

EU-CENTRAL EUROPE RELATIONS 1989-92:
A STUDY OF THE UNION AS AN INTERNATIONAL ACTOR

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Introduction

This paper concentrates on a crucial aspect of the Union's capacity for action on the international stage: its ability to place its economic power at the disposal of a common foreign policy. Specifically, the paper offers a short case study of the European Community's attempt to support the reform process in Poland, Hungary, and Czechoslovakia (henceforth the CE3) between 1989-92 in order to draw a series of insights into the constraints and opportunities that can influence the Union's behaviour as an international actor. The paper argues that the parameters of the Community's response in this case were influenced by factors that were systemic, institutional, and domestic in character. More important, the paper argues that the Community's inability to coordinate these competing pressures so as to ensure consistency between its stated foreign policy -- to underpin the reform process through association agreements -- and the eventual foreign economic policy -- the Europe Agreements signed in December 1991 -- was fundamentally affected by the Community's unique decision making structure for external policy. By focusing on the Community's relations with the CE3 during this period, we can better understand the challenges that the Union still faces in trying to integrate the central and east European countries (CEECs) into West European institutions.

1. EC-CE3 Relations: Keeping Up with the Acceleration of History

The collapse of Soviet hegemony over central and eastern Europe in 1989-90 presented EC governments with a clear foreign policy challenge. If the reform process there began to disintegrate, either authoritarian forces could come to power leaving the countries less stable than under Soviet domination, or the Soviet Union might be forced to reassert control over the region. Either way, the opportunity to overcome the division of Europe would have been squandered. Moreover, massive migration from eastern to western Europe threatened to unbalance EC economies and elicit a counterwave of national chauvinism. With open borders planned by the end of 1992 within the Community, migration was an EC-wide problem, not a local one.

EC governments, therefore, had powerful and immediate reasons for wanting to help stabilise the new European democracies. It was also natural that they should seek to cooperate in achieving this goal. While EC governments could continue to provide bilateral financial and technical assistance, this assistance would be far more effective if they could coordinate part of their efforts. Second, the Community would play a crucial role in expanding market access for CE3 exports both because of its geography and because, as a customs union, access to its market would be negotiated collectively. Increased trade would help CEEC economies to grow, to sustain democratic impulses, and to lessen the threat of migration.

The Community's response between 1989 and 1992 has been well-documented. Initially, the Community rushed to complete trade and cooperation agreements (TCA) first with Poland (June 1989) and later with Czechoslovakia (May 1990) to add to its existing 1988 agreement with Hungary. At the height of the upheaval in the summer of 1989, it provided large quantities of emergency food aid to Poland and Hungary. Following the G-7 summit in Paris in July 1989, the Community took the lead in putting together, coordinating, and funding the "Phare" programme of financial, grant-based assistance first to Poland and Hungary and then later to the other new European democracies. It took the decision to extend EIB loan finance to these countries. During 1989-90, it introduced a range of unilateral trade concessions, including the extension of GSP access and the abolition or suspension of all quantitative restrictions. As the insufficiency of these measures quickly became apparent, the Community devised, negotiated, signed, and implemented in the two years between April 1990 and March 1992 bilateral "Europe" Agreements with the CE3, which went far beyond any previous form of association agreement by paving the way for a free trade area and by laying the foundations for long-term political and economic cooperation.

Due to their timing and the overt political logic behind their inception, the first set of Europe Agreements with the CE3 act as a yardstick against which the Community's response to the foreign policy challenge posed by events in Eastern Europe can be judged. On the one hand, the agreements contained concrete

offers which were consistent with the commitments made by EC heads of government in successive European Council declarations to use the agreements to support the reform process in the CE3 (Strasbourg, December 1989; Ashford Castle, April 1990; Dublin, June 1990). Importantly, the agreements are of indefinite duration. Providing CE3 governments do not do a U-turn from a pluralist form of government and a market-based economy, the agreements will endure irrespective of changes in the political complexion of government in the CE3. The agreements provide procedures for a formal, bilateral political dialogue. On the trade side, the agreements aim to create a virtual free trade area between the Community and each signatory, which, importantly, the Community would institute on an asymmetrical basis (within five years as compared to ten for the CE3).

While a large number of agricultural products are excepted, the agreements constituted a qualitative change from the TCAs, since the concept of a free trade area committed the Community not only to remove all tariffs and quotas on CE3 industrial goods within the first five years, but also to end, on a slightly more gradual schedule, protection in traditionally sensitive areas such as textiles and steel. There are even concessions for some CE3 agricultural produce, where the Community agreed to increase (and in some cases eliminate) quotas and reduce duties and levies on over half the CE3 exports to the Community (Tracy, 1994). Importantly, unlike the GSP, the concessions in the Europe Agreements cannot be redrawn or withdrawn unilaterally by the Community without some form of consultation.

