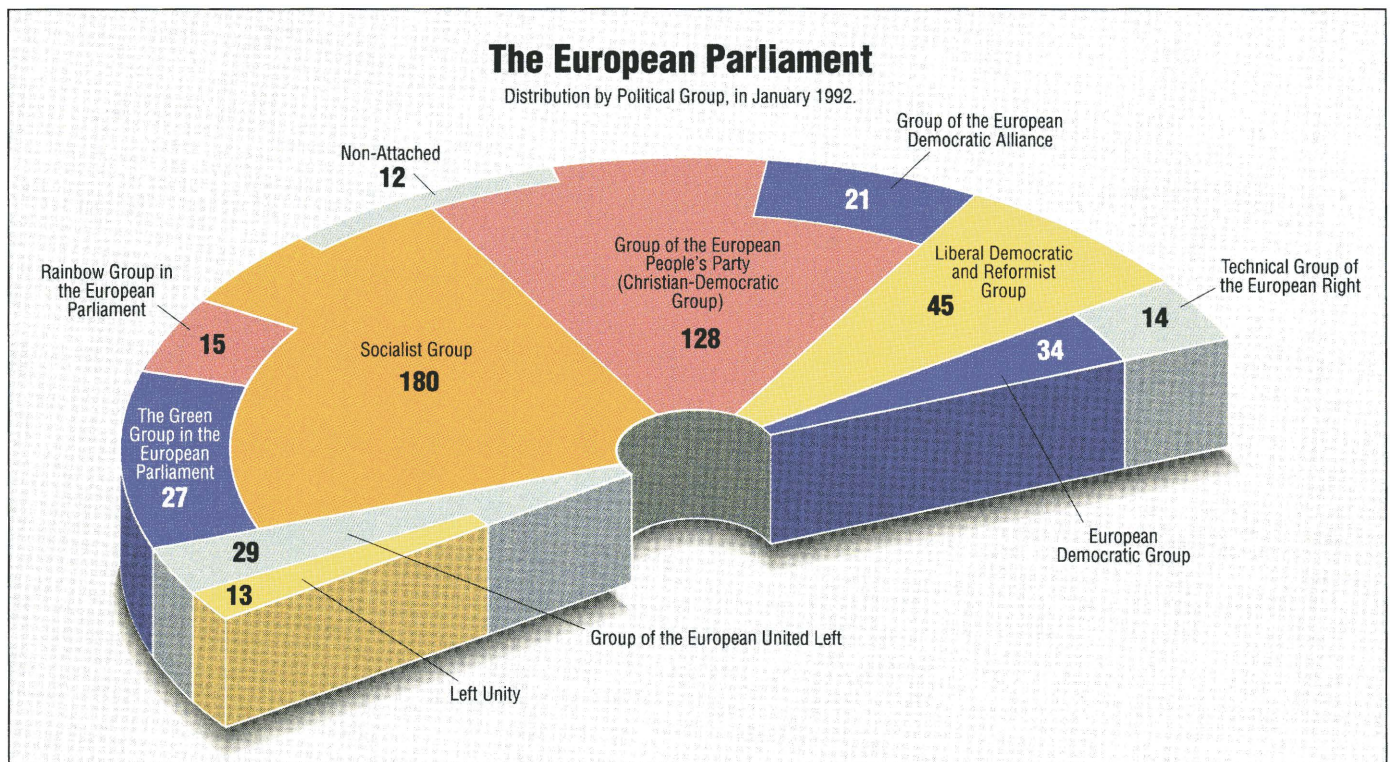
The European Parliament is composed of 518 members, directly elected by universal suffrage for five-year terms. The President of the Parliament is elected for a

term of two-and-a-half years. The members of the European Parliament (MEPs) form political rather than national groups.

Thanks to the **cooperation procedure** introduced by the Single European Act—whereby the Parliament acts in cooperation with the Council and the Commission—the European Parliament enjoys an increased legislative role and has the power to amend proposals for legislation in a number of areas. Through the **assent procedure**, the Single European Act has also given the Parliament a veto power over the accession of new member states and the conclusion of association agreements with third countries.

The Parliament also questions the Commission and the Council. It can amend, or reject, the Community budget. It can also dismiss the Commission through a vote of censure (a power it has never exercised). Revisions to the founding EC Treaty agreed at Maastricht in December 1991 will allow the European Parliament the right to veto legislation in certain policy areas, e.g. the environment (action programs), research and development (framework programs), culture, education, vocational training and youth.

THE EUROPEAN PARLIAMENT  
MEETS IN POLITICAL,  
NOT NATIONAL GROUPS.





The Parliament holds its plenary sessions in Strasbourg. Its 18 committees, which prepare the work for plenary meetings, and its political groups meet for the most part in Brussels.

### Court of Justice

**T**he Court of Justice, sitting in Luxembourg, is the Community's "Supreme Court." The Court, whose rulings are binding, ensures that the treaties are interpreted and applied correctly by other EC institutions and the member states.

The Court is comprised of 13 judges, one from each member state plus a President of the Court, and six advocates-general. Both groups are appointed for renewable terms of six years by mutual consent of the member states.

Judgments of the Court in the field of EC law overrule those of national courts. Through its judgments and interpretations, the Court of Justice has created a body of Community law which applies to EC institutions, member states, national courts, companies and private citizens.

Since 1988 the Court of Justice has been assisted by a Court of First Instance, consisting of 12 members. The new court has power to hear actions brought by EC officials, competition and coal and steel cases, and actions for damages. Its decisions are subject to appeal to the Court of Justice on points of law only.

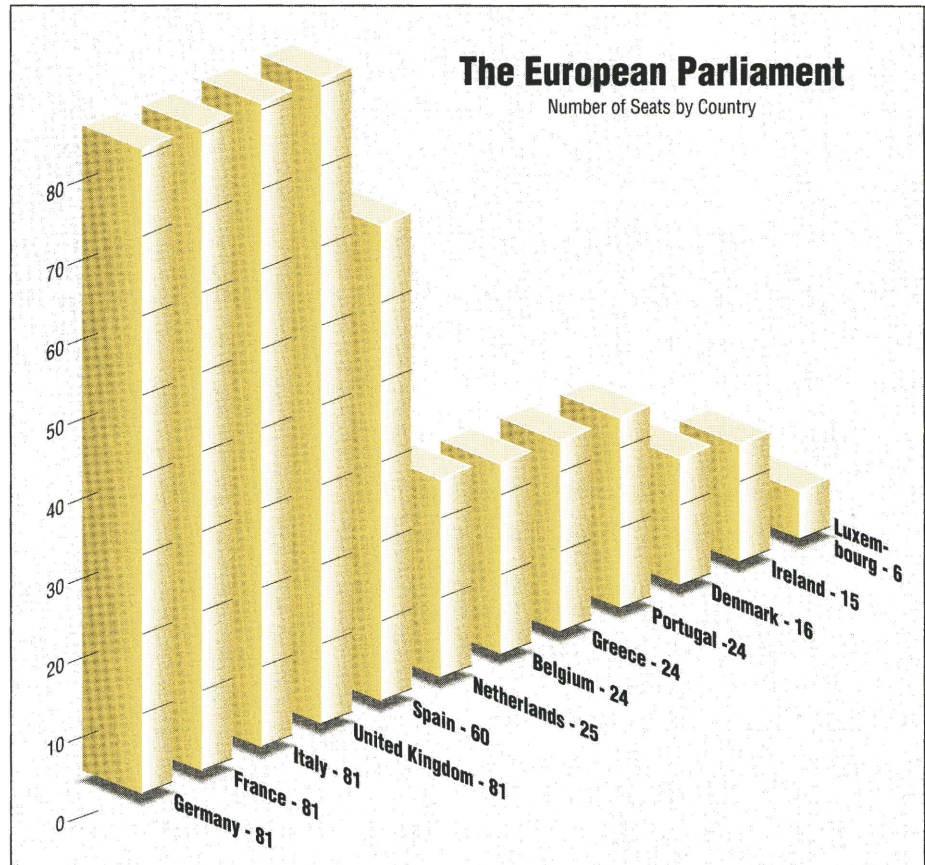
### Economic and Social Committee

**T**he Economic and Social Committee is a 189-member consultative body, based in Brussels. It represents the various categories of economic and social activity, such as labor, employers, agriculture, consumer and professional associations. It is consulted by the Commission and the Council for advice on EC policies and proposals for legislation.

### Court of Auditors

**T**he Court of Auditors, based in Luxembourg, supervises Community expenditures. Its twelve members are appointed by the Council, after consulting the Parliament, for renewable six-year terms.

The Court of Auditors began operat-



ing in 1977. It has extensive powers to examine the legality and regularity of EC receipts and expenditures and the sound financial management of the budget.

### Community Legislation

**E**C legislation takes different forms, depending on the objectives to be achieved:

**Regulations** are binding in their entirety, are self-executing and directly applicable and obligatory throughout the EC territory. They can be compared to federal laws.

