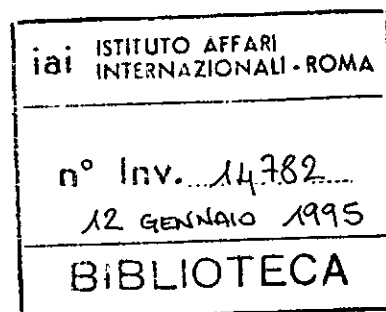


**US/EC RELATIONS: TOWARDS A GLOBAL PARTNERSHIP
A NEW ASSESSMENT ON BURDENSARING**

America-European Community Association
Westfields, 20-22/IX/1991

- a. Programme
- b. Participants
- 1. "Political and administrative framework between EC-Europe and the United States"/ Wolfgang Wessels
- 2. "United States and European Community defense and foreign policy coordination"/ Robert D. Blackwill
- 3. "Trade relations between the United states and the European Communities"/ Ronald A. Cass
- 4. "Transatlantic economic relations: a European perspective"/ Loukas Tsoukalis
- 5. "The Community and the emerging European democracies: summary of recommendations"/ DGAP, IFRI, IAI, NIIB, RIIA, SWP
- 6. Testimony of Robert L. Barry ...
- 7. Testimony of Robert L. Barry ...
- 8. "US assistance to Central and Eastern Europe: an overview"/ US Department of State
- 9. "Institutional links between US/EC-Europe I: systematic overview : fact sheet"
- 10. "Institutional links between US/EC-Europe II: chronological overview : fact sheet"



AECA-USA
Board of Directors
Herbert Marshall, Chairman
Andrew Weiss, President
George W. Koch
Henry L. Michel
David A. Morse Esq
Bobby F. MacLaggan

**THE AMERICA-EUROPEAN
COMMUNITY ASSOCIATION USA**

17 September 1991



Patrons
United States of America
David Aaron
Paul Allen
Ambassador George W. Ball
Richard Branson
The Hon. Edward R. Brooke Jr.
Harold A. Eckmann
Ambassador Tom Enders
Ambassador Ruth L. Hanan
William M. Hays
Thomas S. Foley
Professor Richard Gardner
J. T. G. O'Brien
J. Peter Grace Jr.
Wynne M. Hoffman
Leo M. Hoffman
Leo A. Rosen
Dr. Henry Kissinger
Ambassador John J. Louie Jr.
Henry Lucas Jr.
Herbert Marshall
Sir Yehud Mordechai
Ambassador George McGhee
Robert R. McMillan
Henry L. Michel
William D. Miller
Lee L. Morgan
Anthony J. F. O'Brien
Edward L. Palmer
Ramon L. Peltzer
William D. Peltzer
Dr. Dorian Pratt
George Shinn
Ambassador Robert Strauss
W. L. Wicks
George W. Johnson
Jack E. Willett

Belgium
Herman de Croon
Vincent Etienne Duvignau
Jacques De Stordeu
Mark Eykens
Emiel G. van MEP
Johan Goddeeris
Jacques Grootaert
Dien de Jonckheere
Andre Leynen
Dr. Leo Timmermans
Jacques van der Schueren

Denmark
Mrs. Eva Grunh MEP
Paul Schmitter
Paul Svendsen

France
Michel Albert
Raymond Barre
George Brundage
Jacques Chirac
Robert de Kersaint
Jacques G. Merson-Davies
Pierre Pichon MEP
Simone Veil MEP

Germany
Professor Lottar Spaberg
Dr. Manfred Scholz
Professor Hans Thummler
Rud. G. Mante

Greece
Professor Xenophon Zolotas

Ireland
Ambassador Eamon Kennedy
Miss Sio da Vidua

Italy
Dr. Umberto Agostini
Ambassador Bruno Botta

Luxembourg
Gabriel Fisch
Lord MacKinnon Stuart
Gordon Thom

Netherlands
F. H. J. J. Andriessen
Dr. J. E. Andriessen
Pietra Dierckx MEP
Professor Dr. V. Holtkamp
J. P. van Lier
C. J. van der Klugt
Professor Dr. P. Korteveeg
A. A. Louren
Dr. F. A. M. M. van
Dr. R. van Oortmersen
Dr. S. Orlitzky
G. J. de Vries MEP
Dr. A. H. E. M. W. W. de
Dr. H. J. W. W. de

United Kingdom
Lord Ezra
The Rt. Hon. Edward Heath
M.P. MP
Sir James Scott Hepburn MEP
Lord Jenkins
Sir David Orr
Lord Patten MEP
The Rt. Hon. Lord Patten
Sir Frank Roberts G.M.C. G.D.V.
Lord Sheffield
Lord Sill of Brompton
Sir Roy Strong
Sir Anthony Tolo
John Hume MEP
The Rt. Hon. John Taylor MEP

**'US/EC RELATIONS: TOWARDS A GLOBAL PARTNERSHIP'
(A NEW ASSESSMENT ON BURDENSARING)
20-22 SEPTEMBER 1991**

P R O G R A M M E

FRIDAY 20 SEPTEMBER

1900-2200 SESSION I PROMENADE AND JEFFERSONIAN V/IV

'THE UNITED STATES, THE EUROPEAN COMMUNITY AND WORLD POLITICS'

Cocktails: PROMENADE
Dinner: JEFFERSONIAN V/IV

Introduction: * SIR DAVID NICOLSON,
Chairman, AECA International

Address: * ROBERT ZOELICK
Under Secretary of State for Economic Affairs
State Department

Chairman: * GEORGE KOCH
Chairman, AECA Washington DC

SATURDAY 21 SEPTEMBER

0730-0930 BREAKFAST FAIRFAX

0900-1000 SESSION II GRAND DOMINION I/IV

'US/EC RELATIONS: WHY A PARTNERSHIP'

Paper: 'Institutional implications by Sector'
* WOLFGANG WESSELS
Director, Institut fur Europaische Politik

Introduction: * JACQUES VANDAMME
Chairman, TEPsA

Chairman: * CHARLES McC MATHIAS
Senior Partner, Jones, Day, Reavis & Pogue

Comments: * AMBASSADOR ANDREAS VAN AGT
EC Delegation to Washington DC
* RALPH JOHNSON
Director, European and Canadian Affairs,
United States Department of State

1000-1030 **ON THE TERRACE**
Group photograph

1030-1300 SESSION III GRAND DOMINION I/IV

Papers by: * AMBASSADOR ROBERT BLACKWILL
 Professor, Harvard University
 * DR GIANNI BONVICINI
 Director, IAI

Chairman: * GERALD BALILES
 Former Governor, Virginia
 Partner, Hunton and Williams

Comments: * CHRISTOPHER MEYER
 Minister Commercial, UK Embassy
 * EARL WAYNE
 Director, Soviet & European Affairs, NSC
 * ELMAR BROK MEP
 Member of the European Parliament, Germany
 * HARALD MALMGREN
 President, Malmgren Associates

1300 LUNCH FAIRFAX

1415 SESSION IV GRAND DOMINION I/IV

Papers by: * AMBASSADOR ROBERT BARRY
 Special Advisor for US Assistance to
 Eastern Europe, State Department
 * GUNTER BURGHARDT
 Director, European Political Cooperation

Chairman: * AMBASSADOR JACQUES GROOTHAERT
 Chairman, Generale de Bank

Comments: * TOM COLEMAN
 Member of Congress
 * ROBERT HUNTER
 Vice President, CSIS
 * LUIS PLANAS MEP
 Member if the European Parliament, Spain
 * JOHN PALMER
 Correspondent, Guardian

1900 RECEPTION LOWER ROTUNDA

2000-2200 DINNER WASHINGTONIAN II/III

SUNDAY 22 SEPTEMBER

0730-0930 BREAKFAST FAIRFAX
0900-1115 SESSION V GRAND DOMINION I/IV

'ECONOMIC AND TRADE POLICY'

Papers by: * PROFESSOR RONALD CASS
 Dean, Boston University
 * PROFESSOR LOUKAS TSOUKALIS
 University of Athens/
 Director, Hellenic Centre for European Studies

Chairman: * JOHN YOCHELSON
 Vice President, CSIS

Comments: * PAUL LONDON
 President, London Associates
 * BILL THOMAS
 Member of Congress
 * NORBERT WALTER
 Chief Economist, Deutsche Bank
 * GIJS DE VRIES MEP
 Member of the European Parliament - Holland

1130-1230 SESSION VI GRAND DOMINION I/IV

CONCLUSIONS

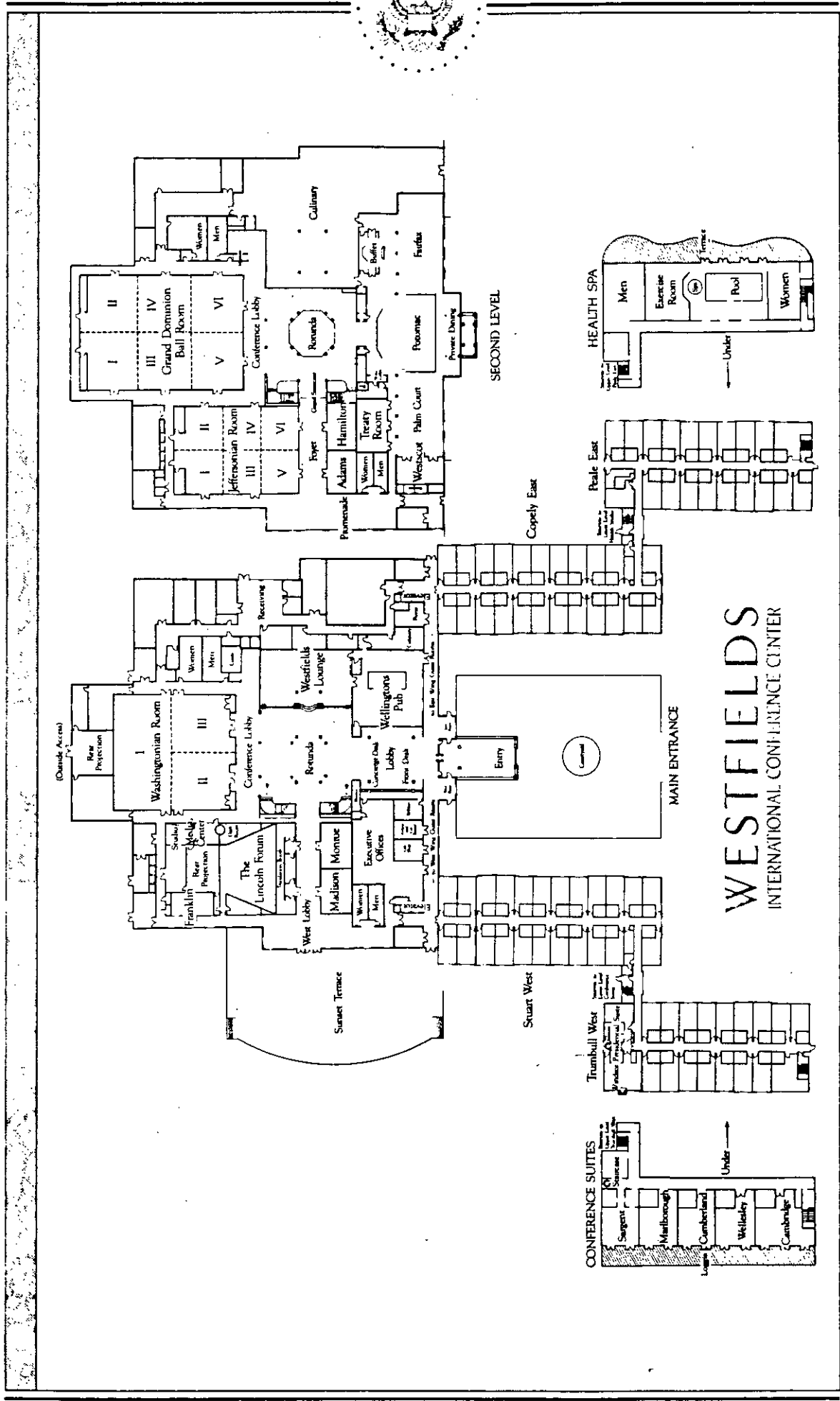
Chairman: * BILL FRENZEL
 Guest Scholar Brookings Institute

Comments: * WILLIAM WALLACE
 Fellow, Oxford University
 * MICHAEL BARTHOLOMEW
 Conference Rapporteur

1230-1240 Closing Remarks

1300-1400 LUNCH FAIRFAX

Departure



iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 14782

12 GEN. 1995

BIBLIOTECA

AECA-USA

Board of Directors
Harish Marwari, Chairman
Andrew Whit, President
George W. Koch
Henry L. Michel
David A. Morse Esq.
Barry F. MacLaggan

Patrons

United States of America
David Aaron
Paul Allaire
Ambassador George W. Ball
Richard Baument
The Hon. Edwin R. Bethune Jr.
Heppell A. Edmunds
Ambassador Tom Enders
Ambassador Ruth L. Farias
William M. Fine
Thomas S. Foley
Professor Richard Gardner
J. T. Glendon
J. Peter Grace Jr.
Wynne M. Hoffman
Leo M. Hoffman
Leo A. Kellmeyer
Dr. Henry Kissinger
Ambassador John J. Lewis Jr.
Harry Lucas Jr.
Harish Marwari
Sa Yehudi Meshulam
Ambassador George McGhee
Robert R. McMahon
Henry L. Michel
William R. Miller
Len L. Morgan
Anthony J. F. O'Riordan
Edward L. Palmer
Russell E. Palmer
William R. Peacock
Dr. Dallas Pratt
George Shinn
Ambassador Robert Strauss
W. L. Wisely
George Weissman
Jack E. Willett

Belgium
Herman de Croo
Vice-President Etienne Davignon
Jacques De Staercken
Mark Eyskens
Ernst Glinne MEP
Jean Godeaux
Jacques Grootaert
Dietrich Janssen
Andre Leynen
Dr. Leo Tindemans
Jacques van der Schueren

Denmark
Mrs. Eva Grødal MEP
Poul Schlüter
Poul Svanevold

France
Michel Albert
Raymond Barre
George Berthoin
Jacques Delors
Roland de Kerpel
Jacques G. Masurel MEP
Pierre Pflimlin MEP
Simone Veil MEP

Germany
Professor Lothar Spörberg
Dr. Manfred Scholz
Professor Hans Thümmel
Fried G. Witzke

Greece
Professor Xenophon Zolotas

Ireland
Ambassador Eamon Kennedy
Mrs. Séle de Valera

Italy
Dr. Umberto Agnelli
Ambassador Bruno Bettino

Luxembourg
Cokette Flesch
Lord MacKenzie Stuart
Gaston Thorn

Netherlands
F. H. J. Andriessen
Dr. J. E. Andriessen
Pieter Dierckx MEP
Professor Dr. V. Holstboer
J. P. van Lersel
G. J. van der Klugt
Professor Dr. P. Korteweg
A. A. Loudon
Des T. A. Majors
Des R. van Ommen
Des S. Orlaand
Gys de Vries MEP
Dr. A. H. E. M. Willems
Dr. H. J. Willems

United Kingdom
Lord Ezra
The Rt. Hon. Edward Heath
MP, MP
Sir James Stuart Hodgson MEP
Lord Jenkins
Sir David Orr
Lord Plumb MEP
The Rt. Hon. Lord Pothol
Sir Frank Roberts GCMG, CVO
Lord Sheffield
Lord Sill of Blington
Sir Ray Strong
Sir Anthony Tuke
John Hume MEP
The Rt. Hon. John Taylor MEP

**THE AMERICA-EUROPEAN
COMMUNITY ASSOCIATION USA**

17 September 1991



**'US/EC RELATIONS: TOWARDS A NEW PARTNERSHIP'
20-22 SEPTEMBER 1991**

PARTICIPANTS

Governor Gerald Baliles*
Partner
Hunton and Williams

Ambassador Robert L. Barry*
Special Advisor for US Assistance to Eastern Europe
to the Deputy Secretary
Department of State

Mr Michael Bartholomew*
President
BART Information and Monitoring Services

Timothy Bennett*
Vice President
SJS

J-D (James) Bindenagel
Department of State

Ambassador Robert Blackwill*
Harvard University
John F. Kennedy School of Government

Dr Gianni Bonvicini*
Director
Insituto Affari Internazionali

Mr Elmar Brok MEP*
European Parliament
Germany

Dr Gunter Burghardt*
Director
European Political Cooperation
European Commission

Professor Ronald Cass*
Dean
Boston University School of Law

The Honourable Tom Coleman*
House of Representatives
United States Congress

Mr Paul Dietrich*
Jones, Day Reavis and Pogue

Mr James Elles*
Chairman, AECA European Parliamentary Committee
European Parliament
UK

Mr Richard English*
Senior Advisor for EC 1992 Affairs
US Department of State

Honourable William Frenzel*
Guest Scholar in Government Studies
c/o Brookings Institution

Mr Jorge Fuentes*
Counsellor Minister
Spanish Embassy

Ms Nicole Gnesotto*
Deputy Director
Western European Union

Mrs Jacqueline Grapin
President
European Institute

Mr Jacques Groothaert*
Chairman
Generale de Banque

Mr Robert Hunter*
Vice President
CSIS

Mr Ralph Johnson*
Director European and Canadian Affairs
United States Department of State