Outside the trade dimension, the agreements committed the Community to continue to use Phare and funding from the European Investment Bank (EIB) to assist the CE3 with their economic reform programs. The agreements were also designed to inject an indirect boost to the process of economic reform in the CE3. For example, the agreements provided for wide-ranging trade in services, backed up by reciprocal rights of establishment.¹ In addition, the CE3 committed to adopt within three years the full range of EC competition law as defined in the Treaty of Rome² and to approximate all other laws to EC law as soon as possible. The Community thus emphasised the long-term approach it was taking to the building of a stable economic environment within the CE3.

However, reaction to the agreements, in both central and western Europe, was far from euphoric (Winters 1992). First, there was the question of EC membership for the CE3. The preamble to the agreements merely recognised that the CE3 sought accession as their ultimate goal and that the agreements might play a role in attaining their goal. Of course, at no stage had the Community stated that near-term accession to the Community was an option through which to help stabilise the CE3. Nevertheless, CE3 leaders had hoped for some form of joint recognition in the preamble that, as European states, membership could be an option for them in the long-term.

¹ The CE3 were allowed to maintain safeguards for newly emerging industries and in services such as banking.

² The only exception was for state aids where questions of regional or employment support could be taken into consideration.

Second, the length of the annexes covering the trade portion of the agreements highlighted the large number of exceptions that existed within these notionally free trade agreements. Crucially, the annexes concentrated on those areas where CE3 products would be most competitive in EC markets. At their most benign, the annexes ensured that the full five year transition period would elapse before tariffs disappeared on certain chemicals, steel products, furniture, textiles and leather goods, footwear, glass and cars (Winters 1992). The exceptions were especially pronounced in the agriculture and processed foods categories, where predictably complicated duty rates and limited growth rates in tariff quotas imposed severe limits in the growth of CE3 agricultural exports to the Community.

A third area of contention was the question of the movement of workers. The agreements committed only to help those Poles, Hungarians, or Czechs who were "legally employed" in one EC state to move freely around to other EC states. The potential for increased numbers of CE3 workers to provide hard currency returns to the CE3 via "basic" employment in the Community was closed off. The Community justified its stance by warning of the unacceptable political and economic consequences of a flood of migrant workers into the Community. However, the requirement in the agreements that the CE3 immediately approximate their labour laws and safety requirements to EC standards would also prevent the CE3 from sourcing their comparative advantage in cheap labour at home as well as in the EC market even on a transitional basis. Instead, CE3 governments would be left with no easy outlet for

the large numbers of unemployed expected in the wake of the radical economic restructuring that they wanted to undertake and which the Community demanded of them.

The fourth criticism of the agreements is that they included anti-dumping and safeguard clauses that appear to be designed to undermine the value of the EC's trade concessions. The Europe Agreements specify that anti-dumping actions should be consistent with Article VI of the GATT, meaning that the Community gives up its right to calculate dumping actions using state-trading criteria. However, the requirement under Title V of the agreements that the CE3 immediately begin to adopt EC competition laws meant that CE3 industries would have to tread very carefully from the outset on how they priced their exports to the Community, especially since these protective measures could be taken unilaterally within one month of notification. In accordance with regular safeguards law, the agreements stipulated that safeguard measures are permitted if imports from the CE3 cause "serious injury to domestic producers of like or directly competitive products." However, the safeguards clause also contains some "ominously innovative" language (Winters 1992) to the effect that action could also be taken if CE3 imports caused "serious disturbances ... or difficulties which could bring about serious deterioration in the economic situation of a region." This meant that potentially any product could be classified as sensitive (Rollo & Smith 1993). In addition, the Community negotiated extra, more explicit safeguard clauses for manufactured foods, textiles, agriculture, and processed foods.

Action against imports that were perceived to be damaging could be taken unilaterally. When one combined the lack of market access in those sectors where the CE3 held a competitive advantage with the opaqueness of the regime for contingent protection, it was feared that foreign and domestic companies would be additionally cautious about investing in the CE3.

A number of inconsistencies, therefore, were apparent between the Community's commitment to use the Europe Agreements for the political purpose of encouraging political and economic reform in the CE3 and the detail of the agreements, which contained numerous exceptions and where the actual concessions were at the mercy of the Community observing the spirit as well as the letter of the agreements. What were the competing internal EC pressures that lay behind the paradoxical nature of the Community's response to this clear foreign policy challenge?

2. The Strategic Context: Building a Common Approach out of Competing Interests

When EU member states develop a common foreign policy, we should remember that they often face two sets of "systemic" pressures. On the one hand, they may feel the need to react collectively to deal effectively with an external challenge. At the same time, however, they may calculate that a common response can minimize the potential for unilateral actions by certain member states to the detriment of others. In other words, they usually place a high premium on retaining internal EU cohesion in the face of the

external crisis. The need for cohesion can affect the parameters of the EC response as powerfully as the risks posed by the given external challenge. EC-CEE3 relations demonstrate these dual pressures in action.