**Directives** are binding in terms of the results to be achieved, and are addressed to the member states, which are free to choose the best forms and methods of implementation.

**Decisions** are binding in their entirety upon those to whom they are addressed—member states, natural and/or legal persons.

**Recommendations and Opinions** are not binding.

The ECSC Treaty provides for different legislative forms.

ELECTIONS FOR  
THE 518 SEATS IN  
THE EUROPEAN PARLIAMENT ARE  
HELD EVERY FIVE YEARS.

# A Europe Without Borders—1992 and Beyond

# T

he Founding Treaties stated as the Community's primary goals "a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it" (Art. 1, EEC Treaty). These goals were to be achieved through the progressive approximation of economic policies and the establishment of a common market.

The first step taken by the European Community towards the creation of a common market was to establish a customs union. This entailed removing duties on trade between EC member states and fixing a common external tariff - a process that was completed by July 1968, 18 months earlier than required by the EEC Treaty. The result was a massive increase in trade among the Six - from \$6.8 billion in 1958, when the EEC was born, to \$60 billion in 1972, just before the first enlargement of the Community.

Despite these achievements, some old barriers remained and new ones were erected during the 1970s - a period of poor economic performance and "stagflation" for most industrialized countries. In addition, the Community was preoccupied with the difficult process of adapting to the first enlargement after the United Kingdom, Denmark and Ireland joined. Squabbles over the Common Agricultural Policy (CAP) and the British contribution to the EC budget obscured EC achievements in other areas and seemed to absorb all the Community's energies.



BORDERLESS EUROPE:

CUSTOMS CHECKS

AND OTHER BORDER CONTROLS

AMONG THE EC MEMBER

STATES ARE DUE

TO BE ELIMINATED BY

DECEMBER 31, 1992.





By the mid 1980s, the Community was compelled to admit that its primary aim - the creation of a true common market - had not been accomplished, and that the inability of European business to rely on an integrated market of continental dimensions was the main source of the Community's poor economic performance. The answer was the EC Commission's 1985 White Paper, which mapped out the road for completion of the internal market by the end of 1992.

#### **EC - 1992**

"1992" is an unparalleled exercise in deregulation and liberalization. By December 31, 1992, the European Community will be a true common market, where intra-EC national borders will be no greater a barrier to trade and free movement than state borders within the United States - and in some areas even less. The 1992 program will result in the creation of a unified economic area - without internal frontiers - within which people, goods, capital and services can circulate freely.

The 1985 White Paper listed almost 300 legislative measures needed to eliminate all physical, technical and fiscal barriers still hindering the EC economy, including:

- An end to intra-EC customs checks and border controls
- The harmonization or mutual recognition of technical standards
- The mutual recognition of professional diplomas
- An EC-wide market for services, such as banking, insurance, securities and other financial transactions
- The approximation of the national rates and assessment criteria for the EC's indirect taxes.

The positive impact of these measures was originally expected to produce a medium-term rise in European Gross Domestic Product (GDP) of between 4.5 and 7.0 percent, an increase of between 1.8 and 5 million new jobs, and a lowering of consumer prices by an average of 6 percent. By 1990, the

Community's economy was clearly strengthened, thanks to job-creating growth fed by investment. Since 1984, production has risen by 20 percent and 8.5 million new jobs have been created. EC investment abroad is increasing and has exceeded foreign investment in the Community. Even more important, businesses are devising their strategies as if the single market were already a reality: they are merging, acquiring interests and developing joint ventures with businesses in other member states. European firms are thinking and acting "European."

This new corporate dynamism is not confined to EC firms. Foreign firms, especially from the United States, Japan, and the European Free Trade Association (EFTA), are also positioning themselves to take full advantage of the European single market. For example, they are increasing their direct investment in the European Community and are entering into joint ventures with EC partners.

After an initial period of careful analysis of the 1992 program, during which fears of an emerging "Fortress Europe" were expressed, the United States has voiced support for the completion of the EC internal market. Secretary of State Baker said in his 1989 Berlin speech "We think that Americans will profit from access to a single European market, just as Europeans have long profited from their access to a single American market." In order to make the 1992 project fully transparent and accessible to American businesses, the EC institutions have multiplied their contacts with the relevant U.S. public and private authorities (see Chapter Six).

#### **The Single European Act**

The EC member states signed the Single European Act (SEA) in February 1986. After ratification by the twelve national Parliaments, the SEA entered into force on July 1, 1987. The SEA contains the amendments to the EC treaties necessary to ensure the timely achievement of the 1992 program.

But the Single Act is not limited to the completion of the internal market. It provides for significant developments in economic and monetary policy, so-



cial policy, research and technology, and the environment. The SEA also formalized the procedures for cooperation in the sphere of foreign policy which, although operational since 1970, had never been institutionalized.

Finally, the SEA renewed the commitment to transform relations among the member states into a European Union.

### The External Dimension of 1992

**T**he single market will benefit European and foreign companies alike. After 1992, there will be only one frontier instead of twelve; standards, testing and certification procedures will be either uniform or equivalent; and economies of scale will be possible thanks to the existence of a market of roughly 340 million consumers. It will be an open, not a closed market.

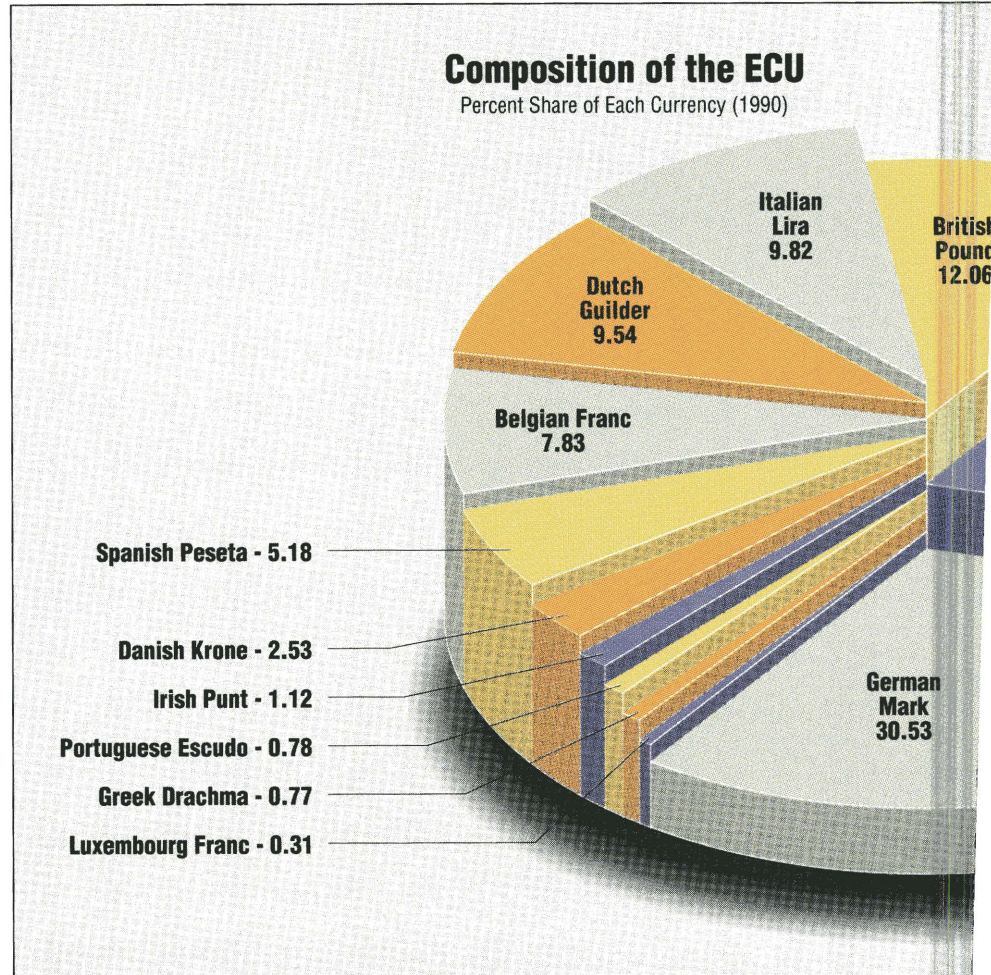
As the world's biggest exporter, accounting for one-fifth of world trade, the Community could not afford to lean towards protectionism. As in previous decades, when each step towards European integration was accompanied by a move toward greater liberalization of the multilateral system, 1992 has been accompanied by EC efforts toward the successful completion of the new round of multilateral negotiations, the so-called Uruguay Round. In fact, 1992 and the Uruguay Round are complementary since both aim at opening world markets.

### Beyond 1992: Economic and Monetary Union

**T**he 1992 single market has opened up new prospects for the Community, including that of Economic and Monetary Union (EMU). Without it, the internal market would remain fragmented by 12 different currencies, involving exchange rate risks and unnecessary transaction costs for citizens and businesses.

EMU is a three-step process. On July 1, 1990, the European Community entered Stage One which aims to improve economic and monetary policy convergence among member states. It has also seen the removal of exchange controls in most member states.