Mr Charles Karelis*
Director
Department of Education

Ms Amy Kaslow*
Christian Science Monitor

Mr George Koch*
Partner
Kirkpatrick and Lockhart

Mr Axel Krause*
International Herald Tribune

Paul London*
President
London Associates

Wingate Lloyd*
Director International Relations
ITT World Directories

Senator Charles McC Mathias*
Partner
Jones, Day, Reavis & Pogue

Mr Lotfi Maktouf
President
La Compagnie de Conseil

Ambassador Harald Malmgren*
President
Malmgren Associates

Mr Christopher Meyer*
Minister (Commercial)
British Embassy Washington

Mr Daniel F Minahan*
Executive Vice President
North American Philips Corporation

Mr Michael Mossettig*
Senior Producer for Foreign Affairs
MacNeill-Lehrer Newshour
WETA TV

Sir David Nicolson*
Chairman
AECA International

Mr Julian Oliver*
Vice President
Corporate External Affairs
American Express

Mr John Palmer*
The Guardian

Mr Thomas Patton*
Vice President
North American Philips Corporation

Mr Riccardo Perissich*
Deputy Director General,
Director Generale III
European Commission

Mr Corrado Pirzio-Biroli*
Deputy Head of Delegation
EC Delegation to Washington DC

Mr Luis Planas MEP*
European Parliament
Spain

Ms Linda Powers*
Deputy Assistant Secretary
Department of Commerce

Mr Wolfgang Pordzik*
Director
Konrad Adenauer Stiftung

The Honourable Bill Richardson*
House of Representatives
United States Congress

Mr John Richardson*
Head of Division
Directorate Generale I
European Commission

Mr Glenn Reichardt*
Partner
Kirkpatrick and Lockhart

Mr Hobart Rowan
The Washington Post

Mr Bob Samuelson*
Contributing Editor, Newsweek
Correspondent, National Journal

Mr John Schmitz
Deputy Counsel to the President

Mr Bruce Stokes*
International Economics Correspondent
National Journal

The Honourable Bill Thomas*
House of Representatives
United States Congress

Professor Loukas Tsoukalis*
Director
Hellenic Centre for European Studies
University of Athens

Ambassador Andreas Van Agt*
EC Delegation to Washington DC

Professor Jacques Vandamme*
Chairman
TEPSA

Professor Alvaro Vasconcelos*
Director
Institute for Strategic and International Studies
Portugal

Mr Gijs De Vries MEP*
European Parliament
The Netherlands

Dr Norbert Walter*
Chief Economist
Deutsche Bank

Dr William Wallace*
Fellow
St Antony's College, Oxford

Mr Earl Wayne*
Director Soviet and European Affairs
NSC

Mr Peter Weitz*
Director Programs
The German Marshall Fund of the United States

Dr Wolfgang Wessels*
Director
Institut fur Europaische

Mr Bob Whiteman*
EC Delegation to Washington DC

Mr Andrew Whist*
President
AECA USA

Mr John Wyles*
Editoriale L'Independente SRL

Dr John Yochelson*
Vice President
CSIS

Mr Robert Zoellick
Under Secretary of State for Economic Affairs
US Department of State

A E C A S T A F F

Ms Vivien Haig*
Director
AECA International

Mr Georges de Veirman*
Director
AECA Europe

Sally Adamy McMullen*
Director
AECA Washington DC

Ms Alison Prince*
Director
AECA UK

Ms Donna Sanders*
Director
AECA New York

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° inv. 14782

12 GEN. 1995

BIBLIOTECA

Wolfgang Wessels

Bonn, September 1991

POLITICAL AND ADMINISTRATIVE FRAMEWORK BETWEEN
"EC-EUROPE" AND THE UNITED STATES

GROWTH AND DIFFERENTIATION TOWARDS A NEW ATLANTIC COMMUNITY?

First draft of the introduction to a research project of the Institut für Europäische Politik, Bonn, financed by a Grant of the German Marshall Fund of the United States.

The fact sheets (enclosure I and II) have been compiled for this project by Amanda Tucker, College of Europe, Bruges.

Table of contents

	page
I. Relevance of the issue: Testing the Transatlantic network	1
1. Institutional and Administrative Frameworks: facing the Political Landscape of the '90s	1
2. Lessons from research: the usefulness of a regime approach	3
II. The political and administrative links – preliminary findings	6
1. The organizational map – survey and comments	6
2. Moving towards a new "pluralistic" Atlantic Community? Further issues for debate	8
3. Do institutions matter?	10

I. Relevance of the issue: Testing the Transatlantic network

1. Institutional and Administrative Frameworks: facing the Political Landscape of the '90s

Relations between the United States and "EC-Europe", i.e. the European Community and Community-related structures like the system of intergovernmental consultations among the twelve EC governments on foreign policy issues called "European Political Cooperation" (EPC), have entered a new phase since the beginning of the nineties.

The Transatlantic Declaration of 19 November 1990 has to be understood as the clearest though also ambiguous expression to strengthen their "partnership" advocated by Secretary of State Baker earlier¹ and as taken up by the Irish Presidency in the second half of 1990 and confirmed by the foreign ministers of the Twelve². In the declaration both sides agreed "that a framework is required for regular and intensive consultation" and that "they will make full use of and further strengthen existing procedures".

With regard to the future of European-American relations and therefore for its political and administrative frameworks the following changes and evolutions in the political landscape of the '90s are of a specific importance.

1. The evolution of the EC as well towards an Internal Market in 1993 as towards a Political Union which will include a common foreign policy and security policy, touching in the long run also defence issues, and towards a European Economic and Monetary Union will change EC-Europe profoundly. Caused by the rather successful implementation of the 1992 programme and the Single European Act of 1986 as well as a result of outside challenges the EC/Twelve will not only "deepen" their integration, but also play a greater international role. Applications of several European states for

1 Particularly in his speech of 12 December 1989, Berlin. Text in: Europa-Archiv 4 (1990), pp. D 77-84.

2 The decision to intensify European-American relations was made in early February 1990. Agence Europe, 5./6.2.1990.

accession will further increase the weight of the EC. To the extent the EC member states will be ready to act through a collective European body, their traditional bilateral relations – not at least those with the United States – will be affected to a large degree.

2. The revolution in Eastern Europe including the Soviet Union leading to a yet rather unclear "new architecture in Europe" also affects some of the basic assumptions about the transatlantic partnership. The end of the division of Europe will bring about a reduction in the US military presence and at the same time increase challenges and possibilities for "EC-Europe". These new requirements might force the latter to not only define a European security policy but to take up more regional responsibilities in political and economic fields. So far the United States have diplomatically supported the EC's "anchor function" towards the young democracies in Eastern and Central Europe.

3. Evolutions and conflicts in areas outside Europe will raise the issues of global responsibilities of EC-Europe and – in terms of the EC and the USA relations – the principles and forms of world wide cooperation and a division of labour including an acceptable burden sharing. The lessons of the Gulf war showed considerable intra-European and intra-atlantic cleavages and problems.

4. The unification of Germany in 1990 and linked herewith Germany's new political role will influence the existing European-American relations to a considerable degree. As of 1990/91 it seems as if the unified Germany perceives the EC/EPC as the most central body through which it wishes to act internationally. Such an even increased readiness to act collectively may have an impact on the tradition of bilateral relationships of the Federal Republic of Germany and other big EC member states towards the United States which were preferred or at least existed in parallel to the collective European communication with Washington³.

3 Ernst-Otto Czempiel: Modernisierung der Atlantischen Gemeinschaft, in: Europa-Archiv 8 (1990), S. 275-286 observes the predominance of this bilateralism also for the present situation.

Though there was a general consensus among the EC member states that the EC's own policies and particular their attempts to achieve a European foreign policy must not produce serious confrontations with the United States in the long term, opinions differed about the scope and degree of institutionalization of the dialogue structures and their intensity. The Federal Republic of Germany has always been among the protagonists of a close dialogue with the United States while particularly the French side appeared to be the most reluctant one.

The quasi-institutional set-up of US-EC Europe relations has to be analyzed with regard to these challenges: are the forms of dialogue efficient (in terms of decision preparation and decision making) and effective (in terms of decision implementation)? Is this transatlantic network a new "regime" (see below) of a stable cooperation or is it more procedure than substance? – thus confirming what has been said already, "Even a broader, institutionalized dialogue between the Europeans and Americans will not automatically solve the problems which arise from different interests and perceptions"⁴.

Or are the institutional supplements and adaptations of the Trans Atlantic declarations leading to a real progress in common problem solving leading to a "we-feeling" and a "new" pluralistic Atlantic Community of two "sovereign" entities or are these incremental reforms only concealing for a certain time that there are basic structural deficits, which cannot be overcome but by a revolutionary rather unrealistic, strategy, namely that of a quasi-constitutional treaty creating a new Atlantic Organization with a new set of institutions disposing even of an authority of its own?

4 These are the words of a high-ranking Commission official, largely familiar with transatlantic relations: Horst G. Krenzler: The dialogue between the European Community and the United States of America: present form and future prospects in: Jürgen Schwarze (ed.): The external relations of the European Community, in particular EC-US relations, Baden-Baden 1989, pp. 91-103; here: p. 102.

2. Lessons from research: the usefulness of a regime approach

The amount of academic and political literature on US/European relations is considerable also already in view of the new political changes mentioned above. The overall relations across the Atlantic as well as specific sectors of US/EC-Europe disputes – trade, agricultural policies, diverging positions vis-à-vis "out-of-area conflicts" like the Middle East – have been thoroughly described and analyzed. However, there are only few contributions on the political-institutional frameworks and administrative infrastructures which have been established over the decades between EC-Europe and the United States⁵. Even works dealing with institutional links make only passing remarks on the empirical landscape of the established frameworks⁶. Some actors⁷ give useful insights for further research, but we need additional information and insights in view of the latest developments especially after the Transatlantic Declaration.

5 See among others: Lord Bethell: Report Drawn up on Behalf of the Political Affairs Committee on Political Relations between the European Community and the United States of America, WPDCA2-105/8732P; Gianni Bonvicini: La coopération politique européenne et la politique de sécurité dans les rapports Europe-Amérique, in: Jaques Bourrinet: Les relations Communauté européenne Etats-Unis, Paris 1987, pp. 461-472; Horst G. Krenzler: The Dialogue between the European Community and the United States of America: Present Form and Future Prospects, in: Jürgen Schwarze: Contributions to an International Colloquium Organized by the European Policy Unit of the European University Institute held in Florence on 26-27 May 1988, Baden-Baden 1989, pp. 91-103; Fernando Lay: Euro-American Relations, in: Yearbook of European Law 1987, pp. 171-183; Anastasia Pardali: European Political Co-operation and the United States, in: Journal of Common Market Studies, Vol. 25, No. 4, June 1987, pp. 271-294; Reinhardt Rummel: Die Europäische Gemeinschaft und die USA. Zur Frage der Entwicklung ihrer institutionellen Beziehungen, Ebenhausen 1990.

6 Rummel, op. cit.

7 Krenzler, op. cit.

Going beyond factual description it seems useful to apply the regime approach⁸ for a broader analytical framework.

These works try to explain the creation and the use of such a quasi-institutional network without a central authority by a "functional theory"⁹. In this view "rational governments" "cooperate" in situations of "interdependences" to achieve results which are more "effective" than "autonomous national decisions". Regimes also increase the efficiency of decision making as they reduce tendencies of states to adopt "free rider positions" and to cheat partners in situations of prisoners dilemmata. The common perceptions of what are understood as "legitimate" and what are "illegitimate" actions are developed. Also the decentralized decision implementation can be controlled by participating states within regimes.

Thus regimes are supposed to facilitate cooperation in all phases of the policy cycle: decision preparation, making and implementation. For our purpose it is helpful to compare the evolution of the transatlantic networks with these criteria developed by the regime theory: Do these networks fulfil the criteria set by this approach indicating that they contribute to problem solving by an improved style of cooperation?

8 See especially D. Krasner (ed.): *International Regimes*, Ithaca 1983; Robert O. Keohane: *After Hegemony, Cooperation and Discord in the World Political Economy*, Princeton 1984; Stephan Haggard, Beth A. Simmons: *Theories of International Regimes*, in: *International Organization* 41/3, pp. 491ff.; Wolf, Zürn: "International Regimes" und Theorien der Internationalen Politik, op. cit. p. 201ff; Manfred Efinger, Volker Rittberger, Michael Zürn: *Internationale Regime in den Ost-West-Beziehungen, Ein Beitrag zur Erforschung friedlicher Behandlung internationaler Konflikte*, Frankfurt 1988; Beate Kohler-Koch, *Zur Empirie und Theorie internationaler Regime*, in: Beate Kohler-Koch, (ed.), *Regime in internationalen Beziehungen*, Baden-Baden 1989, pp. 17ff; Manfred Efinger, Volker Rittberger: *Internationale Regime und Internationale Politik*, in: Rittberger (ed.): *Theorien der Internationalen Beziehungen*, op. cit., pp. 263ff.

9 Keohane, *After Hegemony*, op. cit. p. 244.

II. The political and administrative links – preliminary findings

1. The organizational map – survey and comments

The systematic (see enclosure I) and the chronological (see enclosure II) overview of the political and administrative links between the USA and EC-Europe in the last years offer a couple of useful insights which can be exploited for some preliminary comments.

(1) The map of links shows a high degree of sectoral differentiation, i.e. not only foreign policy or commerce or agricultural experts meet but also those dealing with other crucial issue areas of West European and US policies. The scope of issues is however not comprehensive, i.e. not all major governmental activities are touched upon: especially major issues of external (defence) and internal (protection against international crime) security are widely excluded from these forms of dialogue. This reflects the state of EC-Europe's realm of competences and scope of common activities as well as the US hesitance to down-grade other fora like Nato.

(2) The map also shows a high degree of vertical differentiation of governmental actors, i.e. from Presidents over ministers and high officials to civil servants on the expert level the US/EC network includes all levels of governmental actors. This network is thus not only used by perhaps rather marginalised experts on the relations with the other side but by those who are in responsibilities for the real decision making.

(3) The intensity of contacts within this network is considerable though not extraordinary; compared with the frequency of contacts EC-Europe with other countries¹⁰ or compared with interaction patterns within western organizations¹¹

10 See e.g. Geoffrey Edwards and Elfriede Regelsberger: Europe's global links, The European Community and Inter-Regional Cooperation, London 1990, and Elfriede Regelsberger: Westeuropa als internationaler Akteur, Die Außenbeziehungen der Europäischen Politischen Zusammenarbeit, Bonn 1990, unpublished Phd Thesis.

11 See Wolfgang Wessels: Administrative Interaction, in: William Wallace (ed.): The Dynamics of European Integration, London 1990, pp. 231-237.

the quantity of contacts belongs to an upper though not special class of political and administrative interactions.

The data are however only of a limited validity. The used surveys cannot list all additional interactions which take place between US and EC officials in international organizations like the UN, the OECD, GATT, etc. Neither can they enumerate all bilateral contacts between officials from the US and EC member states. The value added by the (bilateral) transatlantic dialogue is difficult to grasp.

(4) The degree of organisational innovation of the US/EC links is limited: the Trans-Atlantic declaration has more or less ratified what had been informally developed before. Furthermore, already traditional forms of external contacts of EC-Europe have been extended to the relations with the US. In view of the formalized, regular EPC contacts with third countries the US is rather a latecomer.

One new form of dialogue was established which is now also demanded by other countries: the bilateral presidential meetings with a bi-cephal representation by EC-Europe, i.e. the regular direct presidential meetings between the US-President (on one side) and the President of the European Council and of the Commission (on the other side) was not copied from another set of EC contacts but took up earlier forms of contacts with the US.

(5) The degree of organizational differentiation is considerable. The number of different formulas by which EC-Europe is represented in the meetings with US officials is quite difficult to categorize. This organizational differentiation reflects the byzantinistic way EC-Europe pursues its external relations. (I wonder how many US officials and I guess also EC officials really understand the rationale behind this way of developing external contacts.)

This organizational differentiation allows for the above mentioned extension of the sectoral scope; intra-communitarian legal constraints are thus taken care of. At the same time it raises the issue of the "consistency" (thus the formula used by the Single European Act) between numerous and different avenues of EC-Europe's external policy making.

(6) The use of this network shows a high degree of actuality and flexibility. Issues of mutual concern, e.g. GATT round, Gulf war, etc., were raised at appropriate times. Though the data are not fully conclusive the chronological survey suggests that the network was sufficient to enable all contacts which were asked for by either side.

(7) One preliminary conclusion drawn from these characteristics of the map suggests that within the present status quo you can detect only few purely organizational shortcomings which could be remedied by incremental steps.

2. Moving towards a new "pluralistic" Atlantic Community?

Further issues for debate

The map of political and administrative links shows a considerable degree of interactions among actors on different levels and in several policy sectors. What cannot be deduced from this picture is the degree to which these contacts influence the interest perceptions, attitudes and actions of the actors involved.

Major questions need to be raised.