As we saw above, the collapse of communism in the CEECs generated some pressing external challenges to EC governments. However, the retrenchment of Soviet control over central and eastern Europe and the fall of the Berlin Wall also generated internal "systemic" pressures. Specifically, these events opened up the prospect of a structural shift in the West European balance of power. At the heart of this shift lay the re-emergence of a unified Germany in Europe. The EC foreign policy towards central and eastern Europe had to evolve both in response to this revolutionary context and taking this context into account. It was inevitable that the two should become intertwined.

The prospect of German unification awoke a number of atavistic fears within EC countries. French concerns were threefold. First, that a united Germany might come to dominate the Community both economically and politically. Second, faced with a post-Soviet security vacuum in central and eastern Europe, a united Germany might be susceptible to a "Drang nach Osten" and weaken its commitment to European integration, which was one of the pillars upon which France's post-1945 security had been built. Third, a reunited Germany might reassert a hegemonic form of influence over central and eastern Europe (Kramer 1993). The British government under Margaret Thatcher also believed that the

collapse of communism would have "profound implications for the balance of power in Europe, where a reunified Germany would be dominant" (Thatcher 1993). Mrs. Thatcher made no secret of her desire to "slow down the pace of developments."

Smaller EC states had their own worries. In the Autumn of 1988, German and French officials had vied with each other during a series of visits to Moscow to offer the most favourable credit terms to develop trade and industrial relationships with the reforming Soviet Union. The Belgian Foreign Minister, Leo Tindemans, complained in Council meetings in October 1988 that these initiatives by the large EC states would undermine the emergence of a cohesive EC position towards the East and would sideline the smaller EC states from reaping any political or material benefit from an improvement in East-West relations.

For its part, the German government was aware that an activist, unilateral German foreign policy towards Eastern Europe would be counterproductive (and probably unaffordable). Its EC partners would see German meddling in the region as a return to Germany's old hegemonic ways. Germany had to balance its historic interest in the East with its forty-five years of commitment to Western integration (Teltschik, 1992). On the other hand, Germany had most to lose if the transition to democracy in Eastern Europe should fail and most to gain economically if reform was successful.

The Community, therefore, faced dual pressures to develop a

common foreign policy towards central and eastern Europe in 1989. First, member states wanted to maximise their ability to support the reform process. Second, however, they all wanted, including Germany, to limit the ability of any one EC state to take unilateral advantage of the East's transition to democratic and market reforms. How, then, did the intertwining of these dual pressures affect the parameters of the Community's common response?

Both factors influenced EC member states's decision in April 1989 to develop effective institutional procedures to ensure consistency between the common foreign policy objectives that they developed towards central and eastern Europe through European Political Cooperation (EPC) and the foreign economic policies put forward via Community institutions; the Commission and the Council. The importance that member states attached to achieving this institutional consistency was visible when EPC and EC officials held their first set of joint meetings in early 1989 under the Spanish EC Presidency. The impact of this coordination was apparent in the explicit linkage that the Community inserted between its offers of TCAs and the pace of political and economic reform in the chosen countries. For example, in April 1990, the Community accelerated the negotiations with Poland on its TCA while curtailing negotiations with Romania as the pace of reform in the two countries diverged.

Both external and internal factors also played a part in the decision at the G-7 summit in Paris in July 1989 to give the

European Commission the central role for coordinating EC and G-24 financial assistance to Poland and Hungary (the Phare programme). The German government strongly supported the Commission's new role as a centralized and neutral source of collective EC economic initiatives in support of Poland and Hungary. On its own initiative, the Commission quickly extended the Community's objectives beyond grant-giving and shifted the focus onto provisions for improved market access. Subsequent Commission proposals were quickly cleared through the continuing close institutional coordination between EPC and EC national officials under the French Presidency. This meant that when EC leaders gathered at a special dinner in Paris in November to discuss the fall of the Berlin Wall, the Community was able to present a cohesive and constructive front towards events in central and eastern Europe, despite the great political tension between member governments at that time. The upshot of this coordinated approach was a series of concrete proposals, including those for a fund to stabilise the Polish currency and to provide bridge financing for Hungary; for a European Bank for Reconstruction and Development (EBRD); and for improved access for east European goods to the EC market over and above the TCA concessions. At the Strasbourg European Council in December, recognizing the limited value of the TCAs, EC leaders went on to declare that they were "prepared to develop ... closer and more substantive relations based upon an intensification of political dialogue and increased cooperation in all areas." This commitment provided the Commission with the mandate to look into upgrading EC relations with the CE3 to "association" status.