Progress to the next stage has been facilitated by the new Treaty, agreed at

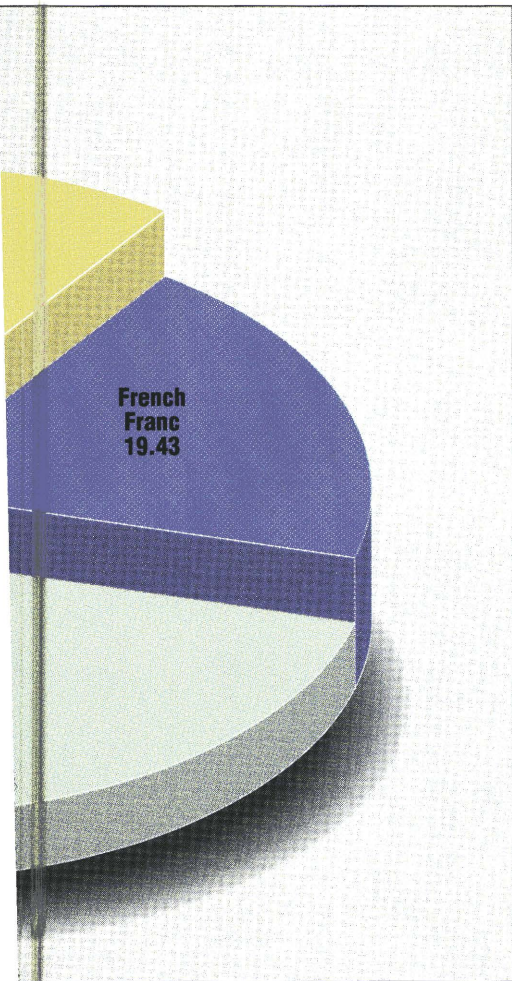


Maastricht in December 1991, and awaiting ratification by the national parliaments. Incorporating the results of the intergovernmental conference on EMU, held during 1991, it provides the legal basis for Stage Two which will commence, as foreseen, on January 1, 1994, and involve the setting up of an interim European Monetary Institute. This will pave the way for a European System of Central Banks at the beginning of the third and final stage, which envisages the introduction of a single currency, probably the Ecu, in qualifying EC countries by no later than January 1, 1999.

Progress towards EMU was also facilitated by the success of the European Monetary System (EMS), which has been operational since 1979 and is recognized as having played a key role in bringing monetary stability to Western Europe. The EMS has minimized the currency fluctuations that hampered intra-EC trade and discouraged Euro-

THE ECU,  
NOW AN ACCOUNTING UNIT,  
IS EXPECTED TO BECOME  
THE SINGLE CURRENCY OF  
THE EC BY THE END  
OF THE CENTURY.





#### WHAT IS AN ECU?

**T**he ECU (European Currency Unit) is a "basket" of specified amounts of each EC currency. Amounts are determined in accordance with the economic size of the member countries, and are revised every five years. The value of the ECU is determined by using the current market rate of each member currency. The average exchange rate against the dollar in 1991 was 1 ECU = \$1.20. All the member states' currencies participate in the ECU basket.

In addition to its functions within the EMS, the ECU is the Community's accounting unit. It has also become popular as a private financial instrument. There are ECU-denominated traveler's checks, bank deposits and loans, and the ECU is used by some businesses as a currency for invoicing and payment. Significant amounts of ECU-denominated bonds have been placed on international markets. The Community launched the first public offering of these bonds in the United States in 1984. Currently, the ECU ranks among the top ten currencies in international bond issues.

**The ECU will probably become the new single European currency within the EMU.**

pean firms from undertaking projects across national borders.

The EMS is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms. Its core is the Ecu (see box), which is used to fix bilateral central rates for the currencies participating in the Exchange Rate Mechanism (ERM).

As of July 1, 1990 - the Start of Stage One - all EC member states had signed the EMS agreement. Greece and Portugal, the only two member states still outside the ERM, intend to join as soon as their economies are strong enough to sustain the required exchange rate discipline.

The EMS has contributed to low inflation, low interest rates, and high rates of investment across the participating countries and helped narrow the gap between the economic performance of the member states.



# EC Policies

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he EEC treaty mandated common policies in certain areas, such as foreign trade, agriculture, competition and transport. In other areas, such as technology and the environment, the member states are developing common strategies in response to economic developments. The Community administers its policies and programs through its own budget.

## Common Policies: Agriculture, Transport, Competition

The Common Agricultural Policy (CAP) was established in 1962, in line with the objectives set out in the EEC Treaty. Its basic aims are to guarantee the security of food supplies at stable and reasonable prices, to improve productivity through technical progress and more rational agricultural production, and to ensure a fair standard of living for farmers (Art. 39, EEC Treaty). Since the CAP's inception, its fundamental objectives have been largely achieved. Food supplies are secure, markets are stable for most products and food costs have diminished as a percentage of the average household budget.

However, the CAP has faced some major challenges. Productivity increases and stagnating demand led to huge surpluses in some sectors, such as the highly publicized "wine lakes" and "butter mountains." The growth in farm surpluses became a heavy burden on the Community budget, since the CAP revolves around a system of price support. Reform was inevitable.

Since the mid-1980s, the Community has adopted a restrictive pricing policy, scaling down EC financial support for products in surplus. Among the many measures taken to make European agriculture more market-oriented, agricultural stabilizers—automatic price cuts—were adopted within the February 1988 "Delors package." Although these helped reduce agricultural spending and some stocks of basic commodities, they did not achieve lasting balance in the sector. Faced with new surpluses and escalating budgetary costs, the Commission in February 1991 called on the Council to fundamentally reform the CAP, and submitted a full proposal to EC agricultural ministers in July. Negotiations are con-



THE EC NOW HAS FORMAL  
COMPETENCE FOR  
RESEARCH AND TECHNOLOGICAL  
DEVELOPMENT.





#### COMMUNITY REVENUE AND BUDGET

**U**nlike international organizations, which rely on their members' financial contributions, the Community has its own automatic sources of revenue. The Community's "own resources" are comprised of a part of the Value Added Tax (VAT) collected by the member states, customs duties on industrial products and levies on agricultural imports, as well as a contribution by each member state based on its Gross National Product (GNP).

The Community budget is adopted every year by the joint budgetary authority (the Council and the Parliament). Compared with national spending, the EC budget is very small, representing approximately 1 percent of the Community's GNP.

tinuing on the terms of the proposal which would introduce price cuts to severely penalize overproduction, sever the link between price support and production, and give direct income aids to small producers in affected product sectors in return for the role they play in preserving the environment and rural society.

The EEC Treaty provides for a **common transport policy**. However, until the late 1980s, individual types of transport—road haulage, railways, inland waterways and aviation—continued to rely on the old national structures. As part of the 1992 program, the common transport policy prescribed by the EEC Treaty is finally being achieved.

Considerable progress has already been achieved for road, air and maritime transport. These sectors are being deregulated through the introduction of the freedom to provide road, air and maritime transport services, better access to the market and the application

#### EC R&D PROGRAMS

- **ESPRIT: European Strategic Program for Research and Development in Information Technologies**
- **RACE: Research in Advanced Communications in Europe**
- **BRITE: Basic Research in Industrial Technologies for Europe**
- **EURAM: European Research in Advanced Materials**
- **SCIENCE: Plan to Stimulate the International Cooperation and Interchange needed by European Research Scientists**
- **SPES: European Stimulation Plan for Economic Science**
- **STEP: Science and Technology for Environmental Protection**
- **DELTA: Development of European Learning through Technological Advance**

of rules of competition.

**EC competition policy** has a dual objective: to prevent member states from distorting competition by giving favored treatment to certain businesses, and to prevent firms from forming cartels or abusing a dominant market position.

Community rules prohibit agreements to restrict competition—for example, fixing prices using a dominant position on the market for unfair advantage. They also place under the Commission's supervision national subsidies (state aids) to individual firms or industrial sectors that could distort the market. The Commission may punish anti-trust violators with heavy fines.

An efficient competition policy has a key role to play in the post-1992 Community, since the expected benefits of the single market—optimal allocation of resources, increased productivity, lower prices and greater employment opportunities—will not be realized unless free and fair competition is ensured.

#### The New Policies: R&D, Environment and Energy

**T**he Community's activities in the field of **Research and Technological Development**



(R&TD) used to be confined to coal, steel and nuclear energy. Since 1974, they have expanded into many other fields. The Single European Act finally gave the Community specific legal powers in this field, which has become crucial to international competitiveness.