1. As to the overall relevance three possibilities (not mutually exclusive) could be discussed:

- a) Are these transatlantic contacts mainly symbolic actions to create a generally positive climate of relations without any direct or indirect impact on the decisions taken in capitals or in international organizations?
- b) Do these contacts generally influence perceptions and attitudes and have thus longer term indirect affects?
- c) Do they directly affect the substance of policies of one or both sides?

2. As to the relevant locus of policy making:

At which stages of the policy cycle are these contacts of relevance?

- a) decision preparation
- b) decision making

c) decision implementation

A closer look into the preparation and follow-up of trans-atlantic contacts in Washington and Brussels (and national EC-capitals) is necessary: are these embedded and integrated in normal channels of policy making (and thus of relevance) or do they constitute extra activities with no major spill-over effects into the dominating traditional structures?

3. Is the interaction style – in spite of all ongoing controversies – characterized by a sense of cooperation which would justify to use the term of a "regime"; do we thus witness a process towards a higher degree of efficiency and effectiveness which might survive at least some major clashes of interests or is this present set-up only a product of the historical constellations of late 1990, which will wither away when the next tide goes high? Thus the stability of this quasi-institutional set-up is a major point for further debate.
4. Are the transnational contacts even part of a process which goes beyond a "regime" towards an "pluralistic Atlantic Community"¹², in which a "we-feeling" is developed leading to a "pooling a sovereignties" even without some kind of a central authority with real powers?

To identify such a process we have difficulties to find valid and reliable indicators. One deficit on the way towards such a new Atlantic "Community" can, however, be rather clearly observed: the few links between Congress and the EP as listed in the surveys are not sufficient to promote a process towards a common public dialogue across the Atlantic. The evolving transatlantic network is involving mainly official (with some extension to parliamentarians and representatives of lobbies, see enclosure I and II). They might perhaps develop a "communauté de vues"¹³. As this learning process is however restricted to a small circle its experiences cannot be transferred to a broader

12 This term has been borrowed from the notion of a "pluralistic security Community" by Karl W. Deutsch et alii: Political Community and the North Atlantic Area, Princeton 1957, pp. 5-6.

13 See for this term, among others, Elfriede Regelsberger: EPC in the 1990s: Reaching another plateau? in: Alfred Pijpers, Elfriede Regelsberger, Wolfgang Wessels (eds.): European Political Cooperation in the 1980s. A common foreign policy for Western Europe? Dordrecht, Boston, London 1988, p. 4.

set of elites and to the relevant sections of the electorate. The transatlantic dialogue hovers above (or beside) the national monologues and is thus subject to exogenous forces which are not integrated in the transatlantic networks.

3. Do institutions matter?

As always when discussing organizational set-ups we are faced with the fundamental issue of relevance: how important are those institutional issues?

We are faced with a perennial argument: Is the debate, especially about such a loose institutional set-up, not irrelevant or at least superficial as the relations between the US and EC-Europe are determined by other factors such as the personalities and likings of the leaders on both sides of the Atlantic, the convergences and divergences of objective national interests, power relations among participant states, inbuilt dynamics and constraints of the internal political and constitutional forms of the involved partners, and the logics of the international system. The considerations presented here then look rather trivial or even contra-productive: as institutional engineering (called pejoratively "Modellschreinerei") might even run against some of the mentioned fundamentals in the transatlantic relation they might increase and not decrease the difficulties of transatlantic problem solving. This set of arguments would be rather agnostic about "grand institutional designs".

As implicitly developed in this paper the debate about the institutional set-up is supposed to be of major importance: not as a *deus-ex-machina* to overcome easily fundamental cleavages or inward looking attitudes but as a necessary though not sufficient condition to improve the capacity to tackling those common problems in a more efficient and effective way. Furthermore, institutional set-ups might develop endogenous dynamics with considerable consequences for the policy cycle and thus need careful attention.

As for the organizational set-up of the transatlantic relations we are still quite at the beginning of the debate in how far the existing networks have some kind of impact on

the policy cycle of each partner and on the realities of the world. To neglect the risks, limits and opportunities of this set-up in evolution is, however, in any case short-sighted.

iai	ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° inv. 14782	
12 GEN. 1995	
BIBLIOTECA	

DRAFT: NOT FOR QUOTATION
September 6, 1991

United States and European Community
Defense and Foreign Policy Coordination

By Robert D. Blackwill
Harvard University

for

The America-European Community Association Conference on
US/EC Relations: Towards a Global Partnership
Westfields Conference Center, Virginia
September 20-22, 1991

Any discussion of the future of US-EC foreign and defense policy cooperation must begin with the moral and geopolitical earthquake that has occurred in what we for more than 70 years called the Soviet Union. The present pattern of that cooperation and its regular consultative mechanisms is overwhelmed by the implications for Europe and the United States of the second successful Russian Revolution which has brought the collapse of communism, one of the half dozen or so surpassing events of global consequence this century.

To stress this point, one might compare these seismic happenings since mid-August with historical events of comparable magnitude and import since 1900. The list is not a long one and includes this first approximation: World War I and the end of the Hapsburg, Hohenzollern and Ottoman Empires; the 1917 Russian Revolution; the rise of fascism and World War II; the invention and use of nuclear weapons; the Soviet occupation of Eastern Europe; the Western reaction to that occupation (Marshall Plan, NATO, democratic transformation of West Germany and Japan); the creation of the European Community; the end of colonialism; and the liberation of Eastern Europe and unification of Germany.

If this enumeration is roughly correct, we meet in the immediate aftermath of developments that will cast their shadows

from that vast Euro-Asian conglomerate over Europe and the planet for decades. With this transcendent dimension of these events in mind, all may wish to be modest in their predictive enthusiasms. (One is reminded of the Chinese historian who, when asked recently to comment on the historical consequences of the French Revolution, responded, "It is too soon to tell.") For who believed in 1920 that Europe would again be at war in two decades; or in 1945 that Germany would be the lynchpin of NATO defense in ten years; or at the end of 1988 that east and central Europe would be free of Soviet control within 18 months. And who believed on September 21, 1991, that...

What does seem clear at the moment are enormous Western stakes, including especially those of the United States and the European Community, in the evolution of Russian Revolution II. That may be self evident if one accepts the historical weight of these developments. Nevertheless, it may be useful to note explicitly here that the peaceful triumph of the reformers' agenda of democratic pluralism and a market economy is only one of the possible futures for the lands east of the Bug. Among other imaginable futures, one could see a return of Russian autocratic rule and imperial behavior toward its neighbors, then perhaps their neighbors and so forth. Or a deeply unstable patchwork of more or less independent states could evolve, some democratic, some not, all in great economic difficulty, all with national armies, many with territorial claims on the others. Nor can one rule out episodic or continual civil wars between and among the former Soviet republics.

The recent public discussion of Soviet nuclear command and control during and after the coup highlights the most immediate policy issue raised for the West with regard to these alternate Soviet futures. But there also many other issues to be confronted: the safety of Soviet civil nuclear reactors which are both numerous and dangerous; the fate of Soviet conventional armed forces in the event of large scale conflict between republics; the influence of these various futures on the

politics, economies and defense establishments of the struggling democracies of Eastern Europe; the amount of economic assistance required from the West for countries east of the Oder-Neisse; the number of refugees heading West; the effect on Japan and China of these several alternatives; the impact on Islamic fundamentalism and the balance of power in Southwest Asia and the Middle East; and the proliferation of weapons of mass destruction, especially on the Soviet rim.

For emphasis, I have left for last the undoubted link between the sort of future that emerges from the former Soviet Union and the evolution of the European Community itself. In the brief three days of the coup, we saw plaintive requests from throughout Eastern Europe to accelerate the pace of their inclusion in the EC and, unsurprisingly given the circumstances, uncertain reactions from Brussels. Imagine the impact of various Soviet futures on EC deliberations on the identity, number and pace of new members; on its trade relations to the east; on its desire and capacity to create a viable European defense force; on the Community's emigration and refugee policies; and indeed, if the Yugoslav case is a tentative guide, on the EC's internal cohesion.

With these considerations as background, it may be illuminating to ask whether or how the U.S. or the EC have sought to consult with each other about these earth shaking events. This should give us one good litmus test concerning the current capacities of this consultative channel, not least because, as implied above, the immediate Western response to Soviet events has been properly political and economic, not political-military.

It appears from the press that the principal arteries of transatlantic communication on the Soviet crisis were briefly through NATO, when the coup seemed to have some hope of success, and in a more enduring fashion in the G-7. If the US-EC net was activated in a robust way during the coup crisis and its aftermath, this has escaped the notice of the media. And we do know as this is written that there have been no special and

*maneuver
is to be
is to be*

high-level US-EC meetings called to discuss the crisis, unlike the NATO Ministerial convened during the coup and the G-7 sherpas get together in London thereafter.

In some ways, there are good reasons for this. Probably most important, Japanese membership in the G-7, its wealth and potentially decisive aid to the Soviet center and republics, and the geopolitical cost of excluding Japan from Western consultations on Soviet events all argued against a US-EC emphasis in transatlantic exchanges. And, of course, the G-7 had already invited President Gorbachev to London and taken the lead before the coup in fashioning a Western response to the Soviet reform effort. But it also appears possible that some EC members of the G-7 may have preferred to work through the Economic Summit channel rather than through Brussels: a smaller more manageable group, more political, less bureaucratic, more room for independent maneuver, and no direct link to the European Parliament. Washington may have shared some of the same views of the EC option although including the Japanese was probably the critical calculation by the Bush administration.

One can ask, however, whether the U.S. choice indirectly to address the EC through G-7 consultations on developments east of Poland will continue. If it does, the US-EC channel will remain of secondary transatlantic importance. No amount of US-EC deliberation concerning events in southern Africa, southeast Asia or even the Middle East will change that. (Eastern Europe is an immediate case to which we will return). But there are reasons to believe that the very challenges that are likely to emerge from the breakup of the Soviet Union, and especially requirements for the most efficient Western responses, may in fact enrich US-EC deliberations.

Begin with the most pressing need -- Western technical assistance to the Soviet reform effort and that of the republics. It may be that G-7 members can coordinate their general positions with regard to IMF and World Bank involvement in Soviet reform. Other technical assistance is another matter. If Western

governmental efforts to help specifically the Soviet center and republics with technical assistance are to be effective in food distribution, transportation, communication, banking and legal systems, privatization, defense conversion, energy exploitation, and so forth, two ingredients are necessary.

First, the West must coordinate its particular national activities to avoid duplication and unnecessary overlap. This will be no easy task and the G-7 is unlikely to acquire the necessary administrative structure to accomplish that goal. A US-EC-Japan arrangement might be more sensible, drawing especially on the existing capacities of the EC Commission as in the G-24 model. Second, technical assistance cannot be best undertaken from afar or with brief visits by busy Western policymakers. Technical assistance in the areas mentioned above must be accomplished on the ground, day after frustrating day for months, in some instances for years. Again, the G-7 does not look to be an appropriate coordinating vehicle for that sustained and intense Western effort.

Indeed, it is not obvious that all involved Western governments have yet come to grips in their own individual bureaucracies with the resource and personnel implications that flow from the size and duration of the required technical assistance program to the Soviet Union now that the communist colossus has been shattered there. In any case, one hopes the EC will be the clearinghouse and primary decision making forum for its members' increased technical assistance to the Soviet center and the republics and, if that is the case, an irreplaceable interlocutor with the United States and Japan as they go about parallel activities.

Handwritten: leadership

The reader may be wondering whether this discussion relates to the prescribed topic, "US-EC defense and foreign policy coordination." Perhaps when Henry Kissinger and Michel Jobert were fighting about transatlantic consultation during the Year of Europe, issues of political economy were less prevalent in the US-EC relationship. (Even then, one remembers the bitter

oil-based recriminations across the Atlantic regarding the Euro-Arab dialogue). Now, Western security requirements vis-a-vis the Soviet Union and Eastern Europe demonstrate that the economic dimension of U.S. and EC foreign policy toward these regions is likely to be decisive in the years ahead. (The days are over when transatlantic deliberations could be neatly compartmentalized into foreign policy (East-West, North-South, and wherever there was trouble for an ally), defense policy (East-West predominating and occasionally North-South) and economic policy (West-West predominating, East-West and North-South)).

If the evolution of the Soviet Union is the primary geopolitical subject for US-EC consultation, Eastern Europe is clearly in second place. And a development with respect to that area has occurred that few predicted, including the Community itself. When Western governments and experts in 1989/90 discussed future European architecture, the debate centered on whether NATO or the CSCE was the most desirable hub of a new European security system. The Alliance hoped it could indirectly provide a stabilizing influence on Eastern Europe. The CSCE created a crisis resolution center to the same end. In the Yugoslav event, it was neither of those institutions which took the lead in seeking to negotiate an end to the violence. NATO has remained sensibly on the sidelines, no doubt exchanging information but no more. The CSCE has provided a useful umbrella for negotiation done by others elsewhere.

The European Community has emerged as the West's last best hope to resolve the crisis. Whether the EC is successful or not in this attempt, the implications of the effort for European security could be notable. Some may argue that the Yugoslavian case is unique: not a member of the Warsaw pact; no border with the USSR; thus no central East-West dimension and no NATO role; and, besides, the Americans were otherwise engaged trying to arrange a Middle East peace conference. Thus, some might insist, another explosion in Eastern Europe would mark a return to the

familiar East-West pattern of NATO and the U.S. in the forefront.

Whether that would have been true now seems only a matter of conjecture. With Russian Revolution II at full speed and the Soviet conventional threat to Europe ended, and especially if EC peace efforts in Yugoslavia succeed (against most expectations), might not the European Community become the new arbiter of Eastern European disputes? After all, these countries wish EC membership. The Community and its member states are by far the largest aid donors to them. This leverage far outweighs that of the United States. And the U.S. may again be hesitant to get itself in the middle of Eastern European nationalisms and ethnic hatreds, not to mention all out wars in the region, and will in any case be less affected than Europeans by events there. As for NATO, its mission with regard to Eastern Europe now appears to be more tenuous than ever.

It was interesting in this respect to see the high level of US-EC consultation during the Yugoslav events. Secretary Baker seemed to be in constant touch with the EC presidency and troika, especially in the early days. This high level American preoccupation with, and ultimately deference toward the Community during a European crisis was a post-war first, driven by events in Yugoslavia itself and by EC political will to jump into the Yugoslav quagmire. The EC and U.S. reactions to the Yugoslav events make powerfully a preeminent fact regarding consultation between and among nation states and alliances. Squishy sentiment seldom prevails. The Bush Administration cared what the EC thought and did about Yugoslavia not because of some abstract devotion to US-EC consultation. Instead, it was the Community's power and influence that produced American attentiveness to EC deliberations and decisions.

It will be the Community's capacity to again exert in Europe a preeminent role that will again decide the level and intensity of U.S. interest in EC policies. And, in the same way, it will eventually be the degree of U.S. involvement in and resources devoted to the political and economic futures of Eastern Europe

the EC has no role in the US-EC dialogue since the US is the only one who can determine EC interest in creating an expanded dialogue with Washington on these same matters.

and the Soviet Union that will determine EC interest in creating an expanded dialogue with Washington on these same matters.

The vigorous and sometimes acidic exchanges at the beginning of this year between the United States and Europe over the tension between a vital North Atlantic Alliance and a European defense identity now seem of another era. The U.S. was determined to avoid a shift outside of NATO in transatlantic defense decision making; to maintain an integrated military structure; to encourage an enlivened political role for NATO in the new Europe; and to keep control through the Alliance of any conceivable crisis with the Soviet Union in Europe that might lead to a potential nuclear exchange.

Some Europeans, and especially some French, contested all these American objectives and opined that their sum total would be to smother the nascent European defense impulse. As this argument ground on through this spring, EC members could not reach a common agreement on the matter among themselves, including in their IPG discussions. The WEU initiative trailed off: ("the WEU is a sleeping beauty that has been kissed many times but never awakened," to quote Joseph Joffe). The EC's attention was diverted to issues concerning the powers of the Council versus the Commission versus the Parliament and the question of extending majority voting to additional political subjects, including those in foreign policy. And the U.S. increased pressure on its Allies to reaffirm NATO's classical role in the new Europe.

The denouement of this phase of the transatlantic defense debate occurred at the spring, 1991, NATO Defense (DPC) and Foreign Ministers (NAC) meetings. Washington had its way. At the May DPC, which France of course did not attend, the Alliance created a Rapid Reaction Corps of the kind that the French and some others had wanted to be a WEU instrument, and restated the crucial importance of the integrated military structure. And on June 6-7 in Copenhagen, NATO Foreign Minister's announced the four core security functions of NATO in the new Europe with

French agreement and after much internal debate.

These functions were:

I. "To provide one of the indispensable foundations for a stable security environment in Europe, based on the growth of democratic institutions and commitment to the peaceful resolution of disputes, in which no country would be able to intimidate or coerce any European nation or to impose hegemony through the threat or use of force.

II. "To serve, as provided for in Article IV of the North Atlantic Treaty, as a transatlantic forum for Allied consultations on any issues that effect their vital interests, including possible developments posing risks for members' security, and for appropriate coordination of their efforts in fields of common concern.