Developing coordinated positions on EC-CE3 relations did not, however, constitute the sole, nor one might argue, the principal EC response to the collapse of communism in the East. The fall of the Berlin Wall also led to a concerted French campaign to accelerate the process of EC political and economic integration. The French government feared that the growing upheaval in the East might draw the Community into a destructive vortex that could tear apart the EC integration process. Mitterrand's overriding objective was to gain a commitment from Germany that EC integration would take precedence over the Community's overall external response to Central and Eastern Europe. Hence, at the Strasbourg Council, the final declaration already talked of a more integrated Community acting as a vital "reference point" for the new democracies, while EC leaders also agreed to proceed to stage 1 of EMU in July 1990. German support for the French strategy was guaranteed by the surprise election victory of the CDU in March 1990 in the GDR, making rapid German unification a distinct probability. On April 18, Kohl joined Mitterrand in calling for parallel intergovernmental conferences later in the year both on EMU and on Political Union.

The British government argued, as had the Germans earlier, that the Community should set its more grandiose plans for EMU and political union to one side lest a rapid deepening of the Community retard the long-term integration of the new democracies into West European institutions, with negative consequences for their political and economic stability. Mrs. Thatcher called in the summer of 1990 for a clear EC commitment in the Europe

Agreements to eventual EC membership for the CE3. John Major echoed her calls a year later. These appeals, however, coincided respectively with the preparations for and the highpoint of the IGCs on EMU and EPU, which ran in tandem with the Europe Agreement negotiations. Thus, the British government appeared to be using the membership issue to undermine the case for a rapid move to closer integration among its partner states. This perception strengthened the resolve of other EC member states to oppose the British in offering explicit membership to the CE3 up front in the Europe Agreements.³

The direct upshot of this overlap between the IGCs and the Europe Agreement negotiations (i.e., between the Community's internal and external response to the collapse of communism in eastern Europe) was to put "out-of-bounds" any discussion of possible EC membership as an instrument within the Europe Agreement framework to project political stability to the CE3. Instead, the implementation of the Community's stated foreign policy to help stabilize and encourage the reform process in the CE3 became all the more dependent upon the detail of the economic concessions contained in the promised association agreements. Unfortunately, in using EC economic instruments to pursue the common foreign policy, the Community ran up against a series of "domestic" constraints to its ability to ensure consistency between the two.

³ President Mitterrand proposed instead the creation of a "European Confederation" parallel to the Community that would obviate the need for CEC membership of the Community for many years.

3. Formulating the Foreign Economic Policy: Domestic Constraints

One of the characteristics of EU trade policy is that it involves a large number of actors in the process of formulating and implementing the policy. Being an area of Community competence, the right of proposal resides with the Commission, although the proposal itself must be a compromise between the External Affairs Directorate (DG1) and those DGs with sectoral responsibilities such as DG6 (agriculture) and DG3 (industry). Once the Commission has prepared its proposal, however, national governments have considerable lee-way to review the proposal and to try to ensure that the actual negotiating directives reflect their particular political concerns.

Frans Andriessen, the Director General of DG1 in 1990, his staff and his cabinet took a highly proactive approach to fulfilling the mandate of the Strasbourg European Council. Starting in the early part of the year, DG1 staff began to put together the broad outlines of special association agreements between the Community and those CEECs that they considered to be far enough down the road of reform. Following a series of internal Commission meetings, Delors was able to propose that the special summit of EC leaders in April, which had been called to review the sudden push for German unification, should also review the broad outlines of the Commission's proposal. At the summit, EC leaders formally agreed to negotiate association agreements with those CEECs farthest down the road to reform.

On August 27, the Commission formally adopted its communication to the Council on the proposed aims and content of the association agreements (COM(90)398). The so-called Europe Agreements, "to mark the importance of the political initiative which they represent," were to be offered to Poland, Hungary, and Czechoslovakia, the three countries which the Commission believed met the necessary "conditions" of market and political reform for negotiations to begin. From the outset, the Commission stressed that the possibility of accession "would not be affected by the conclusion of association agreements." The Community would, however, (a) offer an institutional framework for high-level political dialogue, via an Association Council and Association Committees, (b) gradually establish a reciprocal "free trade area," initially in industrial goods and, eventually, in services and capital, although "special arrangements" would be negotiated for agricultural products and labour would be excluded, (c) pursue this liberalisation on an asymmetrical basis in two phases, with the CE3 able to maintain import restrictions on EC goods during the "first phase, (d) provide "a firm basis for multiannual financial cooperation" in all areas in a mix of grants and loans; and, finally, (e) include a section on the approximation of laws, intellectual property rights, customs cooperation and rules of origin, and safeguards.

In contrast to the TCAs, the DG1 framework for the Europe Agreements was both unique and bold. However, in transforming the framework into a set of concrete negotiating directives that could be approved by the General Affairs Council, the

Commission's proposal had to run the gauntlet first of a closer inspection by other DGs representing sectoral interests and then of national scrutiny and adaptation. Between August and November, it became apparent that a number of member states, as well as sections of the Commission, had strong reservations about instituting a free trade area with the CE3; even one that aimed to cover only "substantially" all trade between the contracting parties, in other words by excluding agriculture.