Through a pluriannual framework program, the Community conducts its R&TD activities mainly in three forms:

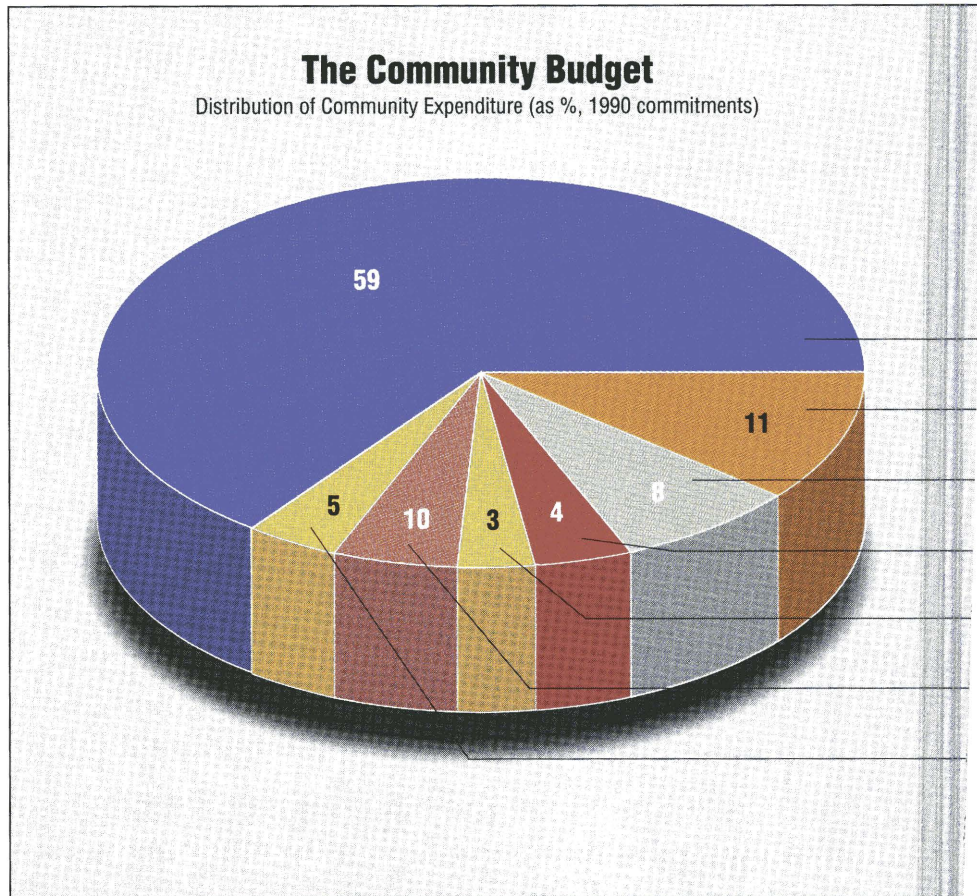
- **In-house research** at the EC Joint Research Centers
- **Shared-cost or contract research** whereby the European Community contributes up to 50 percent of the cost of the research undertaken by firms, universities and research centers
- **Concerted action projects**, where the Community only ensures the coordination of the work carried out at national level.

The European Community is thus promoting scientific cooperation among industry, universities and research centers across Europe to help boost its industrial competitiveness.

The Community also participates in **Eureka**, which is a Europe-wide high-tech venture aimed at developing products—high-definition television, semiconductors, etc.—in response to market demand. Finally, the Community cooperates with its European neighbors, as well as with the United States and Japan, on a variety of other R&TD projects.

The Community's **environmental policy** was launched at a 1972 meeting of EC Heads of State and Government. However, it was not until the Single European Act entered into force that environmental policy was given its own place in the EC treaties. In particular, the Act provides that "environmental protection requirements shall be a component of the Community's other policies," thus bringing environmental policy to the forefront of the Community's priorities.

Since 1972, the Community has developed a substantial body of environmental law, which includes protection against water and air pollution and the harmful effects of noise, as well as the control of risks related to chemicals, biotechnology and nuclear energy. The



European Community also actively protects natural resources, wild flora and fauna through participation in international conventions.

As part of the 1992 program, the Community is establishing stricter environmental standards targetting the polluter ("polluter pays" principle), ensuring the strict implementation of EC legislation, developing investment to improve the environment, and supporting environmental information campaigns.

The EC is also in the process of setting up a European Environment Agency to provide reliable scientific data and evaluations. According to the initial agreement in 1990, the Agency will be open to participation by other European countries. Environmental policy also constitutes a priority within the assistance programs that the Community is providing to Eastern and Central Europe.

In the field of **energy**, since the twin oil shocks of the 1970s, the Community has aimed at ensuring security of en-

THE EC BUDGET  
CURRENTLY COMPRISES  
A LITTLE OVER 1%  
OF TOTAL GNP, AND ONLY  
ABOUT 3% OF  
TOTAL GOVERNMENT SPENDING.



Agricultural Market Guarantees

Regional Policy and Transport

Social Policy

Research, Energy, Industry

Aid to the Third World\*

Administrative Costs and  
Miscellaneous Expenditures

Agricultural Structures and  
Fisheries

\*Excluding expenditure financed outside the budget by the European Development Fund.

#### EUROPEAN INVESTMENT BANK

**A**mong the Community's financial instruments, the European Investment Bank (EIB) provides low interest loans for public and private investment projects that help the Community's poorer regions, modernize industry or introduce new technology, support the Community's energy policy, improve communications and protect the environment. The EIB is playing a major role in meeting long-term financing needs, particularly in anticipation of the 1992 single market.

The EIB's capital, which is subscribed by the twelve member states, amounted to 57.6 billion Ecu as of January 1, 1991. Its lending totalled 13.33 billion Ecu in 1990.

The EIB also finances projects in Mediterranean countries, in African, Caribbean and Pacific nations under the Lomé Convention and, since 1989, in the countries of Eastern Europe.

virtual doubling of the Funds' resources between 1987 and 1993 to 14.1 billion Ecu. The money is allocated among regions that are underdeveloped, affected by industrial decline or unemployment or in need of structural agricultural adjustment. A further increase in these resources is currently under consideration.

#### Education and Culture

**E**ducation and training play a central role in securing a highly trained workforce, which is essential to Europe's international competitiveness.

EC programs include:

•**ERASMUS:** European Community Action Scheme for the Mobility of University Students

•**COMETT:** Community Programme in Education and Training for Technology

•**LINGUA:** Community Action Program to promote Foreign Language Competence in the European Community

•**YES:** Youth for Europe.

The Community's educational programs complement the EC system for the mutual recognition of diplomas, which guarantees professionals the right to practice in any member state, under the same conditions as the host country allows its own citizens.

To help European citizens acquire a revived sense of belonging to a shared **European culture**—rich in its diversity and based on the values of democracy, justice and liberty, the Community promotes the creation of a European cultural area. This entails, for example, the free circulation of cultural goods and services, business sponsorship of cultural projects and a policy on publishing. The Community also promotes the emergence of a European audio-visual industry through the adoption of common technical standards for satellite broadcasting, the "free movement" of broadcasts and the encouragement of the production and distribution of European audio-visual works.

ergy supply and at diversifying its energy product mix. The Community has greatly reduced its dependence on energy imports.

In 1988, the Commission completed an exhaustive inventory of all the remaining obstacles to free trade in the EC energy market. By gradually working towards the elimination of these obstacles, the Community is proceeding towards the establishment of the EC internal market for energy.

The EC has also played a major role in the creation of a European Energy Charter which more than 36 countries, including the United States, the former Soviet Union, Canada and Japan, signed in The Hague (Netherlands) on December 17, 1991.

The Charter, which sets out the principles of pan-European energy cooperation, envisages using Western "know-how" to create a Europe-wide energy network as a means of developing Eastern European energy resources and of aiding the region's reconstruction. The Charter's principles will be imple-

mented through specific protocols.

#### Regional and Social Policies

**I**n the Preamble of the EEC Treaty the member states declared their aim of "reducing the differences existing between the various regions and the backwardness of the less-favored regions." But there is still a wide gulf between the Community's poorest and most prosperous areas. The Community tackles regional and social disparities through the so-called **Structural Funds**, which comprise the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF).

Since January 1, 1989, assistance is targeted to national schemes to stimulate investment and create jobs in less developed regions in accordance with the principle of "Economic and Social Cohesion" mandated by the Single European Act.

The key element in this reform is the



# Europe-World Partner

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he Community of six of the 1950s has evolved from a successful model of economic integration into a major political entity, which is now a strong pole of attraction for many European countries. The European Community plays a major role in shaping the new European architecture that is developing out of the collapse of the Soviet Union.

Since its inception, the Community had wide powers for shaping its economic relations with the outside world through its common commercial policy. Political relations with the rest of the world have been carried out, since 1970, through European Political Cooperation. For example, it is through EPC that the member states have united to condemn human rights abuses throughout the world, to propose a solution to the Arab-Israeli conflict, to impose economic sanctions against South Africa and to encourage the emergence of democracy in Central and Eastern Europe.

## European Community-EFTA Relations

The European Free Trade Association (EFTA) was formed in 1960. Its current members are Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland. Although its combined population is only about 32 million, EFTA is the Community's main trading partner, taking more than 25 percent of EC exports and furnishing about 23 percent of EC imports. In comparison, the United States takes roughly 19 percent of EC exports and provides 19 percent of EC imports.