III. "To deter and defend against any threat of aggression against the territory of NATO member states.

IV. "To preserve the strategic balance of Europe."

Looking closely now at these four core NATO principles that were so sensible before the three days that shook the world, one can ask how they relate to the current situation. With regard to Principle I, no successor state to the Soviet Union seems likely to have hegemonic capabilities concerning Europe for many years at best. Moreover, one can at least doubt that NATO as an institution would act if Russia intimidated or even invaded the Ukraine, or if Rumania took similar action against Hungary. As for the Greek-Turkish conflict, the Alliance would appear to have as little role as before. Principle II's call for NATO to remain an important transatlantic consultative body still has merit, although one must observe that the economic problems that are likely to dominate the West's relations with the Soviet Union and Eastern Europe in the years ahead will best be discussed and decided elsewhere. The "deter and defend" language of Principle III is, of course, an old NATO formula aimed at an old Soviet Union. It would now seem to apply primarily only to threats from the Middle East against Turkey and from North Africa against

southern Europe. As for Principle IV, one has cause to ask, just what is the "strategic balance within Europe" after recent events in the Soviet Union?

To do this brief textual analysis is not to argue that NATO no longer has a purpose. It will not be clear for some time, probably years, whether the democratic experiments in the Soviet republics, and especially in Russia, will take root and succeed. Simple prudence requires that the West maintain a political-military structure in the event that history in the East takes another bad turn. Nevertheless, one must have compassion for those officials within NATO countries that must now revise their June strategic revision, and prepare appropriate documents for a NATO summit scheduled for Rome in November that is meant to unveil publicly the Alliance's political and military doctrine and purposes after the Cold War.

With this dramatic impact on the Alliance of the August revolution and the fundamental conceptual reappraisal it will require, the NATO members of the EC may not see the urgency or have the energy to push for European defense cooperation in the short term. It hardly seems the most pressing task for the Community at the moment. But over time, the EC will return to the subject, partly because of French frustrations that there was no credible WEU/EC military force that was available to intervene in the Yugoslav crisis, perhaps because of spreading instability in Eastern Europe, or perhaps because of a threat to EC interests emanating from outside Europe.

But to demonstrate how much the world has changed since mid-August, the problem of a separate European defense identity that so worried NATO and EC governments and policymakers only six months ago must these days rank low in the transatlantic list of proximate concerns. Until that changes one way or another either at Evere or in the Community, the issue of US-EC/WEU defense cooperation is not likely to have a high place on the West's agenda. Indeed, NATO, the WEU, the European Community and all their member states can best spend their efforts in the difficult

task of maintaining coherent, capable and ready Western ground and air forces in Europe in the period ahead rather than arguing about which Western institution will have control over what could quickly become hollow armies.

In closing this brief examination of the factors that will help form the quality of future US-EC foreign and defense policy coordination, it is important to make one final emphatic point. This dialogue was plagued for years by theological disputes that had their origins in the early 1970's. Did the U.S. want a permanent chair and even a veto at the EC table? Could the Community develop a confident identity while consulting intensively with the United States? Would the United States use its security umbrella over Europe to blackmail the EC on trade issues? Were U.S. and EC interests compatible outside Europe and especially in the Middle East? These antiquities will not go entirely away. Neither will the suspicions on both sides of the Atlantic that keep them alive. But there has never been a more critical time to minimize such old and prejudicial frames of reference. If the second Russian Revolution is one of the six or eight transcending events of the last 100 years, it is probable that present patterns of US-EC consultation and cooperation will be significantly altered for better or worse. For better is better, but not inevitable.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° 14382
12 GEN. 1995

BIBLIOTECA

TRADE RELATIONS BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITIES

Ronald A. Cass

Introduction

Trade relations between the United States and the European Communities have settled into a pattern that trade negotiators should find ideal. That is both good news and bad news.

Trade between the US and the EC continues to grow at a rate that exceeds the growth rate in either's GDP. Investment by each economy in the other, which foreshadows future trade flows, also continues to grow. Barriers to trade in many sectors are lower today than a decade ago, and many trade barriers will be lowered further over the coming decade. That much is good news for the two "national" economies as well as for the trade negotiators who need not fear that they will have no victories to claim or, worse, that frictions in their area of responsibility will escalate into more serious national confrontations.

At the same time, trade negotiators need not fear their own impending obsolescence, as the US and EC will generate a steady flow of trade disputes for the foreseeable future. Moreover, these disputes will be of sufficient political and economic importance to support trade negotiators' involvement in the highest levels of US-EC discussions.

Economics and Politics of Trade

Trade issues follow changes in the economy and politics of nations. Although much attention has been paid to trade balances (notably, the huge U.S. trade deficits of the late 1980s) and to recessions, these short-run phenomena are less significant than other factors in determining the course of US and EC trade relations. Five salient aspects of their economic and political life drive US-EC trade relations as we head toward the close of the twentieth century.

First, there is increasing competition in many sectors. Contrast the period immediately following the Second World War, when the United States alone accounted for roughly half the world's industrial production, with the present, when most products can be made at "export quality" in at least three dozen nations and high quality versions of even the most technologically sophisticated products can be made in perhaps

half that number. Intense interest in securing competitive advantage will not abate as the field of competition becomes increasingly level in many economic sectors.

Second, the advantages of specialization in combination with the large disparities in real wages across nations make transnational production of many products advantageous. The trend toward "globalization" of production, with component parts supplied by facilities in various countries and assembled in yet another country, has been fueled by striking declines in the real costs of transportation and communication, which over the past three decades have reduced markedly the costs of global production. (A second effect of these cost declines will be noted below). At the same time, as competition increases, the benefits of globalization rise.

The tendency to globalized production is especially strong for firms headquartered in high wage nations and facing stiff competition in markets for the firms' finished product. The relatively high wage levels in the US and EC provide incentives for global sourcing and assembly of many products that once were made at integrated production facilities located in the US or Europe. Given this trend, concern over job flight may become especially intense in the EC's "northern tier" states.

Third, with increasing competition in end-products, dispersion of production steps across facilities and borders, and downward pressure on wages, national advantage in high-wage countries increasingly will come from advances in technology, management, specialized services, or innovation. Apart from reduced real wages, these are the sources of increased productivity. Political attention will focus increasingly on securing national advantage in these areas.

Fourth, in some important sectors, economies of scale (decreasing costs with production of many units) and scope (decreasing costs with production of related products, such as successive generations of airplanes) are sufficiently strong that relatively few firms will dominate world markets. Large, commercial airplane production and automobile production are the obvious examples. These economies are often tied to firms rather than particular facilities, but also suggest a relatively small number of production facilities for at least some important components or production steps.

With declines in transportation and communication costs, the diseconomies both of dispersed production by a single firm and of centralized production with global distribution are lower. The edge that can be gained from large scale or broad

scope exacerbates concerns over competitive advantage in those sectors. The identity of these sectors will not be obvious, especially not to politicians, but recognition that success in some industries will mean dominance over profitable global markets is sure to increase political pressure for protectionism. Recognition of the possibility of large-scale returns from success in such sectors blurs the line between strategies that advance national interests and those that retard national interests.

Finally, declining industries--particularly capital-intensive, high-wage, high employment, declining industries--enjoy a strong advantage in the politics of trade. These industries already have a group of voters committed to their protection. Their incentive and ability to secure political action to protect a given industry against competition from abroad will be correlated with high wages in the industry relative to the earnings workers could expect in any alternative employment they might secure, a large stock of capital invested in the industry, and a large workforce in the industry. In other words, factors frequently correlating with low productivity also help produce protection for declining industries, which in turn will increase the costs faced by potentially expanding industries.

This has one of two effects. One is to create an expanding base of pleas for protection, as "downstream" industries become less competitive with foreign rivals not handicapped by similar limitations on access to inexpensive inputs. The other effect, driving downstream firms to move production abroad, has ambiguous implications for future protection. This flight response reduces the level of investment in the protecting nation and exerts downward pressure on wages as unemployment rises and productivity falls. Some politicians will react to these changes by concluding that more liberal trade will serve the interests of workers and investors. Others will conclude that it is more important than before to protect the remaining jobs and investment against foreign competition.

Recent Events in US and EC Trade Relations

These characteristics of the US and EC political and economic landscape inform the apparent schizophrenia of trade relations. In the realm of multilateral negotiations, of regional integration, and of legal regulation of trade at the national level, there is abundant evidence of great concern with trade and strong impetus toward both trade liberalization and trade restriction, not necessarily in the same areas.

GATT

The current round of negotiations among the contracting parties to the General Agreement on Tariffs and Trade (GATT) provides a suitable snapshot of the push and pull of national interests. Each of the major players in the round has displayed clear interest in strengthening protection of its export markets and of its own domestic market. Unfortunately, it is quite difficult to craft a set of rules that will serve well both market-opening and market-closing interests, particularly in the context of a dynamic and increasingly globalized world economy. Trade negotiators have hammered out the basic pieces of a number of agreements that, taken on their own, are appealing at least to a "club" group of nations (such as the OECD). But stitching together a patchwork of such agreements that can be sold as a package to the broader group of contracting parties--a package that, from any nation's current vantage, makes sufficient progress in one area to offset the cost of less (less open foreign markets or less protected domestic markets) in another area--requires more craft than the round's negotiators have yet been able to muster.

The negotiations began with the United States' insistence that a new multilateral round, with ambitious objectives in broadening and deepening the protection of liberal trade under the GATT umbrella, was necessary to stave off protectionist pressures in many countries (not least in the US) and economic stagnation. The principal goals for the US (negotiators) in these negotiations were (1) to bring agriculture more truly within the GATT framework (largely by agreement to eliminate national subsidies to agriculture), (2) to extend GATT coverage beyond trade in tangible goods, to trade in services, to trade-related investment, and to intellectual property, and (3) to strengthen the disciplines of the GATT, rendering GATT obligations more credible. All of these are sensible goals for the world trade system, serving interests of different nations and providing new opportunities to secure open trade; all also serve US interests.

Other nations generally were less enthusiastic about the new round, but many believed that they might secure some improvement in the GATT. Agriculture-exporting nations like Australia, New Zealand, and Canada were interested in opening doors to their products. Developing nations were interested in bringing a larger group of excluded goods--textiles, tropical products, and agricultural products--under GATT disciplines and in limiting the ways in which developed nations could avoid GATT obligations. Japan, sensitive about its

massive trade surpluses, was quietly supportive but unwilling to table any strong agenda for the round.

The EC was a reluctant participant. Understandably, with the process of unifying the "single market" taking time and energy during the very time the Uruguay Round would take place and with political trades inevitably required for internal harmonization, few EC leaders were eager to negotiate ambitious new international trade measures. Greater protection of intellectual property, services, and trade-related investment serve EC interests as much as those of any nation save the US and Japan. Gains from that expansion of GATT, however, did not seem worth the risk of pressure to take politically risky trade-opening steps at the same time that important constituents in every member state worry about the extent to which the single market will expose fragile national industries to challenge from competitors within the EC and without.

As the negotiations unfolded, this reluctance proved well-founded given the politics of most member states. The insistence of US negotiators on substantial changes in the treatment of agriculture in particular presented difficulties for the EC. With farm groups still politically important and few farm products efficiently produced in the EC, the Community is moving away from the CAP's worst features at an unhurried pace. The EC may have set a model of market forces for Eastern Europe, but old-style Eastern Europe set the model for EC agriculture. (Paradoxically, despite its general level of economic failure, some Eastern European agricultural operations would be able to export economically to the EC if its markets were open.)

The US, for its part, has had trouble maintaining credibility for its free-trade stance in this area. For one thing, it is quite doubtful that the alignment of political forces in the US would support congressional approval of an agreement that fully eliminated agricultural subsidies and import constraints, even in principle. True, with "fast track" procedures--reauthorized by Congress this past spring without much apparent concern over the GATT talks, in contrast to the substantial concern over the Free Trade Area talks with Mexico--some bundle of agreements containing such a change in agricultural products might make it through. There is, however, no reason to believe that the political consensus in the US would make sweeping agricultural reform the true linchpin of the US trade policy.

The US commitment to free trade in agriculture as part of a larger commitment to free trade also is suspect among our

negotiating partners. US negotiators can rightly argue that US policy over the past half century has evidenced a strong commitment to the principle of open trade, making the US the world's greatest market for exports and counting for much improvement in the standard of living many other countries enjoy. But for our position on agriculture to be sold as a simple derivation of this principle calls for an explanation of other negotiating positions apparently out of keeping with that commitment, for example our unwillingness to commit to open trade rules for international trade in all services (as opposed to those services in which the US has an export advantage). Agricultural trade reform is important, both practically and symbolically, and its effects will be felt by different parties than are affected, say, by increased trade in services; promoting agricultural trade reform as axiomatic once one accepts trade as generally beneficial, however, will not work.

The Uruguay Round will not conclude successfully until the US and EC agree on enough agricultural reform to satisfy the US negotiators that the principle of meaningful GATT coverage for agriculture has been established and little enough that there is no real, short-term threat to the EC's farmers. Progress on agriculture also is a critical ingredient to inclusion of developing nations in the "deal" that emerges from this round. At this stage, simple across-the-board tariff cutting will not produce real market opening by developed nations to the products produced in developing nations at costs that make export attractive. If such market opening occurs, some modest gain for developed countries' interests in other areas can be agreed to--not so much as if the negotiators were indeed committed to liberal trade, but enough to keep trade headed in the right direction.

Regional Trade: Building Blocs

Much more meaningful activity has taken place in the reordering of regional trade relations, both for the US and the EC, than in the multilateral GATT round. Each part of that statement--the progress in regional integration and reduction of trade barriers, the progress both in Europe and North America, and the relative lack of progress in the Uruguay Round--can be seen rightly as both cause and effect of the other parts. I will not explore that linkage further.

The EC's single market program no doubt will proceed to substantial completion, perhaps not so close to schedule as President Delors would hope, but even within the original time frame going quite far toward establishing the basis for vastly

increased economic integration. Attention to a small number of drawn out squabbles--over the broadcast directive, for example, or the proposals for an EC-wide company law--has at times created the impression of a process that stalls once it bumps into the hard issues. Yet the single market program seems less paralyzed by hard issues than the typical national government. German unification and the distraction of a "marketizing" Eastern Europe also have been thought by some observers to signal the end of meaningful EC integration. Neither in fact seems likely to have that result. Both Germany and her neighbors are more anxious now for strong integration; and opportunities for exports to, imports from, and investments in Eastern Europe can add sufficiently to the possibilities for growth in the EC economies as to soften some of the fears of an integrated, and more internally competitive, EC.

Oddly, the one event that seems most correlated with a slowing of the integrative process is Mrs. Thatcher's replacement by the far more Europhile Mr. Major. Without a strident anti-integration leader to combat, there seems less cost to arguing over the details of alternative proposals for integrating in various areas.

That, too, is misleading, as the Communities, especially at the ministerial level, are simply getting to more of the details of integration that would prove controversial in any event. Mrs. Thatcher's strong Euro-skepticism masked the underlying division between the forces backing "harmonization down" and those favoring "harmonization up"--that is, between the proponents of unification as a deregulatory program, focused on removing impediments to business activity, and the advocates of unification as a mechanism for assuring uniformly strong protection of workers, the environment, and so on. The jury remains out on which of these conceptions will dominate. The economic and political forces described at an abstract level earlier do not clearly push in one direction, particularly in the short term. Over time, competition forces a choice between reduction in (most forms of) regulatory interventions or a reduction in living standards, but it does not preordain that choice and adjustment to competition can take an extraordinarily long time, measured in generations rather than years.

The North American Free Trade Area (NAFTA) being constructed with the addition of Mexico to the free trade area created by the US and Canada also gained substantial ground this past year. Serious negotiations still must take place to set the terms of the accord, and several groups have adumbrated the basis for opposition to an agreement. Unions, environmentalists, and some agricultural interests have been particularly

vociferous in registering their concerns. But the combination of fast-track authority and consent to trilateral (US-Canada-Mexico) negotiations provides a basis for optimism on the successful conclusion of the agreement.

Although the two efforts at regional integration differ in many respects, there also are strong parallels. The EC has a program for integration that, at least for many, extends beyond economic issues as well as a longer history of formal economic integration. The EC member states' economies are less disparate than those of North America and more closely linked. Inter-American trade amounts to less than half intra-EC trade. But in both cases, the integration is driven by a desire to prevent erosion of high standards of living (and in nations with lower standards of living, such as Mexico or Spain, to increase standards of living) in the face of increased competition.

The forces contesting over the terms of integration also are similar. Businesses in the Americas and the EC look for access to less expensive labor and increased economies of scale along with the reduction of regulatory impediments to keep pace with competing businesses, especially in Asia. Unions and others who favor substantial regulation--safety advocates and environmentalists, for instance--are divided in their views. Business success generally correlates positively and strongly with the capacity to sustain social welfare regulation, and many supporters of such regulation favor integration as a means to sustaining socially desirable regulation. Obviously, harmonization of regulations provides opportunities for raising or lowering requirements. In the EC, the tendency has been to convergence on standards that are not at the high end, and many in the United States and Canada are fearful (or hopeful, depending on one's view) that inclusion of Mexico in NAFTA will result in lowering regulatory standards for labor and for products. There is every reason to expect that global competition will push in this direction. As noted above, however, the trade-offs between efficiency and other goals, and especially the course followed over any short-to-moderately-long period of time, are far from certain.