Sectoral DGs and member states had a number of concerns about the DGI proposal. First, the economies of the CE3 were most competitive in precisely those sectors that were most sensitive to the Community; primarily agriculture, but also textiles, and steel (Rollo and Smith 1993). In 1990, roughly 25% of CE3 exports to the Community were of foodstuffs; 50% were of manufactures, but up to half of these were in protected sectors such textiles, steel, footwear, and chinaware (Pinder 1991). As the CE3 continued to reorient their trade away from their economically depressed former Comecon partners and towards the Community, it was argued that increased levels of CE3 imports in these sectors could potentially disrupt EC support schemes and national restructuring plans targeted towards the Community's most sensitive economic sectors.

A second problem was that these threatened sectors were not spread out evenly among all EC member states. CE3 imports posed specific economic threats to the domestic political interests of individual member states; for example, to French and Irish beef

production; to Portuguese textiles; to Spanish steel; and to German coal. Given the concentration of these sensitive sectors not only within individual EC member states, but also regionally within the most depressed regions of member states, it would prove impossible to soften the internal impact of trade concessions by burdensharing within each sector. Burdensharing would have to take place across different sectors and, therefore, between the competing political interests of member states.

A third problem was that the introduction of the terms of the Europe Agreements would most likely coincide with the formal introduction of the Single Market on January 1, 1993. This was an important consideration for national governments, many of whom still relied on using Article 115 (Treaty of Rome) provisions to institute national safeguard measures to protect specific national sensitive sectors against surges of third country imports. With the entry into force of the Single European Act at the end of 1992 and the resultant weakening of Article 115, governments would find it very hard to implement national protection post hoc in cases where a surge of CE3 imports had a sectoral effect within a depressed national region. If EC governments wished to protect national sectors, they would have to ensure that the protection was enshrined at the EC-wide level from the outset of any agreement.

A fourth problem concerned the potential interrelationships between the Europe Agreements and the ongoing GATT negotiations under the Uruguay Round. On the one hand, despite the catch-all

cover provided by the GATT's Article 24, there was some concern within the Community that it would come under pressure later on from the United States and other interested third parties to multilateralize some of the concessions accorded to the CE3 under the Europe Agreements (Winters 1992). On the other hand, EC governments were aware that the far-reaching concessions being negotiated in the Uruguay Round, reducing tariffs on industrial products and textiles and including the tariffication of agriculture, would diminish the margin of preference on offer to the CE3 under the Europe Agreements and merely strengthen the demands by these countries that EC concessions focus on extensive quota increases.

A fifth problem which concerned not only EC governments, but also many EC multinational corporations (MNCs), was that the CE3 would become the destination for increased levels of foreign direct investment and act as springboards for cheap imports into the Community. French and Italian car-makers, for example, were determined that the Europe Agreements should not raise the curtain to a new wave of cheaply-sourced and preferentially-priced Asian car imports into the Community.

A final concern for a majority of EC member states was to avoid the CE3 dumping their surplus, low-cost labour onto the Community's market. The average unemployment level in the Community still averaged 8.5% in 1990 and with the geographic proximity of the CE3, the question of easing restrictions on the movement of labour was bound to be contentious.

The negotiating directives that the Council approved on December 18, 1990 after several months of intensive internal negotiation appeared to accommodate all of these sectoral and national concerns. At the political level, EC member states refused to allow a reference in the preamble of the agreements even to the possibility that the CE3, as European states, might eventually want to request to join the Community. At the economic level, the Commission was directed to request protocols removing asymmetry in the EC concessions on CE3 steel and coal products, and making the textile concessions (tariff and quota) conditional on the outcome of the Uruguay Round. On the labour front, national governments refused to coordinate their restrictive national regimes into a common position on the movement of CE3 workers into the Community. Financial assistance was promised, but there would be no financial protocol containing a fixed projection of funds.

Although the proposed Europe Agreements still matched DG1's original framework, the new lists of exemptions appeared to undermine the political and economic value of the proposed agreements to the CE3. DG1's inability to insist on a more generous set of negotiating directives, despite its political mandate from the European Council, and the problems it faced in trying to transcend a lowest common denominator posture during the course of the negotiations themselves point to a fundamental constraint upon the Community's capacity for coherent external action. This constraint lay in the decision-making structure under which the Community conducted its external policy.

4. Implementing an EC Foreign Economic Policy: Institutional Opportunities and Structural Constraints

The decision-making structure under which the Community implements its common foreign economic policy plays a key role in mediating the competing interests described in the previous section. It contains both opportunities for and constraints against a successful outcome above the lowest common denominator. On the one hand, once the Commission's proposal has been turned into negotiating directives, it is the Commission's responsibility to conduct the negotiation with the third country. The Commission can use its right of proposal to request alterations to the directives in search of a broadly beneficial deal that is not beholden to the lowest common denominator. Within the iterated negotiating structure of Coreper and the General Affairs Council, it can be hard for individual member states to hold out if they become isolated on a particular issue.