Since 1973, the European Community and the EFTA countries have gradually established a free trade area for industrial products by abolishing customs duties and restrictions on trade in manufactured goods. The Community and EFTA also cooperate in the fields of science and technology, transport, the environment, and education.

In October 1991, the European Community and EFTA agreed to merge their free trade zones into one European Economic Area (EEA) for people, capital, goods and services by January 1993, pending ratification of a treaty by all 19 national parliaments and approval of the EC Court of Justice. This treaty will oblige the EC and EFTA to share the EC's single market legislation for the removal of



THE SUMMIT MEETING  
OF WESTERN INDUSTRIALIZED  
NATIONS(G-7)  
IN LONDON IN JULY, 1991.





all physical, technical and fiscal barriers to trade. EFTA will adopt in particular:

- EC competition rules in matters of anti-trust, mergers, public procurement and state aids
- EC rules in company law, consumer protection, environment, research and development, education and social policy
- EC rules on mutual recognition of professional qualifications, underpinning the principle of freedom of movement of people.

In return for unrestricted access to the EC's single market of 340 million consumers, and to offset any repercussions for poorer EC member states, EFTA countries will also contribute to the EC's structural funds (see Chapter Four).

The EEA will be the world's largest trading bloc. At present, the EC and EFTA conduct almost half the world's trade. In 1990, they accounted for 47.3% of total exports and 46.4% of imports. EC and EFTA countries will act separately, however, in cases concerning

anti-dumping trade sanctions and participation in international negotiations such as the GATT.

The EEA will be a gateway not only to the EC market, but also to eventual membership for EFTA members. Already, Austria, Sweden and Finland have applied to join the European Community.

#### Central and Eastern Europe

Until the events of 1989, progress in relations between the European Community and state-trading countries of the Council of Mutual Economic Assistance (Comecon) had been slow. By June 1990, economic and cooperation agreements were signed with the Soviet Union, Hungary, Poland, Czechoslovakia, Bulgaria and the German Democratic Republic. An equivalent agreement was concluded with Romania in October 1990.

To speed up the process of reform, and to pave the way for eventual EC membership, the European Community signed a new set of agreements with Poland, Hungary and Czechoslo-

#### EUROPEAN POLITICAL COOPERATION

**E**uropean Political Cooperation (EPC), formalized by the Single European Act and the Maastricht Treaty of Union, is a framework for member states to coordinate their foreign policies. EPC contributes to European unity and forms an integral part of the European identity projected to the outside world. EPC is assisted by a small secretariat in Brussels.

EPC procedures, which have been in place since 1970, are distinct from those of the EC. Within EPC, Community Foreign Ministers and a representative of the Commission meet regularly to formulate joint positions on international issues and to discuss the political and economic aspects of security.

Since the 1991 Maastricht Summit, there is provision for certain EPC decisions to be taken by qualified majority vote. Also, the new Maastricht Treaty makes provision for the first time for the Community to develop a role in security and, eventually, defence. The Western European Union (WEU) will be the vehicle for military cooperation and for the coordination of EC positions within NATO.

vakia in December 1991. Known as "Europe Agreements", they are the most far-reaching of their kind and include provisions establishing:

- political dialogue, through high-level meetings, with the aim (where possible) of coordinating foreign policy positions
- a free trade area, in which people, capital, goods and services move freely. To allow the three countries time to adjust, the agreements include some trade concessions in their favor, and grant transitional periods for fulfillment of other principles (such as the reciprocal right of establishment for professionals and



citizens)

- economic and financial cooperation
- cultural cooperation.

The EC has also played a significant role in the multilateral programs to promote economic and political reform in the countries of Central and Eastern Europe. Since the Western economic summit in Paris in July 1989, the EC Commission has been coordinating Western aid efforts for the Group of 24 (the Community and EFTA nations plus the United States, Canada, Japan, New Zealand, Australia and Turkey). G-24 programs and projects aim to contribute to the growth of a healthy private sector in the new European democracies.

The Community and its member states are the majority shareholder in the \$12 billion capital of the new European Bank for Reconstruction and Development (EBRD), the aim of which is to promote economic development in

the states of Central and Eastern Europe. The United States is also a major shareholder among the EBRD's 42 participating countries.

### The Commonwealth of Independent States

Since 1985, the EC has been at the forefront of efforts to support the former Soviet Union in carrying out political and economic reforms.

In 1989, the EC and the Soviet Union signed a wide-ranging trade and cooperation agreement, granting both partners Most Favored Nation (MFN) status for their exports and targeting key sectors for economic cooperation (standardization, energy, the environment, financial services and farming).

Since 1990, the EC and its member states have been setting up programs to provide the country and constituent republics with emergency food and humanitarian aid, medical assistance, technical assistance, and credit guarantees for the purchase of food and medical products. As of January 1992, the Community and its member states gave about 75% of all Western aid.

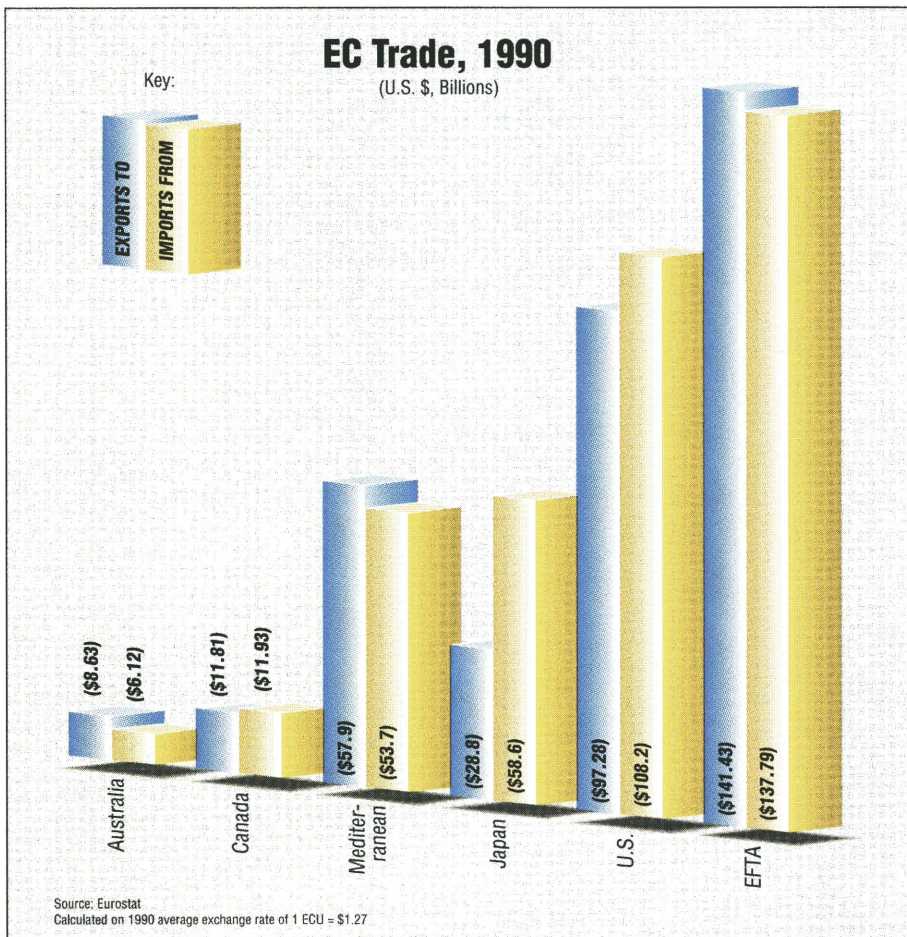
The disintegration of the Soviet Union and the establishment of the new Commonwealth of Independent States (CIS) will entail a review of the various instruments of aid and cooperation. As a first step, the EC in December 1991 adopted guidelines governing recognition of the former Soviet republics and the establishment of diplomatic relations.

### The Mediterranean

The Community has concluded cooperation agreements with twelve countries in the framework of a global Mediterranean policy designed to assist the region's economic development. The accords provide one-way duty-free access for industrial exports to the Community, agricultural trade concessions, financial grants and European Investment Bank loans.

In the northern Mediterranean, the Community signed a cooperation agreement with Yugoslavia in 1980, and association agreements with Turkey (1964), Malta (1971) and Cyprus (1973). In the southern Mediterranean, trade, industrial, technical and financial

THE U.S. ENJOYED  
A TRADE SURPLUS WITH THE EC OF  
MORE THAN \$11 BILLION  
IN 1990, AND A SUBSTANTIALLY  
LARGER SURPLUS IN 1991.





cooperation agreements were concluded with Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria.

Since 1975, the Community has had contact with the Arab countries through the Euro-Arab Dialogue, which covers such areas as technology transfer, investment incentives, trade cooperation, agricultural development, labor problems and cultural exchanges. In 1984, it concluded a non-preferential agreement with North Yemen, covering trade, economic cooperation and development. The Community and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) signed a cooperation agreement in 1988 and are discussing the establishment of a free-trade area.