National Regulation and Bilateral Relations

The movement toward more integrated blocs will not reduce incentives to insulate those inside from those outside. The oft-voiced fears of "Fortress Europe" and the related fears now being voiced about "Fortress North America," no doubt vastly overstated in each case, correctly reflect that the costs of insulation against competition decline as the insulated

economic area increases. The point is not that the EC or NAFTA will be more protectionist than the pre-integration individual national economies were; rather, it is that some protective measures will be feasible in the integrated setting that were not before.

There is every reason to believe that the dominant tone of US-EC relations will continue to be cordial, despite the complaints each will have about the other's trade-restrictive policies. Soul-searching about the relationship in a post-Cold War era has yielded dramatic suggestions that without the "glue" of a Soviet threat to Western Europe, US-EC relations will dissolve into economic warfare (Japan, of course, contesting along with the US and EC). This scenario is unlikely. The demise of a Soviet threat--which may or may not be a long-term equilibrium in international relations--does not eliminate mutual interests among nations committed to civil and economic freedoms for their people. Nor does it affect the economic incentives to increased connections among businesses on both sides of the Atlantic. Whether through mergers, through interlocking stock ownership, or through contractual arrangements, increased economic ties between the US and EC are almost certain.

If the formation of stronger economic blocs portends diversion of trade from extra- to intra-bloc trade, the growth likely from increased efficiencies within each bloc still makes growth in the absolute volume and value of inter-bloc trade a very strong probability. Put differently, the economic expansion added by reduction of trade barriers within blocs will dominate the effects of trade diversion. Almost any day's business page--discussing Ford and Jaguar, Grand Metropolitan and Pillsbury, Philips-Europe and Philips-North America, or IBM-worldwide--manifests growing economic integration, not isolation, of the US and EC.

While shared US-EC interests, including economic interests, will prevent any serious consequences from trade disputes, significant trade frictions will remain nonetheless. The ongoing debate over the EC's subsidies to oilseeds, the GATT dispute over Airbus, and the controversy over the EC's "voluntary" restraint on Japanese autos are exemplary of the discussions US and EC trade negotiators will continue to have. The argument over US-based Japanese "transplant" auto production--which the EC wanted to count against the Japanese auto quota and the US emphatically did not--is especially likely to resurface, as global production makes any regulation resting on a rule-of-origin problematic.

A similar problem will continue to be associated with antidumping laws. Antidumping laws are based on the assumption that production can be assigned to a single jurisdiction. They compare the price of a good in its country of origin with its price for sale in the "dumped-on" nation or the price of production in the country of origin with the price for sale to the importing nation. Frequently, however, antidumping cases involve production that combines components and assembly in different countries. That is true of products from the "domestic" industry in the jurisdiction applying antidumping law as well as of the assertedly dumped products.

At one level, the problems encountered in applying antidumping law in an era of globalized production are more internal than international. The mix of inputs from various places can mean that imposition of antidumping duties handicaps products with substantial domestic value-added, more perhaps than the domestic value-added in the "domestic" products that benefit from reduced price competition. This contention has been advanced in cases involving televisions and computer software media. Nations, like the US, that do not take account of overall national interest in applying their antidumping laws run a special risk of self-inflicted economic injury when dealing with such cases.

The risk is not, however, solely to the importing nation. The more complex setting increases opportunities for antidumping decisions to generate trade disputes at the government-to-government level. Antidumping decisions nominally against goods from one country can have a substantial impact, perhaps even a greater impact, on exports from a third country, not nominally party to the proceeding. And disposition of cases involving products of more complex origin necessarily is based on questionable choices of a single point of origin. The US proceeding against imported forklift trucks was based on the determination that forklift trucks originate wherever the chassis is produced. This well may have been the best choice if a single country of origin had to be selected. But allowing origin to turn on a single component appears an unusual introduction of synecdoche into law. Further, if the exporting firm decides to source the component from another site, the origin of that product will change. Thus, cases such as Forklifts are sure to raise concerns over circumvention among producers in the importing nation and over arbitrary and uneven treatment of foreign competitors among others.

More generally, antidumping decisions in both jurisdictions seem likely to exacerbate US-EC trade frictions even where product origin is not controversial. The decisions in both

jurisdictions are made on bases that in many particulars defy justification. The arcane rules for price comparisons often diverge from accepted principles of economics, accounting, or common sense, and diverge as well from the rules followed in cases challenging internal price discrimination under US antitrust law or EC competition law. The methods by which the effects of dumping on competing domestic businesses are assessed are even more opaque and, so far as can be made out, less congruent with accepted principles.

Here, it is easier to focus on US decisions, not because they are more egregious but because they put more of their underlying reasoning into the public domain. US antidumping (and countervailing duty) injury decisions are quite peculiar; they analyze causation in a manner that has no analogue in US law. Indeed, in recent years, these decisions have expressly rejected the notion of cause-in-fact (so-called "but for" causation) that is the sine qua non of causal analysis in every other facet of US law. Similarly, the manner in which markets are defined results in conflation of quite disparate goods, as happened in the case of Canadian rails (where scrap rails were treated as part of the same market as prime rails) and the recent case of flat panel displays for laptop computers (where two radically different types of computer screen treated as one market). Some cases, such as the laptop screens case, will result in the loss of business from the nation imposing antidumping duties, as the downstream businesses move offshore to escape highly inflated prices on key components. But other cases will result in a mix of losses to domestic consumers, downstream domestic producers, and some foreign producers, and gains to some domestic producers and other foreign producers.

So long as some of the loss from these decisions is borne by foreign firms, there will be reason for international dispute over the irrationality of the decisions. So long as antidumping is a recognized exception to GATT requirements (MFN treatment, duty binding, and so on), it will be attractive in cases beyond those contemplated by its progenitors. So long as it remains unpredictable, its threatened use will be a part of other arguments over trade protection, as it has been in the negotiation of steel industry export restraints.

The negotiation of "grey" measures, voluntary export restraints undertaken in the shadow of threatened, unilateral (which does not necessarily mean unlawful) national action, is the real growth area for trade regulation. It is increasingly common, notwithstanding that its manifest tension with the principles on which GATT is based. Of course, VES (or VRAs,

as they also are called) do not contravene the letter of the GATT--they are, after all, undertaken voluntarily rather than formally imposed as a barrier to trade. And the voluntariness can be real, though it need not be. There is profit to be made from cartelizing markets, and VERs can be first-rate vehicles for cartelization. If US auto companies have benefitted from a decade of restraints on Japanese imports, the Japanese auto companies have benefitted more. The attraction of VERs, indeed, is their capacity to serve the interests of so many parties: of would-be cartel members in different nations--the weak members seeking protection and the strong members seeking limits on competition and stable markets--and of the trade negotiators themselves, who can feel pride in averting more trade-limiting actions and who can reach common ground with their counterparts while representing a vocal domestic constituency. Hence, these measures will continue to be popular compromises between alternatives that, if they did not lead to rounds of retaliatory countermeasures, probably would be preferable to the cartel solution.

Actions that trade negotiators will find less palatable are those associated with unilateral assertions of national interest, such as the "Super-301" provision (actually demoninated §310) of the United States' Omnibus Trade and Competitive-ness Act of 1988. The trade negotiations prompted by that provision resulted in some gains both to US interests and to liberal trade. But the complaints generated by that provision's application--about US willingness to skirt established GATT procedures for resolving disputes and about US assertions of rights against other nations not based in international agreements or formal undertakings--must have caused considerable discomfort. The discomfort should have been felt not only by US trade negotiators, who had to defend this provision, but also by negotiators for other nations, who took sport in attacking the US for bullying and hypocrisy rather than attending to the business of reducing trade barriers in an orderly manner. Perhaps not all the targets of the Super-301 negotiations were well-chosen, but many of them were blatantly GATT-violative trade restraints.

There is sure to be pressure for additional actions patterned after Super-301, in the US and in other nations. The pressure will exist because economic realities make such pressure a profitable investment for industries facing increased competition at home and resistance abroad. Whether that pressure grows or diminishes over the coming years depends on the factors discussed earlier respecting nations' economic and trade fortunes. At the margin, observable events will have special bearing here, as they influence political gains from

appearing to attack general "trade problems" as opposed to delivery of real gains to specific groups. Pressure will increase if economic conditions do not improve, especially for high-wage, high-employment, declining industries, and if the GATT round continues to demonstrate an acute need for Geritol. Conversely, improvements in national productivity and positive changes in international position, such as the substantial reduction in the US trade deficit that has taken place over the past three years, reduce political incentives to unilateral trade protection.

Conclusion

The trade picture for the US and EC is unlikely to change much over the coming decade. The two great national/regional economic blocs will continue to promote strong regional integration, will continue to experience increased interregional integration, and will continue to compete in many arenas for the same customers and markets. Each will seek opportunities for advantage over the other, in home markets and in export markets. Each will engage in some additional protection and will be accused on more. And each will find that mutual interests make truly acrimonious trade disputes unappealing. Comfortably, we can expect to continue to worry about each other as well as about Japan and to muddle through with a decent complement of the nice, gentlemanly trade disputes we have become so good at handling, if not resolving.

Dr. Cass is Dean, Boston University School of Law, and former Vice Chairman of the U.S. International Trade Commission.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° inv. 14782
12 GEN. 1995

BIBLIOTECA

Transatlantic Economic Relations :

A European Perspective

Loukas Tsoukalis

Conference on "US/EC Relations: Towards a New Partnership" organised by The American-European Community Association International, Westfields Conference Center, 20-22 September 1991.

Loukas Tsoukalis is Jean Monnet Professor of European Organisation at the University of Athens, and Director of the Hellenic Centre for European Studies. He is also Director of Economic Studies at the College of Europe in Bruges. Until 1990, Fellow of St. Antony's College, Oxford. His latest book is on The New European Economy (Oxford University Press, 1991).

The latest phase of economic integration in the European Community, which started in the second half of the 1980s and has been largely associated with the completion of the internal market, has brought the EC into new areas: economic regulation inside national boundaries, and also into services and factors of production. The political agenda has continuously expanded, including not only the elimination of remaining obstacles inside the incomplete common market, but also the creation of new redistributive instruments, some hesitant steps in terms of social policy, and more recently the renewed attempts to establish an economic and monetary union (EMU).

The acceleration of the process of regional integration has also contributed significantly to the dramatic transformation of the political and economic climate in Western Europe. Euro-pessimism and Euro-sclerosis have been replaced by a certain degree of Euro-euphoria, based on the return of high growth and the creation of many new jobs. Political initiatives seem to have had a noticeable effect on market expectations, thus creating a favourable environment for investment, both from inside the EC and abroad, as well as the further expansion and deepening of regional integration. This is a good example of a virtuous circle which is in many ways comparable to what had happened in an earlier phase of European integration. On the other hand, the revitalisation of European economies has gone hand in hand with a major restructuring of industry; and, unlike earlier periods, this restructuring has not been confined within national boundaries.

Since the second quarter of 1990, there has been a slowdown in economic growth, although not to the extent experienced by the US economy during the same period. The German locomotive, set in motion by reunification, has pulled the other economies of the region by creating extra demand for their exports. It remains, however, to be seen whether these are the early signs of a deeper recession to come, which could have negative effects on intra-EC developments and the ability of the Community to cope effectively with external challenges.

More than forty years after the setting-up of the first regional organisations, Western Europe is characterised by a high intensity of cross-border economic exchange. National economic frontiers have become less and less important, although they are still far from irrelevant. The transcending of economic frontiers applies not only to border controls but also

Increasingly to various forms of indirect discrimination between producers and owners of factors of production on the basis of nationality, resulting from different regulatory frameworks in each country. Integration has slowly but steadily penetrated the area of mixed economy, and this has been achieved through a combination of deregulatory measures, the wide application of the principle of mutual recognition, and the adoption of common rules at the European level.

The emerging European economic system is characterised by a rapidly increasing mobility of goods, services, and factors of production. It is also characterised by a high degree of decentralisation of political power which is not so much the product of a conscious decision as the result of economic integration moving much faster than political and social integration. This is one of the major issues currently being discussed in the two intergovernmental conferences on political union and EMU. These conferences, aimed at a substantial revision of the existing treaties, have now reached a critical turning point. What is at stake is the development of the Community beyond 1993, the narrowing of the gap between economic and political integration, the strengthening of its internal cohesion and the ability to tackle the problems arising from the collapse of the old order in its immediate neighbourhood.

High economic interpenetration among Western European countries is combined with considerable openness via-a-via the rest of the world. Excluding intra-EC trade, the Twelve account for approximately 20% of world exports, compared with 16% and 12% in the case of the USA and Japan respectively. The Community thus remains more dependent on external trade, as compared with the other two major trading partners. Nevertheless, what has been truly remarkable is the steady narrowing of the gap in terms of trade openness between the EC and the United States over the last twenty years. Foreign direct investment and financial flows have gradually acquired greater importance in terms of international economic interdependence than trade in goods. This is particularly true of transatlantic relations, with the increasing presence of foreign affiliates on each other's soil and the globalisation of financial markets. In this respect, there has been a significant change in the bilateral relationship since the early 1980s, with the rapid growth of European investment in the United States and the increased foreign indebtedness of the US.

In economic terms, the EC is undoubtedly a global power; but a power with a

relatively limited number of policy instruments at the level of the union, a sometimes unclear division of labour between different levels of authority, and also the frustrations associated with its relative political emasculation. Its main instruments as an international actor are trade and aid. In the macroeconomic field, it only has a fledgling role, while as regards traditional foreign policy, the emphasis is still on intergovernmentalism. However, things could change in the near future as a result of the current process of treaty revision.

Because of historical ties and concrete economic and political interests, EC external policies have always had a certain regional bias. The dismantling of the Soviet empire, both inside and outside the old Soviet borders, and subsequent developments in the area have cast upon the Community a new role as the only remaining regional power on the European continent. Over the next years, the EC will need to reconcile further internal integration with the responsibilities of a regional power in an area which will require painful trade concessions, large financial assistance and, perhaps also, an external stabiliser. In the medium-term, cooperation and association agreements may have to be transformed into full membership of the Community, thus adding to the already existing dilemma of deepening of integration versus enlargement in terms of numbers, assuming that there is, indeed, an incompatibility between the two.

Thus, while the Community is preoccupied with its own construction, it also needs to strike a balance between internal integration on the one hand and regional and global interests and responsibilities on the other. Relations between the EC and the United States will be discussed in this context.

The adoption of the internal market programme and its implementation have coincided with the latest round of multilateral trade liberalisation launched in September 1986. The early fears about 'Fortress Europe' and the allegedly protectionist aspects of the 1992 programme have not in the end materialised. The reciprocity provisions in the first Commission drafts of the Second Banking Directive were largely responsible for those fears. In the end, those provisions were heavily diluted. Taken in conjunction with the decision to liberalise all capital movements and to extend this liberalisation unconditionally to third countries, the new EC legislation in the financial sector constitutes an important step towards liberalisation which is effectively extended to foreign establishments without much of a quid pro quo.

If nothing else, new EC legislation with respect to public procurement is unlikely to make access more difficult to third country producers. Until now, discrimination by public authorities has applied equally to EC and non-EC producers, usually succeeding in keeping foreigners out of public markets. But other countries, including the United States, have not been innocent of such practices.

Some concern has been expressed, especially from the American side, about technical standards being used as a protectionist device by the Europeans in the technological race. To the extent that this non-tariff barrier (NTB) will be tackled through mutual recognition of national standards, foreign producers can only gain since, from now on, they will need to go through one instead of twelve approval procedures. In those cases where a European standard will replace the old national ones, there is little reason to expect that the twelve countries collectively will be more protectionist in the use of technical standards than they have been in the past when acting separately.

In general, there is virtually nothing in the internal market programme as such which could lead to higher levels of protection. This does not mean that defensive policies and relatively high protective barriers do not already exist in some sectors, both at the upper and the lower end of the international division of labour, where the Europeans perceive a loss of comparative advantage. But the internal market programme as such is not protectionist. True, there will be an element of trade diversion which should, however, be more than compensated by the positive effects through higher economic growth. On the other hand, the internal market programme is likely to have in the end a liberalising effect both directly through the elimination of intra-EC barriers and indirectly by acting as a catalyst for further international liberalisation.

The early reticence of the Europeans as regards the Uruguay Round has been transformed by the improvement of the economic climate and the early implementation of the internal market programme into a much more positive response, especially as regards the extension of international liberalisation to new areas. If the EC has found itself often on the defensive during those negotiations, it is largely because of the emphasis laid by the Americans and the so-called Cairns group on the liberalisation of agricultural trade.

European agricultural policies are not easily defensible, and the pressures for

proposals put forward by Commissioner MacSharry last December. Important European concessions will need to be made in this area as part of the overall package; concessions which would also help to rationalise the common agricultural policy. However, it could be pointed out that maximalist positions in such a difficult sector, with a long history of protection throughout the world, have not been very helpful; nor has been the policy of establishing close linkages between different issues in an already very complex negotiation.