On the other hand, national governments keep a close watch on the negotiations, both via the Presidency and via special committees such as the Article 113 Committee, comprising senior national officials from Ministries for Trade and Industry. This oversight can have a constraining impact on the Commission's flexibility within the negotiations. Moreover, when the Commission seeks the approval of the Council to change its negotiating directives, it can be very difficult to resolve deadlocks through package deals among member states. Different states may have a different perspective depending on their geography and trade patterns as

to whether a sectoral concession to a third party is a "low" political issue that can be sacrificed to the "higher" political objective of supporting a common foreign policy, or whether the sectoral issue in question is in fact a question of national interest which must be defended right up to the Council.

Member states had made a concerted effort during 1989 to institute decision-making procedures that would minimize the potential for inconsistencies between the Community's common foreign policy objectives and its foreign economic policy towards the CEECs. These procedures were strengthened during the first four months of 1990 (with the first-ever joint meetings between Coreper and the EPC's Political Committee) and paved the way to the decision to upgrade CE3 relations with the Community to new-generation association agreements (Nuttall 1993). Furthermore, given the political importance of the Europe Agreements and the fact that, as association agreements, these agreements would require national ratification under Article 238, it was decided that national oversight of the negotiations would be conducted not by the Community's Article 113 Committee, but by the Council's East European Working Group (EEWG). The EEWG brought together Brussels-based officials from member states' foreign ministries. Officials from national sectoral ministries and sectoral Commission DGs would offer their input within this more politically sensitive forum. By implication, the potential influence of sectoral Ministerial Councils such as the Agriculture Council over the negotiations would also be minimized.

Despite these efforts, however, the negotiating directives approved by the Council appeared to be motivated more by mercantilist considerations than by the desire to extend political support to the CE3. CE3 negotiators were shocked by the Community's attitude and, at the end of March 1991, the negotiations stalled for the first time. CE3 governments objected strongly to the lack of any reference in the agreements' preamble to their desire to seek EC membership in the future. They objected to the conditional nature of the transition to the second phase of the agreements, which would deter foreign investors. They objected to the guarded nature of the Community's concessions in the sectors of greatest interest to the CE3 during the most crucial reform years. They objected to the lack of a coordinated and proactive approach to CE3 migrant workers wishing to work in the Community.

In an attempt to break the deadlock, the Commission proposed a number of changes to the Council meeting of April 15. With the majority of EC Foreign Ministers and the Luxembourg Presidency determined to accelerate the negotiations, the Community softened its negotiating stance in several areas. The Community accepted that the CE3's desire for accession could feature in the agreements' preamble, but only as an ultimate and not an automatic objective. The Community dropped its demand for a half-term review of the political and economic conditions underpinning the agreements. On the trade side, Spain allowed itself to be overruled and accepted EC concessions on CE3 exports of fruit, vegetables, pork, and game to the Community. Portugal

and Greece succumbed to majority pressure from their northern EC counterparts and allowed quicker implementation of EC concessions on textiles. These concessions were by no means ground-breaking, however. Main-line agricultural items like cereals, beef, lamb, and dairy products continued to receive the full protection of the CAP. The Community still refused to remove its textile tariffs on an asymmetrical basis, insisting on using the full ten-year transition period. Textile quotas would still be left to the Uruguay Round. As a result, the negotiations broke down again in July. Unable to break the deadlock within the Council, EC Foreign Ministers postponed any decision on reviewing the Commission's negotiating directives until September 30. In order to understand the Community's stubborn refusal to match its political rhetoric with the economic content of the Europe Agreements, we need to re-examine the way that the EC external policy-making structure intermediated EC domestic and sectoral interests.

At the most basic level, the separate intergovernmental and Community-based procedures for making and implementing EC foreign policy and foreign economic policy respectively prevented a genuine fusion between the Community's external political objectives and their pursuit by collective economic means. The political decision in April 1990 to negotiate Europe Agreements with the CE3 had been taken following close coordination between the EPC Political Committee and Coreper. After April, however, there was no further direct consultation between these two guardians of the external political and economic dimensions of

Community policies. Nor, in the absence of any dramatic setbacks in the process of political and economic reform in the East, did there appear to be the need for such formalized consultation. The political directorates of Foreign Ministries were (and are) unsuited to overseeing the complex detail of the trade negotiations which would, nevertheless, endow the agreements with their political value. The attention of EC national Political Directorates quickly became engrossed in a series of more pressing crises, among them Iraq's August 1990 invasion of Kuwait, the deteriorating situation in the Soviet Union and the Baltics in the winter of 1990 and Spring of 1991, and the disintegration of Yugoslavia.