### The Third World

Since its inception, the Community has been committed to the development of the Third World.

**Lomé, A Model Agreement:** The Community is linked to 69 African, Caribbean and Pacific (ACP) countries by a unique pact that many consider a model approach to North-South cooperation. The Lomé Convention, launched in 1975 and renewed in 1979, 1984 and, for a ten-year period, in 1989, creates a stable legal framework for development cooperation involving negotiations between equal partners. It addresses the ACP states as a group so that aid to individual countries is not affected by political considerations. It provides for permanent dialogue through common institutions, including an Assembly, a Council of Ministers and a Committee of Ambassadors. The Lomé Convention frees the ACP countries from all customs duties on 99.5 percent of their exports to the Community, with no reciprocal concessions for EC exports. The Community's financial aid amounts to \$15.0 billion for the period 1990-1995. The Convention has also set up a system for the stabilization of export earnings (STABEX) and a system to help the ACP countries to maintain their mineral export potential (SYSMIN).

**Asia:** A cooperation agreement covering trade, economic and development

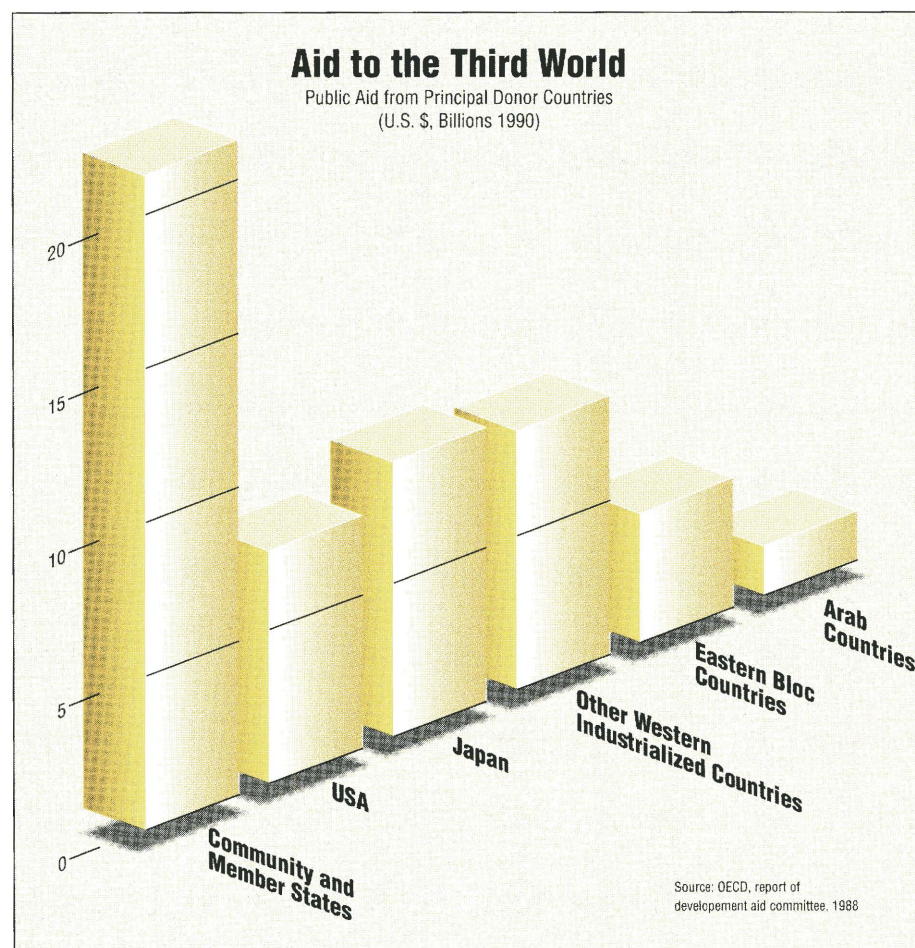
matters was signed in 1980 with the countries of ASEAN, the Association of South-East Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). Contacts between the Community and ASEAN include regular political dialogue.

Between 1974 and 1976, the Community concluded non-preferential trade agreements with Bangladesh, India, Pakistan and Sri Lanka. The agreements with India (1981) and Pakistan (1986) were extended to cover economic and development cooperation.

The People's Republic of China and the Community have had diplomatic relations since 1975. A 1985 trade and economic agreement set the stage for cooperation in sectors such as industry, mining, agriculture, science and technology, energy, transport, communications and environmental protection.

**Latin and Central America:** As a trading partner to Latin America, the Community is second only to the United States, taking roughly 20 per-

THE EC AND  
ITS MEMBER STATES ARE  
THE LARGEST DONORS  
OF DEVELOPMENT AID.





#### THE COMMUNITY AND GATT

**B**ecause of its dependence on international trade, the Community has always been a strong advocate of free trade. The foundation of the EEC provided a major impetus for the far-reaching tariff cuts of the Dillon Round in 1960-61, and especially of the Kennedy Round of 1964-67.

In the 1970s, the EC made an active contribution to the success of the Tokyo Round (1973-79), which lowered tariffs even further and regulated non-tariff trade barriers through specific codes.

The Community has played a leading role in the Uruguay Round of multilateral trade negotiations, which was launched at Punta del Este in 1986 by 105 countries. The Uruguay Round covers such areas as agriculture, tropical products, textiles, services, intellectual property rights, investment, and dispute settlement.

Today, the EC customs duties on industrialized goods are among the lowest within the GATT.

cent of the region's exports. All Latin American countries benefit from a Generalized System of Preferences and other measures that help their exports. The Community and its member states are a leading source of development aid to this region.

The European Community has concluded trade and economic cooperation agreements with several Latin and Central American countries. It has also instituted a political dialogue with the countries of Central America, the Contadora Group and, more recently, the Rio Group, with the aim of promoting democracy, peace and economic development in Central and Latin America.

**Generalized System of Preferences:** The Community's Generalized System of Preferences, the first such scheme to be established in line with the recommendations of the second United Nations Conference on Trade and Development (UNCTAD), has operated since 1971. Under this framework, Third World countries are allowed duty-free exports of a large range of finished and semi-finished goods to the Community.

#### Non-European Industrialized countries

**T**he Community has encouraged Japan to become more integrated into the world economy and to shoulder the responsibilities of a great economic power. To this end, the Community argues that Japan should reduce its export dependency, move towards an economy based on domestic demand and market liberalization and therefore reduce its structural trade surplus on a long-term basis.

The Community aims at reducing its bilateral trade deficit, which in 1990 exceeded \$30 billion. The Community has also taken measures to promote its exports to Japan and has obtained promises, in a number of sensitive sectors, that Japanese exports will be restrained.

EC-Japanese cooperation has been increased in the areas of industry, science and technology, telecommunications and information technology. Japanese investment in the European Community has been rising steadily, espe-

cially in depressed regions.

Political dialogue has also been deepened through the signing of a Joint Declaration by Japan and the EC in July 1991. The Declaration lays down the principles and objectives of EC-Japan relations, both bilaterally and in the global context, and sets out the framework for regular consultations. The Declaration also formalizes the exchange of information on foreign policy.

In 1976, the Community and Canada concluded a commercial and economic cooperation agreement—the Community's first such accord with a major industrialized country. It established mechanisms for cooperation in areas such as trade, industry and science. The two parties also have agreements on nuclear cooperation, medical research cooperation, and fishing. A Declaration on EC-Canada Relations, laying down the principles and framework for consultation and cooperation between the two parties was adopted on November 20, 1990.

#### International Organizations

**T**he Community participates in the work of the Organization for Economic Cooperation and Development (OECD), in which the industrialized countries meet. It has observer status at the United Nations and in some of its specialized organizations. In November 1991, the EC became a member of the UN's Food and Agricultural Organization (FAO).

Since 1977, the Community has taken part in the annual Western Economic Summits with the United States, Canada, Japan and four of its own member states (France, Germany, Italy and the United Kingdom). The Community is represented by the President of the Commission and the President of the Council. It also meets with the United States, Canada and Japan to discuss trade problems in the annual "Quadri-laterals," which were initiated in 1981.





PRESIDENT GEORGE BUSH  
AND COMMISSION PRESIDENT  
JACQUES DELORS  
MEET AT THE  
WHITE HOUSE.