Many international trade practices have developed on the margin or even completely outside GATT legality, and the Uruguay Round is largely an attempt to prevent a further weakening of the multilateralist framework by extending GATT legislation to new important areas. Neither the United States nor the EC have been innocent of anti-GATT practices. In fact, in some cases, one seems to follow the bad example of the other. For years, the Community had been one of the worst offenders of the multilateralist principle in international trade through the various preferential and other agreements signed with its privileged partners. As the EC began to make those agreements more compatible with GATT rules, the United States seems to have discovered the attractions of trade preferences and regionalism. The signing of free trade agreements with Israel, Canada, and now Mexico and, tomorrow, possibly with other Latin American countries increasingly point to the creation of a regional bloc. The pressures from both EFTA and Eastern European countries could lead to the creation of a similar bloc on the European continent, with the EC as the leading power. Similar developments could also happen in East Asia and the Pacific region, although Japan might experience considerable difficulties in following on the steps of the United States and the EC.

Frustration with the weakness of international rules and a certain degree of self-righteousness explain in part what Bhagwati has referred to as 'aggressive unilateralism' of US trade policies. The use made of anti-dumping instruments and the Trade Act of 1988 are only two examples. Unilateralism and arbitrary action are luxury items that can usually be afforded by large countries, simply because they are less concerned with the threat of retaliation. The Community may be tempted to follow a similar line, although the relative weakness of the European political system could temper for some time any enthusiasm to move in this direction.

Another problem which goes beyond the field of trade and which has reached the

political limelight in recent years is that of extra-territoriality. This issue refers to attempts made by countries to apply their laws and implement their policies beyond their own frontiers. The growing integration of the world economy and the inadequacy of international rules have provided the justification for such action, almost invariably undertaken by the bigger powers and much resented by the other countries. The US courts have acted as pioneers in this respect, especially as regards anti-trust laws and taxation; and the EC may increasingly follow suit.

Given the sheer weight of the two biggest trading partners, the successful conclusion of the Uruguay Round and the future strengthening of GATT will largely depend on a US-EC agreement. Their global economic interests and the rapid internationalisation of production, trade and financial flows should point towards the preservation of the multilateralist framework. Within that context, close bilateral consultations can play a very useful role, as also envisaged in the joint declaration of November 1990. But too much emphasis on bilateralism, either in terms of institutional relations or in the form of a free trade area agreement, could strike the final blow against GATT.

A close observer of Euro-American economic relations has argued that 'the history of US-Community trade and investment disputes is a history of issues getting resolved' (Hufbauer). Trade friction between the two sides has had its peaks and troughs. Agriculture has remained all along the sore point, although other issues have also figured prominently on the agenda, such as steel, subsidies, public procurement, and technical standards. Domestic resistance to adjustment, different regulatory practices and large exchange rate fluctuations largely account for bilateral trade conflicts. However, despite the occasional war of words, considerable restraint has usually characterised the policies of both sides. The contrast with US-Japan and EC-Japan relations is very indicative. Close political and defence ties, the lack of substantial and persistent trade imbalances, and large amounts of cross-investment have always helped to cool down the temper of obstreperous negotiators, be they European or American.

The EC started as a trading bloc, and it has continued acting as such for a long time. Despite the success of the European Monetary System (EMS), there is as yet little EC presence in the various international fora where issues of international macroeconomic policy coordination are discussed. In the OECD, the IMF as well as the Group of Seven, EC

countries have usually behaved as independent units and the role of the Community has, therefore, remained limited. Because of the increasing role of the Deutschmark as an international reserve currency and the German low propensity to inflate (at least until very recently), Germany has been able to set the monetary standard for the other EC countries and also determine the external monetary policy for the EMS as a whole. This is likely to change with the entry into the third and final stage of EMU, when the new central institutions will be responsible for European monetary policy. But until then, the role of Germany will remain absolutely crucial.

Meanwhile, the existing mechanisms for international macroeconomic policy coordination have shown serious limitations. As practiced since the Plaza agreement of September 1985 which marked a real turning point, international macroeconomic policy coordination has worked, if at all, only in the short-term by influencing market expectations. Differences among participating countries in terms of both objectives and instruments, coupled with the inability and/or unwillingness to adjust domestic policies, have acted as major constraints. Assuming that there is a 'public good' to be obtained through coordination, perhaps not as yet universally accepted, new mechanisms will have to be designed in the future with tighter rules in terms of compliance.

There are many global economic issues which require close cooperation between the United States and Western Europe as major economic powers. They include the stability of the international financial system and the debt overhang, the transfer of resources to Eastern Europe and the Third World, and the protection of the environment. Bilateral consultations and close cooperation will be absolutely essential, but they should always be placed within a multilateral context.

On the other hand, the ability of EC countries to play an active role in the management of global economic issues will in turn depend on the existence of a stronger Community, with more effective central institutions and also more democratic ones. Further integration at the regional level should not be incompatible with an active international role. This will be, indeed, a major challenge for the oldest nation-states in the international system.

iai	ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° inv.	14782
	12 GEN. 1995
B.BLIOTECA	

THE COMMUNITY AND THE EMERGING
EUROPEAN DEMOCRACIES

A Joint Policy Report

Summary of Recommendations from:

Forschungsinstitut der Deutschen Gesellschaft
für Auswärtige Politik (Bonn)
Institut Français des Relations Internationales (Paris)
Istituto Affari Internazionali (Rome)
Nederlands instituut voor Internationale Betrekkingen
'Clingendael' (The Hague)
Royal Institute of International Affairs (London)
Stiftung Wissenschaft und Politik (Ebenhausen)

June 1991

Recommendations

A) Introduction

The democratic revolutions in the East European countries since mid-1989 have fundamentally changed the international context of the European Community. Both the public and the policy-makers in Western Europe must realise that the European Community and its member states have to change the ways in which they have conducted their affairs up to now. It is an illusion to believe that Western Europe can remain an island of prosperity and peace while the new democracies in Eastern Europe are exposed to the dangers of political collapse, economic backwardness, ethnic tensions or violence. The established democracies of Western Europe cannot build a wall to protect themselves from what may happen in Eastern Europe if the new democracies disintegrate.

The members of the European Community have to face up to their new role and responsibility, namely to take the lead in the construction of a greater democratic Europe. No single European country, however large, and no other international institution can perform this task, nor should it be left to the United States.

Now that the cold war has ended, the Community should return to its broad, original task, which was never limited to a small group of West European countries. It should be the nucleus of a new Europe.

At present the West European leadership in the member states and in the Community institutions is sending contradictory signals and confusing messages to the emerging leadership in Eastern Europe. While expectations of early membership are encouraged for political purposes, the problem of the financial resources and the internal adaptations that are necessary to render association meaningful and effective are frequently overlooked or left to the 'technical level'. The Intergovernmental Conferences on monetary and political union are of a strictly inward-looking character and seem not to be able to develop a clear concept of how a strengthened Community should respond to the challenge of constructing the new Europe. A clarification of the Community's priorities and strategy is needed urgently.

B) The purposes of the association agreements

The Community has opened negotiations with Poland, Hungary and Czechoslovakia to construct an innovative form of association. We would welcome moves by Bulgaria, Romania, Yugoslavia and in due course Albania which would enable them to follow the course of the other three countries.

The purpose of the association agreements should be :

- (a) to help the new democracies to become stable and pluralist, as part of the family of European democracies;
- (b) to help them meet the difficulties of transforming command economies into market economies;
- (c) to embed the new democracies in a new Europe, a structure that will replace their failed old structures, and thus help to increase the security of these countries;
- (d) to help the associate countries to become part of the growing pattern of international cooperation, multilateral coordination and transnational integration;
- (e) to facilitate the urgent adoption of collective environmental policies so as to combat pollution and protect the environment in Europe;
- (f) to prepare these countries for the option of eventually becoming full members of the European Community.

These proposed association agreements with the Central and East European countries are qualitatively different from those with other third countries. The imperative to consolidate links with the former communist states of Eastern Europe is present irrespective of the question of membership of either the EFTA countries or the southern Europeans.

C) What has to be done?

* An evolutionary association:

We recommend that the European Community adopt a clear and ambitious timetable for an evolutionary association, which would prepare Poland, Hungary and Czechoslovakia for the option of applying for membership in about ten years. Of course applying for membership in the year 2002 makes sense only if certain necessary conditions are met. The Community should set the targets that need to be met as the association evolves, namely that the new entrants become full democracies, meet the standards of the European Convention on Human Rights, establish functioning market economies and acquire the legislation and administrative capability to implement and enforce the rules and legislation of the EC.

Admittedly, this is no easy task and ten years is not very long in which to achieve so large a transformation. The EC has made good use in the past of timetables and deadlines both at its inception and in 1985, when it set the ambitious goal of achieving a completely free internal market by the end of 1992. This galvanised the member governments to move much faster than they otherwise would have done. The same may apply to the task of integrating the new democracies, even though this task is much more complex.

* Trade:

We therefore advocate that a bold approach be taken for these association agreements. We warn of the risk that the current negotiations become trapped in banal and piecemeal detail. If they are allowed to do so, there is a danger that the association agreements will amount to little more than rhetoric and statements of good intentions. Much of the current draft agreements consists of complex trade clauses which would permit only slow progress in the liberalisation of market access for Eastern Europe to the EC in those sensitive products which really count. This is totally inadequate. If these countries are to build market economies and provide their populations with better incomes, they have to be given a real chance to build up their exports to the EC. We therefore advocate a rapid granting of market access for those products where the East Europeans can expand rapidly - notably agricultural products, textiles, steel and, for Poland, coal - and accept that our markets should be open to other potential imports.

We recognize that these products are sensitive for economic and political interest groups in Western Europe. But if trade liberalization is not achieved quickly now, it will prove more difficult in the future. This is the real test of the commitment of Western Europe: Is it prepared itself to practise what it preaches to Eastern Europe, i.e. free trade? It is quite reasonable that this liberalization should be faster for imports in the EC than for exports from the EC, because some sectors of the economies of the associates will require a certain period to adjust to international competition.

* Resource transfer:

Trade liberalization is not the only requirement; resource transfers are also necessary. The West European must be prepared to transfer substantial resources to the new democracies and thereby to make some of the investments needed to sustain real economic reform. This transfer will have to be continued for at least ten years.

We advocate that :

- (a) the budgetary allocations be doubled so as both to maintain the PHARE programme, open to all East European countries, and also to develop new financial instruments to fund intensified economic cooperation with associates;
- (b) PHARE-aid should be aimed primarily at the establishment of the infrastructural and institutional conditions under which financial support can be more effective;
- (c) subject to absorptive capacity and the identification of economically viable projects, financial assistance to the associated states should be expanded over the life of the association agreements to reach the level that would be generated by the application of the structural funds formula. This would prepare them for future EC membership and formal access to the structural funds;
- (d) the aid programme might reach an order of 0.2% of EC GNP, to be raised as a 'solidarity tax' through the GNP-based 'fourth resource' of the EC budget.

These revenues should be devoted to a mixture of financial instruments (grants and soft loans) for macro-economic stabilization and projects in Eastern Europe, in particular for infrastructure, improvement of the environment, training, transfer of technology and the acquisition of know-how related to the functioning of democratic institutions, market economies and administrative systems. The general guidelines

for the allocation of the funds linked to the association should be decided by joint meetings of ministers from the EC and the associate countries.

The EC should encourage OECD countries that are not members of the EC to increase their assistance to East European democracies in a similar fashion and to make available 0.2% of GNP.

* Promoting integration:

The EC should promote cooperation among the emerging European democracies in so far as this does not interfere with integration into the European and world economy. After the Second World War, the West European nations benefited from the Marshall Plan. Obviously, the economic and political situation of Eastern Europe today is different. But certain lessons can be learnt from the Marshall Plan experience, in particular its promotion of joint economic decision-making and cooperation across borders.

Part of the resources mentioned above should be available for multilateral projects in which East European countries cooperate in solving interrelated problems or those that cut across borders.

The association agreements are currently being negotiated as bilateral treaties between the EC and each country. We should work towards a multilateral framework, supplemented by bilateral arrangements on matters relevant to individual associates. To this end there should be regular meetings of joint association councils to assess progress and discuss common policy questions. The 'political dialogue' which the association treaties promise should in particular be pursued on a multilateral footing.

In addition, we recommend that once a year the European Council should devote part of its session to a meeting with the heads of state or government of the associated countries, to symbolize solidarity and the growing political integration of Western and Eastern Europe.

* Emigration:

Contacts and exchanges at the level of the citizen between the Community members and the new democracies should be encouraged. But mass emigration from the associate countries would be destabilizing for the associates. The new democracies must guard against the risk of losing large numbers of much needed trained people, particularly during the difficult early years of transformation to market economies. Free settlement in the European Community would in any case be open only to nationals of full members.

* The cultural challenge:

The cultural challenge confronting Europe today is acute. A gap caused by separation of nearly two generations must be filled. The Community should be prepared to act in three crucial areas: education, books and audiovisual aids. Europe must re-create the network of European university exchanges which existed from the Middle Ages to the Enlightenment, encouraging both professors and students to be cultural nomads. The TEMPUS programme provides a framework which must be complemented by initiatives from the universities and projects such as the new central European university. An active programme should be developed to promote the circulation of books, with support for translation, some subsidized sales of Western books and joint ventures among publishing houses.

Europe-wide audiovisual aids are crucial to the development of a shared European culture. It is particularly important to stimulate high-quality European productions for television and the cinema and to develop collaboration across Europe, including joint ventures to preserve the excellent traditions of the Central European cinematographic industry.

* The USSR:

We have so far been considering the emerging democracies in those countries that used to be called 'the satellites of Moscow'. They are now back in the European arena, thanks to their thirst for freedom and prosperity and to the far-sighted policies of Mikhail Gorbachev and Eduard Shevardnadze. The Community must, in addition, develop a cooperative relationship with the USSR in order to assist it in further democratic and economic reform. The Soviet Union, once a threat to West European security and the adversary of European integration, has become a partner in defining the overall security of the continent in the framework of the CSCE. The Community has every interest in avoiding chaos and violence in the USSR and in promoting peaceful change. The EC should enter into contractual relationships with the USSR in various fields, such as energy resources and environmental cooperation. Structural economic assistance should be offered once the USSR has embarked on a clear programme of economic reform.

The European Community should not aim at entering into an association agreement with the USSR geared to eventual membership of the EC. The USSR, owing to its nature as a great power and its size in relation to the Community, is not an appropriate candidate for membership, even if it were to adopt clear policies of democratic and economic reform.

Of great importance for the economic development of the USSR is the implementation of recent proposals for an energy charter. The USSR should receive technology and other assistance needed to develop its energy resources and to reduce energy waste and environmental pollution. It could reciprocate by increasing energy deliveries to other countries. This cooperation should also include safety measures for nuclear reactors and nuclear waste disposal.

The EC should support Soviet efforts to gain better access to international organizations and to become integrated into the world economic order. EC support to strengthen institutionalized cooperation with the USSR could help it to become an accepted participant in the world economy.

The EC should also support peaceful change in the USSR, and be prepared to deal with individual republics if and when they achieve autonomy. Contacts to this effect with central as well as non-central actors, with possible future political forces, and with regional or local authorities should promote democracy, self-determination and economic reform. The EC could establish 'information offices' in individual republics and take steps to encourage an increase in their international trade.

At some stage, individual newly independent states at the western periphery of the USSR might seek closer cooperation with the EC. Such states will expect to be treated in a manner similar to other East European states.

*** Conditions and targets for the associations**

The EC offer of a special form of association for the new European Democracies will enable them to gain experience of practical integration, the furtherance of which requires their voluntary acceptance as nation-states of some pooling of sovereignty through joint (supranational) decision-making. Involvement in European integration also increases common security. This will be enhanced as the EC strengthens its own security identity.

This offer of association is made only to countries already set on a course towards both a stable democracy and a market economy. The terms of the association should be designed to provide trade preferences, financial assistance and political cooperation in parallel with sustained progress by the associates towards these goals.

* Sustained democratization:

We recommend that association agreements are negotiated with countries which clearly aim for sustained democratization in such a way that they qualify for membership in the Council of Europe and become able to implement the European Convention on Human Rights. The development of the association should be linked to convincing progress towards a functioning and tolerant democracy, with protection of human rights and civil liberties, especially freedom of expression.

The EC should also make clear that, in opting for European integration, associates are accepting that conflicts among nationalities and minorities must be settled by peaceful and democratic means.

* Market economy:

Eligible associates should be firmly set on a course towards establishing market economies and full involvement in the relevant multilateral institutions, such as the IMF, GATT and OECD. The associates should implement the economic commitments made in the CSCE declaration of Bonn and the Charter of Paris: i.e. free trade in goods and services, rules to promote competition, free prices and private rights to property.

* Compatibility with the single market:

The associates should take bold steps over the ten-year period envisaged for the association towards alignment with the customs union of the EC, the four freedoms laid down in the Treaty of Rome, the approximation of their national legislation with Community legislation and thus towards compatibility with the single market.

Adjustment by the Community

* Reform of EC policies:

In order to fulfil the purposes of the association, the EC has to reform its own policies. Granting the associated countries complete free access to its market means that the Community should be prepared to reform agricultural policy and to initiate the other necessary structural adjustments in its member states' economies. It should withstand pressures from organized vested interests in member countries. The need to deal with the new European democracies makes the need for reform of EC policies even more urgent.