As the EC negotiating directives were prepared and the negotiations got under way, therefore, it was the EEWG's responsibility in the first instance both to try to overcome the conflicting national and sectoral concerns highlighted above and to keep the overall political objective behind the agreements in mind. The EEWG, however, faced a unique set of constraints in attempting to fashion compromises acceptable both to economic interest groups and interested national ministries and to the CE3. First of all, the national officials represented on the EEWG did not always represent cohesive national positions. Unlike the British, whose cabinet office system usually enables the presentation of well-coordinated interministerial positions, many national delegations had a habit of allowing officials from different sectoral national ministries to take the lead within the EEWG depending on the issue under debate. This made it very

difficult for the EEWG to build compromises above the lowest common denominator based on burden-sharing between member states. In several instances during the negotiations, the EEWG was forced to take recourse to Coreper and to the Council to try to overcome intra-EC deadlocks during the negotiations.

The second problem was that, while qualified majority voting may technically have been possible in the Council to overcome deadlocks within the trade component of the agreements, the fact remained that these association agreements all had to be ratified by national parliaments. This fact made it extremely difficult for those EC governments that faced determined domestic lobbies to compromise on specific aspects of the agreement; the French refusal to accept the proposed minimal liberalization of CE3 beef imports into the Community being one case in point. This same fact strengthened the hand of those EC governments that judged aspects of the agreements to be against their broad national interest. Spanish opposition to steel liberalization and Portuguese refusal to accept the Commission's concessions on CE3 textile imports was based in part on the perception that they were being asked to undermine their overall relative economic competitiveness within the Community in order to support a "common" foreign policy objective that was of more immediate relevance to northern-tier member states. Preferential access to the EC market for their textiles, steel, fruit and vegetables was a crucial part of the trade-off under which these countries had negotiated their entry into the Community only five or so years earlier. After the Europe Agreements, Spain, Portugal and

Greece would continue to import German, French, British and other EC capital goods (against which CE3 imports would be no match irrespective of price), whilst their products would have to compete on a "level playing field" in the EC market with low-priced CE3 imports.

The fact of national ratification also meant that even those states that took a broadly liberal approach within the Europe agreements sometimes found themselves in the protectionist camp. The German government refused to back down on its demand for a special national exemption from Polish coal imports. The British government introduced a special price protocol into the agreements to protect its red fruit growers from low-priced CE3 imports. These red fruit growers happened to be concentrated in the few constituencies in Scotland still under the control of the ruling Conservative Party.

Each of the issues described above struck a distinct national political chord, making it impossible for the Commission and the Dutch government, which took over the EC Presidency in July 1991, to argue that member states should trade these domestically sensitive issues off against each other in an attempt to achieve a highest possible common denominator outcome to the negotiations. In the end, it took a major external shock to enable EC Foreign Ministers to reinsert the political logic for making additional trade concessions to the CE3 back into the negotiations and to force through a solution within the Council. The external shock was provided by the August 1991 putsch against

Mikhail Gorbachev. As EC member states struggled during the days after the putsch to prepare a common position towards a possible return to cold war confrontation between East and West, the European Commission quickly put forward a revised negotiating mandate for the stalled Europe Agreements. Jacques Delors and Frans Andriessen argued publicly that the best way that the Community could demonstrate its solidarity with the countries of central Europe at this critical juncture was to make the concessions necessary to conclude the Europe Agreements. The refusal of the French and Portuguese governments at a special Council meeting on September 3 to relax their respective positions on CE3 beef and textile imports to the Community caused a public furore. With the two governments increasingly isolated, the impasse was broken at the September 31 Council when the Community agreed to cut textile tariffs within six years of the agreements coming into force and to double the size of the annual quota increases for CE3 agricultural goods (to the final 10% per annum for five years) as well as to double the bulk of tariff cuts to 60% over three years.

Clearly, the ability of EC Foreign Ministers to overcome sectoral concerns was fundamentally influenced by the resurgence of the political dynamic behind the agreements.⁴ EC burdensharing, however, still did not take place. Instead, each objection had to be bought off individually in a laborious and ultimately politically damaging manner, both for the Community's reputation

⁴ The willingness of CE3 governments to accept the new concessions was affected by similar motivations.

and for the value of the trade concessions offered to the CE3. French acceptance of quota increases for CE3 beef imports came about only as a result of a complex "triangular" solution put together at the last minute by the Commission, whereby the Soviet Union agreed to buy some of these CE3 exports with EC aid. The Commission also added specific sectoral safeguards to the agreements to cover the new concessions in the steel and textile sectors. Spain succeeded in negotiating a last-minute additional intra-EC protocol guaranteeing special consideration for its steel industry, although the Commission was able to deflect a more protectionist option. The Commission promised to consider additional regional support for Portugal's textile-dependent regions and a pre-arranged cut of the upcoming EC share of the MFA revision in the Uruguay Round. Finally, the overall safeguard language was tightened up with the insertion of the "regional" basis for triggering a safeguard action.