CHAPTER  
6

# The European Community and the United States

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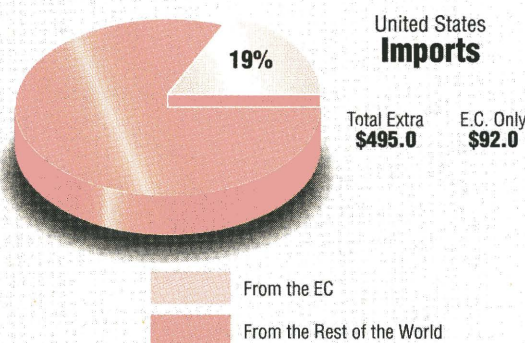
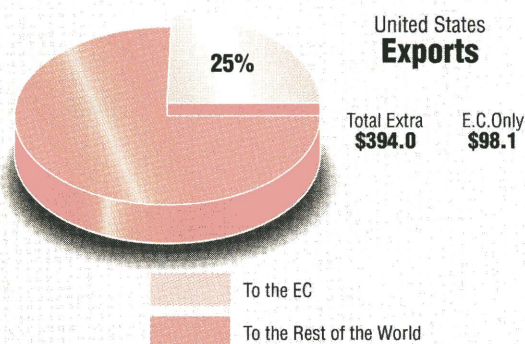
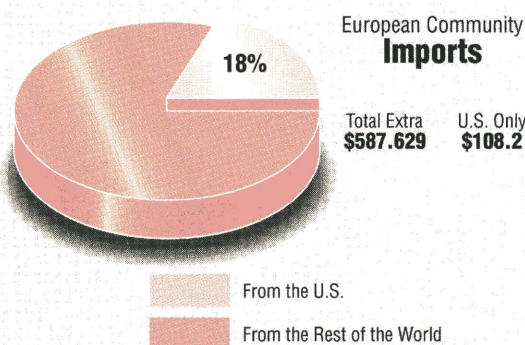
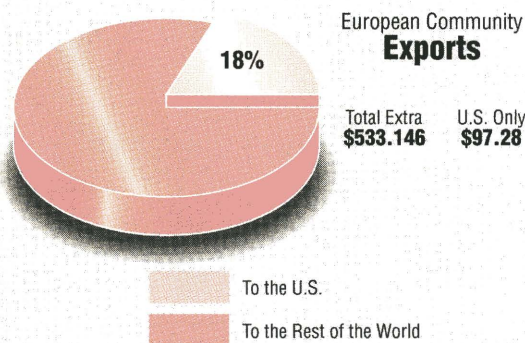
he European Community and the United States are linked by a common heritage and a shared commitment to democracy. Since World War II, the United States has consistently supported the emergence of a strong, politically united Europe, founded on democratic values.

In fact, the United States provided the stimulus for the first form of organized cooperation among European nations, when Secretary of State George Marshall launched the European Recovery Program, in 1947. The “Marshall Plan” provided vast amounts of U.S. financial aid for the reconstruction of Europe, on condition that the beneficiary countries agreed to administer the American aid jointly.



## Trade Statistics

(\$ Billions, 1990)



Source: Eurostat

In the 1950s, the Eisenhower Administration gave strong support to the newly formed European Communities (see Chapter One) and, on July 4, 1962, President Kennedy said in a historic address in Philadelphia: "We do not regard a strong and united Europe as a rival, but a partner...developing coordinated policies in all economic and diplomatic areas."

### EC-U.S. Dialogue

The formal EC-U.S. dialogue occurs in meetings held alternately in the United States and Europe:

- bi-annual consultations between the President of the United States and, on the other side, the President of the European Council and the President of the Commission
- bi-annual consultations between the U.S. Secretary of State and, on the other side, the twelve EC Foreign Ministers and the Commission, to discuss foreign policy issues
- bi-annual ministerial-level meetings between the U.S. Government and the Commission.

Other briefings and ad hoc consultations take place especially with regard to foreign policy matters.

In addition, the European Parliament maintains a Standing Delegation for relations with the United States, which meets twice yearly with members of the U.S. Congress.

### Areas of Cooperation

Specific accords have been concluded in the following areas:

- peaceful use of nuclear energy, 1958
- environmental matters, 1974
- worker health and safety, 1979
- mineral technology; fisheries (rights and market access), 1984
- research and development in energy; controlled thermonuclear fusion research in radiation protection, 1986
- biotechnology (EC-US Biotechnology Task-Force), 1990
- competition and anti-trust (enforcement); financial securities, 1991

Informal cooperation takes place through regular discussions also, but not exclusively, in the following areas:

### ACCORDING TO A 1990 GALLUP POLL:

- 47 percent of American adults have "heard or read about" the EC, compared to only 29 percent in 1987;
- 73 percent express support for the integration of Western Europe;
- 84 percent would like to receive more information on EC developments through the media;
- 75 percent believe that the U.S. should develop a "special relationship" with the European Community.

- maritime transport
- high technology (since 1983)
- scientific research
- telecommunications
- standardization, testing and certification
- regulation of food and drugs
- customs.

The Community and the United States have agreed to strengthen their cooperation in the existing areas and to extend it to new sectors, such as financial services, education and vocational training, non-nuclear energy, competition policy and marketing opportunities for small and medium-sized enterprises.

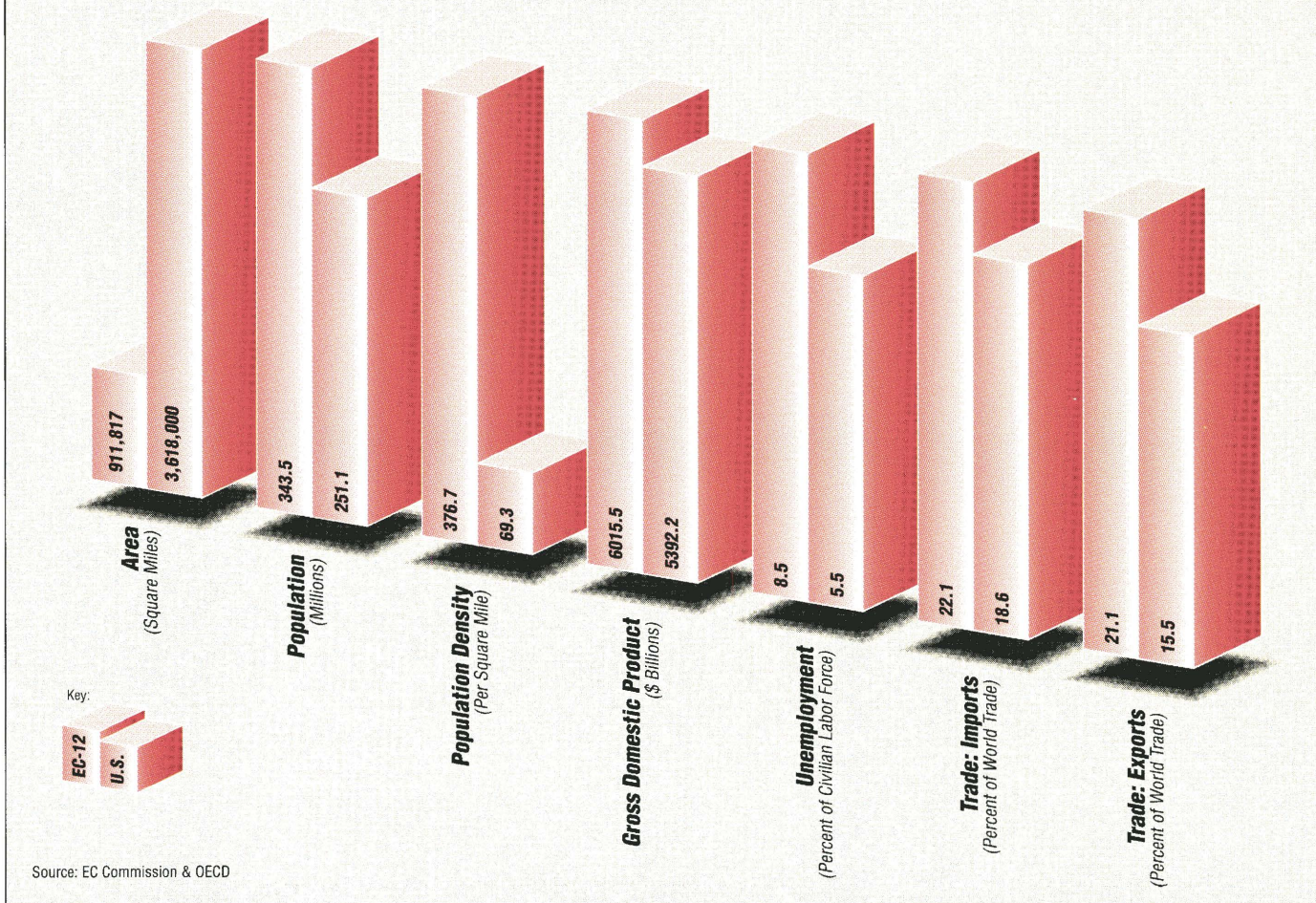
### EC-U.S. Trade Relations

The Community and the United States account for more than 30 percent of world trade, and for more than 70 percent of the industrialized world's Gross Domestic Product (GDP). The Community is the largest trading partner of the United States, taking about 25 percent of total U.S. exports (more than \$107 billion in 1990) and providing 19 percent of U.S. imports (\$96.5 billion in 1990). The United States takes 18.2 percent of EC exports and provides 19 percent of EC imports.

The Community has been the biggest export market for U.S. farm products, taking roughly 25 percent of U.S. exports. The European Community has traditionally run a trade deficit with the United States in the agricultural field.