* Financial adaptation:

The Community should be prepared to adapt its financial system to the necessity of transferring significant resources to the East European countries (see Resource transfer). The reform of the common agricultural policy should eventually free resources in the Community budget, but the transfers to the East Europeans should not be hostage to reform of the CAP or the Community budget.

* Strengthening EC decision-making structures:

An important condition which the EC has to meet is a strengthening of its decision-making structures. This was needed even before the prospect of association and enlargement became clear. Internal strengthening is required in order to conserve the Community for the future and to give it a stronger role in the world. Such strengthening is the task of the Intergovernmental Conferences which are negotiating over Economic and Monetary Union and a European Political Union. The success of the IGCs is essential for the formulation of a bold association policy.

A stronger Community has become all the more urgent now that several members of the EFTA want to join the EC. They, too, will have to meet conditions, mostly political. Several of these countries were neutral during the period of East-West division. These countries are likely to be on the road to full membership before the new democracies to which this report is devoted.

Strengthening the Community means, first of all, a far reaching extension of majority voting to policy areas where decision-making still relies on consensus formulation.

Second, it means a stronger role for the European Commission as the executive organ of the Community, indeed the future government of the Community. As in all free systems, its powers will have to be reined in by other institutions: the European Parliament, the Council, and the European Court. Third, the legislative powers of the European Parliament have to be bolstered. Fourth, in order to be able to absorb new members especially from Eastern Europe, the EC budget should be increased substantially and the Community's redistributive functions should be strengthened.

The Community's institutions will, however, have to be reformed more thoroughly than is envisaged in the proposals that are currently being considered in the Intergovernmental Conferences. Over the long run, the Community will have to adapt further in order to sustain a larger membership without its effectiveness being impaired. It is a matter of the utmost importance that a debate should be opened now on the further institutional reforms that will be needed for an enlarged Community. Other international challenges, of both a global and a regional nature, demand that it grow into a forceful and coherent actor on the world scene.

The original Community saw its membership doubled in one generation; there could well be another doubling over the next generation.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° 14782

12 GEN. 1995

BIBLIOTECA

TESTIMONY OF
AMBASSADOR ROBERT L. BARRY
BEFORE THE HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON FOREIGN OPERATIONS,
EXPORT FINANCING, AND RELATED PROGRAMS

APRIL 24, 1991

IN MY TESTIMONY TODAY I WOULD LIKE TO DESCRIBE THE GENERAL STRATEGIC DIRECTION OF OUR ASSISTANCE PROGRAM FOR CENTRAL AND EASTERN EUROPE. WHAT ARE OUR PRIORITIES AND HOW DO WE SET THEM? HOW ARE THEY CHANGING OVER TIME? WHAT UNFORESEEN PROBLEMS HAVE ARISEN AND HOW ARE WE TRYING TO COPE WITH THEM? HOW DO U.S. PROGRAMS FIT IN WITH THOSE OF OTHER DONORS? WHAT IS THE ROLE OF THE PRIVATE SECTOR? WHAT ARE THE UNIQUE FEATURES OF THE EASTERN EUROPEAN PROGRAMS, AND HOW ARE THESE "EXPERIMENTS" WORKING? DR. CAROL ADELMAN, ASSISTANT ADMINISTRATOR OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT, IS HERE TO DISCUSS THE PROGRAMS FOR WHICH A.I.D. MANAGES AND COORDINATES. I AM HERE REPRESENTING DEPUTY SECRETARY LAWRENCE EAGLEBURGER, WHO IS RESPONSIBLE FOR OVERALL COORDINATION OF U.S. ASSISTANCE TO THE REGION WHETHER FUNDED THROUGH THE FOREIGN ASSISTANCE APPROPRIATIONS ACT OR OTHERWISE.

LET ME BEGIN BY DESCRIBING HOW MR. EAGLEBURGER AND THE DEPUTY COORDINATORS, CHAIRMAN BOSKIN OF THE COUNCIL OF ECONOMIC ADVISERS AND DEPUTY SECRETARY JOHN ROBSON OF THE TREASURY DEPARTMENT DISTINGUISH THEIR ROLE FROM THAT OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT. AS THE SENIOR STAFF LEVEL PERSON WHO SUPPORTS THEM, I WOULD DESCRIBE THE COORDINATORS' ROLE AS A MEANS FOR ENSURING THAT A.I.D. PROGRAMS, TRADE ISSUES, ECONOMIC POLICY ISSUES, AND POLITICAL AND SECURITY ISSUES ARE COMPLEMENTARY AND SYNERGISTIC, AND THAT COORDINATION WITH OTHER DONORS AND MULTILATERAL INSTITUTIONS SUCH AS THE IMF, IBRD, EBRD, AND EC COMMISSION TAKES PLACE. MANY OF THE MAJOR U.S.

CONTRIBUTIONS TO THE EASTERN EUROPEAN ASSISTANCE EFFORT HAVE BEEN PRODUCTS OF THE COORDINATION PROCESS -- CREATION OF THE POLISH STABILIZATION FUND, CREATION OF ENTERPRISE FUNDS FOR POLAND, HUNGARY, AND CZECHOSLOVAKIA, CREATION OF NEW PROGRAMS IN THE OECD AND BURDEN SHARING.

U.S. OBJECTIVES AND PRIORITIES

THE GOALS OF U.S. ASSISTANCE ARE CONSTANT, AND THE PROGRESS MADE BY THE COUNTRIES OF THE REGION TOWARDS THESE GOALS DETERMINE THEIR ELIGIBILITY FOR U.S. ASSISTANCE. SIMILAR CRITERIA HAVE BEEN ADOPTED BY THE 24 DONOR NATIONS WHICH COORDINATE THEIR ASSISTANCE THROUGH THE G-24 MECHANISM CHAIRED BY THE EUROPEAN COMMUNITY COMMISSION IN BRUSSELS. WE SEEK:

--DEMOCRATIC, PLURALISTIC SOCIETIES BASED ON THE RULE OF LAW AND RESPECT FOR HUMAN RIGHTS AND INDIVIDUAL LIBERTIES,

--THE CREATION OF MARKET-BASED ECONOMIES WITH STRONG PRIVATE SECTORS,

--RE-INTEGRATION OF THESE NATIONS INTO THE ECONOMIC AND POLITICAL STRUCTURE OF THE WEST, AS BEFITS THEIR HISTORY AND VALUES, AND THE DEVELOPMENT OF FRIENDLY RELATIONS WITH THE U.S.

BASED ON THESE CRITERIA OUR COUNTRY PRIORITIES FIRST FOCUSED ON POLAND AND HUNGARY, AS FURTHEST ALONG THE ROAD OF ECONOMIC AND POLITICAL REFORM. CZECHOSLOVAKIA JOINED THE "PRIORITY" LIST IN 1990. IN 1991, THE BOLD REFORM PROGRAM LED BY PRESIDENT ZHELEV OF BULGARIA WARRANTS OUR INCREASED SUPPORT, ESPECIALLY SINCE BULGARIAN SUCCESS COULD HAVE A STABILIZING EFFECT IN THE BALKANS.

BEYOND THIS WE CONTINUE TO PROVIDE LIMITED ASSISTANCE TO YUGOSLAVIA, WITH PARTICULAR EMPHASIS ON SUPPORT FOR DEMOCRATIC INSTITUTIONS AND TRAINING IN THE SKILLS NEEDED FOR FREE MARKET ECONOMIES, AND TO ROMANIA, WITH PARTICULAR EMPHASIS ON HUMANITARIAN AID AND DEMOCRACY BUILDING.

SETTING FUNCTIONAL PRIORITIES

THE TYPES OF ASSISTANCE PROGRAMS WE HAVE DEVELOPED ARE CLOSELY RELATED TO THESE GOALS. IN EACH OF THESE FUNCTIONAL AREAS WE HAVE DEVELOPED A VARIETY OF PROGRAMS WHERE WE BELIEVE THE U.S. HAS A COMPARATIVE ADVANTAGE OVER OTHER POTENTIAL DONORS. CONCURRENTLY, WE HAVE BEEN CARRYING OUT AN EXTENSIVE DIALOGUE WITH THE COUNTRIES OF THE REGION IN AN EFFORT TO DETERMINE WHAT THEIR PRIORITIES ARE AND HOW WE CAN BEST MEET THEM. AT THE SAME TIME, THE G-24 COORDINATION MECHANISM IN BRUSSELS AND AN INCREASINGLY IMPORTANT DIALOGUE AMONG DONORS IN EACH COUNTRY PROVIDE A MEANS OF ENSURING THAT OUR PROGRAMS COMPLEMENT THOSE OF OTHER DONORS.

AS PART OF THIS PROCESS, WE ARE CONTINUALLY TRYING TO ASSESS THE MAJOR OBSTACLES TO POLITICAL AND ECONOMIC REFORM, SO THAT WE CAN ADAPT OUR OWN PRIORITIES AND MAKE NEW RESOURCES AVAILABLE AS NECESSARY. LET ME SHARE WITH YOU OUR THOUGHTS ON WHERE THE MAJOR PROBLEM AREAS LIE AT PRESENT, AND THUS WHERE WE THINK OUR ATTENTION SHOULD BE CONCENTRATED NOW.

OBSTACLES TO REFORM

FIRST, THE PROBLEM OF POLITICAL INSTABILITY IN SOME COUNTRIES OF THE REGION IS BECOMING MORE SERIOUS. WE EXPECTED THAT THE DEVELOPING INSTITUTIONS OF THE NEW DEMOCRACIES WOULD BE CHALLENGED BY THE ECONOMIC PROBLEMS OF TRANSITION, BUT THE PAIN WAS INCREASED BY THE GULF WAR AND THE COLLAPSE OF TRADE WITH THE SOVIET UNION. THE VIRULENCE OF NATIONAL AND ETHNIC ISSUES HAS BEEN GREATER, AND MORE LASTING, THAN WE HAD HOPED.

TO DEAL WITH THIS CHALLENGE, WE NEED TO EMPHASIZE OUR DEMOCRACY BUILDING AND QUALITY OF LIFE PROGRAMS. FROM HELPING CZECHOSLOVAKIA DRAFT A FEDERAL CONSTITUTION WHICH PROTECTS INDIVIDUAL RIGHTS OR IMPROVING HEALTH CARE DELIVERY IN BULGARIA, OUR INVOLVEMENT CAN MAKE A DIFFERENCE.

SECOND, THE LAG BETWEEN MACROECONOMIC AND MICROECONOMIC REFORM HAS BEEN MORE OF A PROBLEM THAN WE ANTICIPATED A YEAR AGO. POLAND'S BOLD STABILIZATION PROGRAM IN 1990 DID NOT PRODUCE THE DESIRED SUPPLY-SIDE RESPONSE BECAUSE PRIVATIZATION LAGGED AND STATE ENTERPRISES WERE INSULATED FROM THE MARKET AND COMPETITIVE FORCES. POLAND HAS NOW ADOPTED A COMPREHENSIVE 3-YEAR PROGRAM AND WE ARE URGING ALL COUNTRIES OF THE REGION TO ACCELERATE THE PACE OF PRIVATIZATION AND THE CREATION OF TRULY COMPETITIVE MARKET CONDITIONS. AS YOU HAVE POINTED OUT, THE SUCCESS OR FAILURE OF THE POLISH PROGRAM IS BEING WATCHED CLOSELY BY THE OTHER COUNTRIES OF THE REGION, ESPECIALLY THE U.S.S.R.

TO SUPPORT MICROECONOMIC REFORM, THE U.S. HAS A NUMBER OF TOOLS WHICH WE WILL EMPHASIZE. OUR ENTERPRISE FUNDS ARE STIMULATING THE PRIVATE SECTOR IN POLAND, HUNGARY AND CZECHOSLOVAKIA. THE POLISH-AMERICAN AND HUNGARIAN-AMERICAN FUNDS HAVE ALREADY DISBURSED \$26 MILLION AND THEY CAN SPEND \$90 MILLION OR MORE IF THE PROJECTS THEY ARE WORKING ON COME TO FRUITION. WE ARE GEARING UP TO TRAIN MANAGERS AND BANKERS AND TO PROVIDE ASSISTANCE IN THE PRIVATIZATION PROCESS IN INDUSTRY AND AGRICULTURE. WE ARE HELPING TO DRAFT LAWS WHICH WILL MAKE COMPETITION A REALITY AND TO BUILD FINANCIAL INTERMEDIARIES WHICH WILL ASSIST THE PRIVATIZATION PROCESS. IN TERMS OF USG RESOURCES, THIS MUST BE OUR GREATEST COMMITMENT IN FY 1992 AS WELL AS FY 1991. AT THE SAME TIME, WE MUST WORK TO FOCUS THE ACTIVITIES OF OTHER MAJOR DONORS -- ESPECIALLY THE IBRD AND THE EBRD -- ON REMOVING THE BOTTLENECKS TO PRIVATE SECTOR GROWTH.

THIRDLY, THE TRADE GAP IS WIDENING AND INVESTMENT FLOWS FROM THE WEST HAVE BEEN DISAPPOINTING. THE COLLAPSE OF TRADE WITH THE USSR HAS BEEN MORE PRECIPITATE THAN ANYONE PREDICTED AND THIS, COMBINED WITH THE LOSS OF THE GDR AS A MARKET, HAS FORCED A MAJOR REORIENTATION OF TRADE. AT THE SAME TIME, U.S. AND WESTERN INVESTORS HAVE BEEN MORE CAUTIOUS THEN WE HAD THOUGHT; UP UNTIL THE EVE OF PRESIDENT WALESZA'S VISIT TO THE UNITED STATES, U.S. FIRMS HAD INVESTED ONLY \$30 MILLION IN POLAND.

IMPROVING THE CLIMATE FOR TRADE AND INVESTMENT IS OUR MAJOR NEW PRIORITY FOR THE REST OF 1991. POLISH DEBT REDUCTION SHOULD MAKE A MAJOR CONTRIBUTION TO THAT GOAL. AS A RESULT OF THIS AMERICAN-LED INITIATIVE, LENDING AGENCIES LIKE THE EXPORT-IMPORT BANK ARE BULLISH AGAIN ON POLAND. THE AMERICAN BUSINESS INITIATIVE AND THE TRADE ENHANCEMENT INITIATIVE, ANNOUNCED DURING THE WALESA VISIT, SHOULD ALSO SERVE TO IMPROVE THE CLIMATE FOR U.S. TRADE AND INVESTMENT IN THE ENTIRE REGION. OTHERS MUST DO THEIR PART. THE COUNTRIES OF CENTRAL AND EASTERN EUROPE NEED TO TAKE MORE STEPS TO LOWER THEIR BARRIERS TO TRADE WITH EACH OTHER, AND ESPECIALLY TO MAKE THE CLIMATE MORE ATTRACTIVE TO WESTERN INVESTORS SO AS TO ATTRACT THE PRIVATE CAPITAL THAT, OVER TIME, WILL DO FAR MORE FOR THEIR ECONOMIES THAN ANY WESTERN GOVERNMENTAL ASSISTANCE. AND OUR EUROPEAN ALLIES NEED TO PROVIDE EXPANDED MARKET ACCESS FOR EXPORTS FROM THE REGION. A YEAR AGO WE ALL SAID THAT EXPANDED TRADE AND INVESTMENT WOULD BE THE ENGINE OF GROWTH AND REFORM IN CENTRAL AND EASTERN EUROPE. WE NEED TO MAKE THIS A REALITY IN 1991.

1992 BUDGET REQUEST

BASED UPON THE ABOVE PRIORITIES, THE ADMINISTRATION HAS ASKED FOR \$470 MILLION IN ASSISTANCE TO EASTERN EUROPE, A SIGNIFICANT INCREASE IN OUR REQUEST FOR FY 1991. OF THIS AMOUNT, \$70 MILLION IS FOR THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT. THE \$400 MILLION FOR OTHER ASSISTANCE ACTIVITIES INCLUDE:

\$29 MILLION FOR THE DEVELOPMENT OF DEMOCRATIC INSTITUTIONS;
\$305 MILLION TO PROMOTE ECONOMIC RESTRUCTURING;
\$61 MILLION FOR QUALITY OF LIFE RELATED PROJECTS; AND
\$5 MILLION FOR AUDIT, EVALUATION, AND PROGRAM SUPPORT.

LOOKED AT ANOTHER WAY, THE USE OF THE \$400 MILLION WE HAVE
REQUESTED FOR FY 1992 WOULD BE SPENT APPROXIMATELY AS FOLLOWS:

\$190 MILLION FOR PROJECTS AUTHORIZED UNDER SEED I, OF WHICH
-- \$164 MILLION WILL BE FOR THE ENTERPRISE FUNDS.

\$55 MILLION WILL BE FOR PROGRAMS OTHER WHICH WILL BE
ADMINISTERED BY AGENCIES OTHER THAN AID (USIA, EPA, ENERGY,
LABOR, COMMERCE, JUSTICE, ETC.)

\$60 MILLION FOR THE CONTINUATION OF A FEW MAJOR PROJECTS
SUCH AS MANAGEMENT TRAINING OR PRIVATIZATION BEGUN IN FY91.