Having converted a politically motivated set of agreements into mercantilist negotiating directives between August and December 1990, it appears that, through the negotiating process, the Community was able to go some way to re-linking its stance on economic concessions with the political objectives that had first driven it into action. Nevertheless, the Community's descent into mercantilist posturing and its tenacious defence of sectoral exceptions left their scars. These scars are unlikely to heal fully so long as the powerful measures for contingent protection remain on the books. As a result, the Community's first attempt to use its economic instruments to implement a proactive (as

opposed to purely reactive) foreign policy objective continues to receive very mixed reviews (Faini & Portes, 1995).

Conclusion

What observations can we make from the preceding analysis about the constraints and opportunities that can influence the Union's behaviour as an international actor? And how might these constraints and opportunities affect the Union's future relations with central and eastern Europe? The first observation is that the Union often faces dual pressures at the "systemic" level when trying to develop a common foreign policy towards any external challenge. To the extent that the challenge may affect a majority of EU governments, they may choose to coordinate closely their response via the institutional instruments that are available. A coordinated response can have the advantage of being more effective than a series of national efforts. In 1989-90, the Commission's leadership was an important component in the speed and scope of the Community's response to events in Poland and Hungary. At the same time, however, an external challenge may awaken internal concerns about shifts in the relative positions of EU member states. While such a factor can further encourage the development of a common response, as it did after German unification in 1990, the need simultaneously to coordinate internal cohesion with a constructive external strategy can limit the parameters of the EU response. In 1990, this meant keeping the membership issue out-of-bounds while EC member states focused their attention on the 1991 IGCs. Today, despite having extended

the possibility of membership to CEECs at Copenhagen, the Union has again re-focused its efforts on deepening existing EU institutional ties before proceeding with its commitment to expand eastward. When CEECs enter into negotiations to join the Union after the 1996 IGC, they may find that a two-tier structure of internal "domaines réservées" has already been established to enable current EU members to minimize external disruption to their existing political inter-relationships.

The second observation is that the Union's ability to achieve consistency between an EU foreign policy and its supporting foreign economic policy always faces the hurdle of having to accommodate the competing views of the large number of EU actors that can be affected by the economic policy. DG1 might be in a position to come up with an effective framework for action from a neutral perspective, but in order to convert the framework into detailed negotiating directives the Commission must take two sets of pressures into account. First, the potentially negative impact of trade concessions on the Union's overall economic competitiveness vis à vis a third country. Second, the Commission must consider how concessions will affect certain member states relative to others. In the case of EC-CE3 relations, Commission concessions appeared to discriminate against products where Mediterranean countries held a competitive advantage in EC markets. This was a significant factor in arousing national opposition to the Commission proposals. In the coming years, the most intense debates about EU enlargement to the East will focus less on the overall disruption to the Union

in sensitive sectors and more on the way that the disruption favours or discriminates against certain EU member states at the expense of others.

The third observation is that the Union's ability to overcome sectoral political concerns and put forward external economic policies that are consistent with chosen common foreign policies can be greatly constrained by the decision-making structure for implementing EU foreign economic policies. On the one hand, there is no doubt that the "Community method" can offer opportunities for solutions above the lowest common denominator. The time-limits on EU Presidencies can encourage them to broker compromises. Breakthroughs are possible when the Commission makes a judicious use of its right to request a revision of the negotiating mandate -- a good example being its quick reaction to the August 1991 putsch against Gorbachev to accelerate the Europe Agreement negotiations. It is possible to overcome entrenched national interests within the Council by isolating the country in question and awakening concerns about future retaliation, as happened with Spain and Portugal in 1991.

On the other hand, the Commission, the Presidency, and the Council also face a fundamental structural problem in attempting to pursue common foreign economic policies above the lowest common denominator. In the language of multi-level game analysis (Putnam, 1988), there is no "chief negotiator" for EU external policies. The Commission may act as a focal point in developing a framework for external negotiations, but it is not in a

in a position to use the leverage theoretically afforded to chief negotiators in government-to-government negotiations to broker maximalist compromises. The problem is not just that the Commission must seek ratification from national governments in the Council for economic concessions to a targeted third party. The added problem is that EC governments must also seek national ratification for sensitive national concessions within the domestic polity. This can be a difficult process when economic concessions do not form part of reciprocal and multilateral negotiations (as in the Uruguay Round), but when the concessions are designed to support intangible foreign policy ends (as in the Europe Agreements). Under these latter conditions it is very hard for the Commission to broker packages of concessions within the Council that involve burden-sharing across different national sectoral interests, especially if member states are preoccupied that these packages may favour some EU member states at the expense of others.

With hindsight, the Europe Agreements have proved to be more dynamic than the protectionist detail might have intimated. The agreements have been upgraded since 1993 to include offers of membership as well as an acceleration of trade concessions. The Commission is converting many of the "cooperation" clauses for CEE legal and economic convergence into part of its pre-accession strategy. However, it is the offer of membership that has come to symbolize the Union's renewed political commitment to its central and east European neighbours. The Union's ability to convey political support to the CEECs or to any other third party

through the considerable economic instruments at its disposal appears to face a number of intractable obstacles that no amount of institutional reform will easily overcome.

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