## Profiles: E.C. and U.S., 1990



EC exports to the United States mainly consist of machinery, motor vehicles, precision equipment, iron and steel and other manufactured products. U.S. exports to the EC also consist of machinery and transportation equipment, as well as agricultural products, organic chemicals and mineral fuels.

As competitors in the trade sphere, the Community and the United States are occasionally at odds on some issues. For example, steel used to be a major bone of contention, with the United States complaining of unfair competition from Europe. However, following a series of negotiations ending in September 1986, the Community agreed to regulate virtually all of its steel exports to the United States. Telecommunications and aircraft manufacturing are among the major current issues.

The Community, for its part, has ex-

pressed concern about certain U.S. export controls, imposed for national security reasons, that affect European companies. In recent years it has objected to various U.S. trade laws and unfair trade practices that, in the Community's view, hamper free trade. The EC also objects to U.S. unilateral action in trade disputes and to sub-federal protectionism.

The Community and the United States share common problems in the agricultural sector: overproduction, stagnating world demand and high levels of government support. The two parties compete on world markets for certain exports, mainly wheat and dairy products. The United States complains that the Common Agricultural Policy gives EC farmers an unfair advantage in world trade through export subsidies. The Community responds that its subsidies comply fully with GATT rules,

THE EC IS  
THE WORLD'S LARGEST  
UNIFIED CONSUMER MARKET.



**T**he Delegation to the United States of the Commission of the European Communities represents the Commission in its dealings with the U.S. government for all matters within EC authority.

The EC has maintained an office in Washington, D.C. since 1954, when it opened as an information office for the ECSC. Andreas van Agt, a former Prime Minister of the Netherlands, is the first Head of Delegation to be accredited by the White House, on February 5, 1990.

The Commission also maintains a Delegation to the United Nations in New York, and a West Coast office in San Francisco.

The U.S. has maintained a Mission to the EC since the early 1950s. It is currently headed by Ambassador James Dobbins, who was appointed on October 9, 1991.

and that the United States also subsidizes its farmers.

Despite their occasional trade conflicts, the United States and the Community share a fundamental commitment to the international trading system that has contributed to their post-war prosperity. In fact, they have traditionally been able to resolve sectoral disagreements—"chicken wars", pasta and citrus disputes, etc.—to their mutual benefit, without jeopardizing the overall Atlantic partnership.

#### **EC-U.S. Investment**

**T**he United States sends some 40 percent of its foreign investment to the EC. Since the launching of the single market program, U.S. total investment in the European Community has grown from \$83.9 billion in 1985 to \$173 billion in 1990.

EC investment in the United States grew to \$230 billion in 1990—well ahead of Japanese investment, which totaled \$69.7 billion.

#### **The United States and "1992"**

**T**he United States has recognized the economic and business opportunities offered by 1992—a single market bound by common rules and standards, comprising 340 million consumers with a purchasing power of over \$4 trillion. In the words of the former U.S. Secretary of Commerce Robert Mosbacher, "this is a very different structure from the fragmented one U.S. business people have dealt with in the past."

The advantages that the United States will draw from 1992 are not limited to investment opportunities and increased exports of goods. As a strong service-oriented economy, the United States will also profit from the liberalization of banking, insurance and investment services. In particular, the liberalization of financial services will allow American banks in Europe a much broader scope of opportunities than permitted in the United States owing to restrictions on interstate banking and on banks' activities.

Responding to U.S. concerns, the European Community has also ensured maximum transparency in standard-setting procedures for goods in order to allow non-EC companies to comment on proposed requirements at an early stage. Consultations are taking place also on the mutual recognition of testing and certification procedures.

Overall, uniformity of standards and procedures, with the resulting economies of scale, will reduce costs and administrative burdens for small and medium-sized companies that, until recently, have been unable to meet the requirements of twelve different markets.

#### **The way ahead**

**T**he European Community and the United States have a crucial role to play in shaping the new international order that is emerging from the worldwide movement towards political and economic freedom and market globalization.

The U.S. and the EC are working together to ensure the peaceful transition of the Eastern and Central European countries to systems based on multi-party democracy and free market economies.

The U.S. presence on the European continent, which has made a decisive contribution towards peace and stability during the last 40 years, is adapting to the end of the Cold War and the rise of new challenges to stability.

The United States and the European Community are also seeking together a more open world trading system, in particular through the GATT.

In the words of U.S. Secretary of State James Baker, "the European Community is already an economic pillar of the transatlantic relationship. It will also take on, perhaps in concert with other European institutions, increasingly important political roles... And as it continues to do so, the link between the United States and the European Community should grow more strong, the issues we discuss more diversified, and our common endeavors more important."

**P**resident George Bush, on the 40th anniversary of the Schuman Declaration, May 9, 1990:

...President Eisenhower and Secretaries Marshall and Acheson, strong supporters of European integration, foresaw that our transatlantic alliance would preserve the peace in Europe and that the example of Western economic prosperity and multi-party democracy would lead to change in the Soviet Union and Eastern Europe. The United States is proud of the role its support and presence in Europe have played in furthering European integration.

Today, we continue to support European unity. The vision of cooperation that took form 40 years ago has become a reality. It has led to a Europe that is economically strong and committed to democratic principles and an outward-looking international trading system, and we celebrate these successes with our European allies. "





## THE TRANSATLANTIC DECLARATION

The United States of America and the European Community and its member states solemnly reaffirm their determination further to strengthen their partnership in order to:

- support democracy, the rule of law and respect for human rights and individual liberty, and promote prosperity and social progress worldwide
- safeguard peace and promote international security, by cooperating with other nations against aggression and coercion, by contributing to the settlement of conflicts in the world and by reinforcing the role of the United Nations and other international organizations
- pursue policies aimed at achieving a sound world economy marked by sustained economic growth with low inflation, a high level of employment and equitable social conditions, in a framework of international stability
- promote market principles, reject protectionism and expand, strengthen and further open the multilateral trading system
- carry out their resolve to help developing countries by all appropriate means in their efforts towards political and economic reforms
- provide adequate support, in cooperation with other states and organizations, to the nations of Eastern and Central Europe undertaking economic and political reforms and encourage their participation in the multilateral institutions of international trade and finance.

### Principles of U.S.-EC partnership

To achieve their common goals, the European Community and its member states and the United States of America will inform and consult each other on important matters of common interest, both political and economic, with a view to bringing their positions as close as possible without prejudice to their respective independence. In appropriate international bodies, in particular, they will seek close cooperation.

The EC-U.S. partnership will, moreover, greatly benefit from the mutual knowledge and understanding acquired through regular consultations as described in this Declaration.

### Economic Cooperation

Both sides recognize the importance of strengthening the multilateral trading system. They will support further steps towards liberalization, transparency, and the implementation of GATT and OECD principles concerning both trade in goods and services and investment.

They will further develop their dialogue, which is already underway, on other matters such as technical and non-tariff barriers to industrial and agricultural trade, services, competition policy, transportation policy, standards, telecommunications, high technology and other relevant areas.

### Education, scientific and cultural cooperation

The partnership between the European Community and its member states on the one hand, and the United States on the other, will be based on continuous efforts to strengthen mu-

tual cooperation in various other fields which directly affect the present and future well-being of their citizens, such as exchanges and joint projects in science and technology, including, inter alia, research in medicine, environment protection, pollution prevention, energy, space, high energy physics, and the safety of nuclear and other installations, as well as in education and culture, including academic and youth exchanges.

### Transnational challenges

The United States of America and the European Community and its member states will fulfill their responsibility to address transnational challenges, in the interest of their own peoples and of the rest of the world. In particular, they will join their efforts in the following fields:

- combatting and preventing terrorism
- putting an end to the illegal production, trafficking and consumption of narcotics and related criminal activities such as the laundering of money
- cooperating in the fight against international crime
- protecting the environment, both internationally and domestically, by integrating environmental and economic goals
- preventing the proliferation of nuclear armaments, chemical and biological weapons, and missile technology.

### Institutional framework for consultation

Both sides agree that a framework is required for regular and intensive consultation. They will make full use of and further strengthen existing procedures, including those established by the President of the European Council and the President of the United States on 27th February 1990, namely:

- bi-annual consultations to be arranged in the United States and in Europe between, on the one side, the President of the Commission, and on the other side, the President of the United States
- bi-annual consultations between the European Community Foreign Ministers, with the Commission, and the U.S. Secretary of State, alternately on either side of the Atlantic
- ad hoc consultations between the Presidency Foreign Minister or the Troika and the U.S. Secretary of State
- bi-annual consultations between the Commission and the U.S. Government at Cabinet level
- briefings, as currently exist, by the Presidency to U.S. Representatives on European Political Cooperation (EPC) meetings at the Ministerial level.

Both sides are resolved to develop and deepen these procedures for consultation so as to reflect the evolution of the European Community and of its relationship with the United States.

They welcome the actions taken by the European Parliament and the Congress of the United States in order to improve their dialogue and thereby bring closer together the peoples on both sides of the Atlantic.

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*The Declaration on EC-U.S. Relations was adopted by the EC and the U.S. on November 20, 1990, in Paris.*