THE REMAINDER OF THE FUNDING WOULD BE LARGELY DEVOTED TO
SMALLER PROJECTS (LESS THAN \$10 MILLION) WHICH WILL BE CARRIED
OVER FROM 1991, OR TO INCREASE THE SCOPE OF LARGE PROJECTS
WHICH ARE PARTICULARLY SUCCESSFUL. WE WANT TO USE THE
FLEXIBILITY THE CONGRESS HAS GIVEN US TO INCREASE PROGRAMS
WHICH APPEAR TO BE SUCCESSFUL, OR CUT OUR LOSSES WHERE
EXPERIMENTS AREN'T WORKING. ALREADY THIS YEAR, WE HAVE DOUBLED
TWO PROGRAMS WHERE THE QUALITY OF RESPONSES WAS HIGH AND
RECIPIENT GOVERNMENT INTEREST CORRESPONDED; WE HAVE CUT OTHER
PROGRAMS FOR THE SAME REASONS.

BUILDING COUNTRY PROGRAMS

IN ADDITION TO OUR OVERALL REGIONAL PRIORITIES, WE ARE ADAPTING OUR PROGRAMS TO THE NEEDS OF EACH INDIVIDUAL COUNTRY AND COORDINATING WITH OTHER DONORS WHO ARE TRYING TO DEAL WITH THE SAME PROBLEMS. THIS REQUIRES A CONTINUING DIALOGUE WITH THE HOST COUNTRY, WITH THE MAJOR BILATERAL AND MULTILATERAL DONORS, AND AMONG THE 20 OR SO U.S. GOVERNMENT AGENCIES ENGAGED IN THE ASSISTANCE PROCESS. IN EACH COUNTRY OF THE REGION WE ARE TRYING TO CONSTRUCT A U.S. ASSISTANCE PROGRAM WHICH IS VISIBLE, FOCUSSED AND EASY TO ADMINISTER; AT THE SAME TIME THE SCALE OF THAT PROGRAM MUST REFLECT THE DEGREE OF PROGRESS THAT COUNTRY IS MAKING AGAINST THE CRITERIA WE AND OUR ALLIES HAVE SET.

FOR COUNTRIES THAT ARE FURTHER BEHIND ON THE PATH TOWARDS DEMOCRATIC REFORM, WE HAVE PUT IN PLACE ONLY A VERY FEW PROGRAMS. IN ROMANIA, FOR EXAMPLE, WE ARE MOVING AHEAD WITH SIX LIMITED PROGRAMS: HUMANITARIAN ASSISTANCE (INCLUDING ASSISTANCE TO THE ROMANIAN CHILDREN), FOOD AID, ASSISTANCE WITH FAMILY PLANNING, SUPPORT FOR INDEPENDENT MEDIA AND THE RULE OF LAW, MANAGEMENT TRAINING, AND EMERGENCY ENERGY EFFICIENCY PROGRAMS. IN POLAND, BY WAY OF CONTRAST, WE ARE CARRYING OUT SOME TWO DOZEN PROGRAMS. BUT HERE, TOO, WE WANT TO FOCUS ON A FEW KEY AREAS WHERE MORE RESOURCES CAN BE PROVIDED TO MEET NEW PRIORITIES. SUPPORT FOR THE PROCESS OF PRIVATIZATION AND EXPANSION OF TRADE AND INVESTMENT ARE TWO SUCH FUNCTIONAL FOCAL

POINTS FOR POLAND. AGRICULTURAL AND AGRI-BUSINESS IS OUR CENTRAL FUNCTIONAL PRIORITY IN BULGARIA; IN HUNGARY WE SEE REFORM OF THE BANKING SYSTEM AS A KEY NEED THE U.S. CAN HELP TO MEET.

A SECOND WAY OF ADDING SYNERGY TO OUR AID IS TO CONCENTRATE SOME SMALLER PROGRAMS IN A SINGLE CITY OR AREA. KRAKOW HAS BECOME A FOCAL POINT FOR U.S. PROGRAMS IN POLAND, AS HAS BARANYA COUNTY IN HUNGARY. THE PEACE CORPS, THE DEPARTMENT OF LABOR, THE EPA, THE DEPARTMENT OF ENERGY AND THE OTHER AGENCIES INVOLVED IN U.S. ASSISTANCE CAN DO MORE BY REINFORCING EACH OTHERS' PROGRAMS IN A SINGLE LOCATION THAN BY PURSUING THEIR PRIORITIES SEPARATELY.

CONCLUSION

IN CLOSING, LET ME ASK YOU TO REFLECT NOT ON THE FORMIDABLE OBSTACLE TO ECONOMIC AND POLITICAL REFORM BUT TO THE REMARKABLE PROGRESS THAT HAS BEEN MADE IN THE PAST YEAR. IN 1988, WHO WOULD HAVE EXPECTED LECH WALESIA TO VISIT WASHINGTON AS THE PRESIDENT OF A DEMOCRATIC POLAND, TO TALK ABOUT THE TIMETABLE FOR THE COMPLETE WITHDRAWAL OF SOVIET FORCES FROM HIS COUNTRY? WHO WOULD HAVE EXPECTED BULGARIA TO BE IN THE FOREFRONT OF POLITICAL AND ECONOMIC REFORM? WHO WOULD HAVE EXPECTED DEMOCRATIC ELECTIONS, HOWEVER FLAWED, IN ALBANIA? MOST OF ALL, WHO WOULD HAVE EXPECTED A POWERFUL CONSENSUS TO DEVELOP THROUGHOUT THE REGION THAT RAPID, COMPREHENSIVE TRANSITION TO

DEMOCRATIC RULE AND MARKET ECONOMIES IS THE ONLY SOLUTION TO THE PROBLEMS OF THE REGION. ASSISTING IN THIS TRANSITION IS AS MUCH A CENTRAL STRATEGIC PRIORITY FOR THIS ADMINISTRATION AS IT WAS TWO YEARS AGO WHEN THE IMAGES OF REVOLUTION SO FIRED OUR IMAGINATION.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° inv. 14782

12 GEN. 1995

BIBLIOTECA

TESTIMONY OF
AMBASSADOR ROBERT L. BARRY
SPECIAL ADVISER FOR EAST EUROPEAN ASSISTANCE
TO THE DEPUTY SECRETARY OF STATE

BEFORE THE
SENATE COMMITTEE ON FOREIGN RELATIONS
SUBCOMMITTEE ON EUROPE

APRIL 24, 1991

MR. CHAIRMAN, MEMBERS, LADIES AND GENTLEMEN,

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY TO DISCUSS OUR
CENTRAL AND EAST EUROPEAN ASSISTANCE PROGRAM.

THE ADMINISTRATION'S REQUEST FOR FISCAL YEAR 1992 WILL
CONTINUE THE STRATEGY SET BY THE PRESIDENT IN 1989 AND
ELABORATED BY THE CONGRESS IN THE SUPPORT FOR EAST EUROPEAN
DEMOCRACY ACT. THE ADMINISTRATION IS REQUESTING \$470 MILLION
IN ASSISTANCE, INCLUDING \$70 MILLION FOR THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT. THIS FUNDING WILL SUPPORT
THREE MAIN AREAS OF ASSISTANCE: DEMOCRATIC INITIATIVES,
SUPPORT FOR ECONOMIC REFORM AND HELP IN IMPROVING THE QUALITY
OF LIFE FOR THESE SOCIETIES IN TRANSITION.

YOU HAVE ASKED THAT WE ADDRESS THE EFFECT OF U.S.
ASSISTANCE TO THE REGION THUS FAR, AND HOW THAT ASSISTANCE
MIGHT CHANGE AS THIS PROCESS CONTINUES. LET ME FIRST STRESS
THAT, EVEN WITH THE RECENT EVENTS IN THE PERSIAN GULF, THE
ESTABLISHMENT OF DEMOCRACY AND MARKET ECONOMIES IN CENTRAL AND

EASTERN EUROPE REMAINS A STRATEGIC PRIORITY FOR THIS ADMINISTRATION. OVER THE PAST YEAR, OUR ASSISTANCE HAS HELPED THE COUNTRIES OF THE REGION MAKE PROGRESS, TO VARYING DEGREES, TOWARD THAT GOAL. WE ARE ASKING FOR MORE RESOURCES NEXT YEAR TO ACCELERATE THAT PROGRESS.

ECONOMIC REFORM IS ENTERING A NEW PHASE. POLAND, HUNGARY, CZECHOSLOVAKIA AND BULGARIA HAVE TAKEN THE TOUGH MACRO-ECONOMIC POLICY DECISIONS NECESSARY TO ACHIEVE ECONOMIC STABILITY AND PREPARE THE WAY FOR PRIVATIZATION AND THE DEVELOPMENT OF A PRIVATE SECTOR AND A TRUE MARKET ECONOMY. NOW THE EVEN TOUGHER TASKS OF MICRO-ECONOMIC REFORM, THE CREATION OF A PRIVATE SECTOR AND THE INSTITUTION OF A COMPETITIVE, MARKET-ORIENTED ECONOMY, LOOM EVEN LARGER.

LET ME TURN NOW TO THE ROLE U.S. ASSISTANCE HAS PLAYED IN PROMOTING THESE REFORMS. IN THE CASE OF POLAND, LAST YEAR, THE U.S.-LED \$1 BILLION MULTILATERAL STABILIZATION FUND, HELPED TO BRING HYPER-INFLATION UNDER CONTROL AND TO STABILIZE THE VALUE OF THE ZLOTY. THIS YEAR THE U.S. TOOK THE INITIATIVE IN PERSUADING THE PARIS CLUB TO REACH AGREEMENT ON AN EXCEPTIONAL DEBT REDUCTION ARRANGEMENT FOR POLAND. WE ARE ALREADY ABLE TO SEE THE POSITIVE IMPACT THIS IS HAVING ON INVESTMENT IN POLAND. THESE TWO INITIATIVES WERE DIFFICULT TO ORGANIZE, BUT THE PAYOFF WAS FAST AND OBVIOUS. FUTURE USG INITIATIVES ARE

LIKELY TO BE LESS VISIBLE BECAUSE THE TASK OF MICRO-ECONOMIC REFORM TAKES PLACE AT THE LEVEL OF EACH FACTORY, EACH HOUSEHOLD, AND EACH GOVERNMENT AGENCY.

CHANGING NEEDS MEAN SHIFTING PRIORITIES

THE U.S. AND ITS WESTERN PARTNERS WILL CONTINUE TO COLLABORATE WITH THE IMF AND IBRD IN IMPLEMENTING REFORMS ON THE MACRO-ECONOMIC LEVEL. BUT THE CHIEF FOCUS OF EXTERNAL ASSISTANCE IS NOW MOVING TO MICRO-ECONOMIC REFORMS. IN PARTICULAR, THE ADMINISTRATION HAS CONCLUDED THAT THE GREATEST NEEDS IN CENTRAL AND EASTERN EUROPE TODAY ARE FOR ENHANCED TRADE AND GREATER ACCESS TO WESTERN MARKETS, AND FOR LARGER FLOWS OF FOREIGN INVESTMENT.

INCREASED TRADE WITH THE WEST IS ESSENTIAL. THAT IS THE CLEAR AND CONSISTENT MESSAGE FROM GOVERNMENTS IN THE REGION AND FROM OUR OWN OBSERVATIONS. THE SOVIET-BUILT, INWARD-LOOKING TRADING SYSTEM OF CEMA HAS COLLAPSED. THE SOVIET UNION HAS CUT ENERGY SUPPLIES AND IS DEMANDING HARD CURRENCY. THE GDR MARKET HAS DISAPPEARED. THE PERSIAN GULF WAR HAS ADDED TO THESE DIFFICULTIES. INCREASED TRADE WITH THE WEST WILL HELP MITIGATE THE COST OF REORIENTING THE ECONOMIES OF CENTRAL AND EASTERN EUROPE TOWARD MORE ATTRACTIVE MARKETS. LAST YEAR, FOR EXAMPLE, POLAND'S INDUSTRIAL OUTPUT DECLINED SHARPLY, AND UNEMPLOYMENT

INCREASED FROM NEGLIGIBLE LEVELS TO OVER ONE MILLION. WESTERN GOVERNMENT GRANTS AND LOANS HELP IN THE SHORT TERM, BUT INCREASED TRADE AND INVESTMENT ARE THE ONLY LASTING BASIS FOR SELF-SUSTAINING ECONOMIC GROWTH.

TO INCREASE U.S. TRADE WITH CENTRAL AND EASTERN EUROPE, THE ADMINISTRATION HAS UNDERTAKEN THE TRADE ENHANCEMENT INITIATIVE, WHICH EXAMINES INTERNAL AND EXTERNAL BARRIERS TO EXPANDED TRADE. AT THE SAME TIME, WE ARE ENCOURAGING THE EUROPEAN COMMUNITY TO DO THE SAME. AS PART OF THE U.S. TRADE ENHANCEMENT INITIATIVE:

-- THE PRESIDENT IS EXPECTED TO APPROVE SHORTLY A SIGNIFICANT EXPANSION OF DUTY-FREE BENEFITS COVERING CENTRAL AND EAST EUROPEAN EXPORTS UNDER THE GENERALIZED SYSTEM OF PREFERENCES (GSP). IT IS EXPECTED THAT CZECHOSLOVAKIA WILL BE ADDED TO POLAND, HUNGARY AND YUGOSLAVIA AS BENEFICIARIES. THE U.S. ALREADY GRANTS CENTRAL AND EAST EUROPEAN COUNTRIES \$500 MILLION IN DUTY FREE IMPORTS.

-- WE ARE PROVIDING TECHNICAL ASSISTANCE ON U.S. TRADE LAWS AND REGULATIONS TO HELP OVERCOME INFORMATIONAL BARRIERS TO TRADE.

-- WE ARE DEVELOPING A PROGRAM THROUGH WHICH THE COMMERCE DEPARTMENT WILL MATCH COMPANIES, ESPECIALLY SMALL AND MEDIUM-SIZED FIRMS, IN COMPLEMENTARY ECONOMIC REGIONS OF THE U.S. AND CENTRAL AND EASTERN EUROPE.

IN ADDITION, WE HAVE CONCLUDED A BUSINESS AND ECONOMIC AGREEMENT WITH POLAND, AND ARE NEGOTIATING ONE WITH HUNGARY. WE HAVE ALSO CONCLUDED COMMERCIAL AGREEMENTS WITH CZECHOSLOVAKIA AND BULGARIA, AND ARE NEGOTIATING BILATERAL INVESTMENT TREATIES WITH YUGOSLAVIA, BULGARIA, AND CZECHOSLOVAKIA. GOODS FROM POLAND, HUNGARY, CZECHOSLOVAKIA AND YUGOSLAVIA ALL RECEIVE MFN TREATMENT AND WE WILL BE SUBMITTING SOON TO THE CONGRESS THE BULGARIAN AGREEMENT WHICH WAS JUST SIGNED ON APRIL 22. THE EXPORT-IMPORT BANK AND OVERSEAS PRIVATE INVESTMENT CORPORATION HAVE PROGRAMS IN POLAND, HUNGARY, CZECHOSLOVAKIA AND YUGOSLAVIA.

THE UNITED STATES SHOULD NOT BE TAKING THESE STEPS ALONE. THE EUROPEAN COMMUNITY, WHICH REPRESENTS THE GREATEST MARKET FOR CENTRAL AND EASTERN EUROPE, SHOULD TAKE THE LEAD IN PROVIDING GREATER MARKET ACCESS, AND WE ARE ENCOURAGING THEM TO DO SO IN THE CONTEXT OF THEIR ASSOCIATION AGREEMENTS. WE EMPHASIZE, HOWEVER, THAT THESE AGREEMENTS SHOULD CONFORM TO GATT RULES BY INCLUDING ALL AREAS OF TRADE, INCLUDING AGRICULTURE.

IN ORDER TO BOOST TRADE, CENTRAL AND EAST EUROPEAN COUNTRIES NEED TO EXPAND THEIR PRODUCTIVE CAPACITY. THE BEST WAY TO DO THIS IS THROUGH DIRECT INVESTMENT. THIS FORM OF SUPPORT HAS BEEN MUCH TOO SLOW IN COMING. PRESIDENT WALESA SAID DURING HIS VISIT HERE THAT U.S. PRIVATE INVESTMENT IN POLAND TOTALLED ONLY \$30 MILLION. ALTHOUGH HUNGARY HAS HAD GREATER SUCCESS IN ATTRACTING INVESTMENT, MORE IS NEEDED IN ALL THE COUNTRIES.

THE MAJOR OBSTACLES TO DIRECT INVESTMENT IN CENTRAL AND EASTERN EUROPE, HOWEVER, ARE TO BE FOUND WITHIN EACH OF THESE COUNTRIES. CHANGES OF POLICIES, LAWS AND INSTITUTIONS ARE NEEDED THAT WILL PERMIT PRIVATE ENTERPRISE TO FLOURISH AND TAKE ADVANTAGE OF TRADE OPPORTUNITIES. PRIVATIZATION OF STATE-OWNED ENTERPRISES IS A CRITICAL STEP IN THIS PROCESS. CONTRACT LAW, BASIC PROTECTION OF FRANCHISE AND DISTRIBUTION AGREEMENTS AS WELL AS TRADEMARK AND INTELLECTUAL PROPERTY PROTECTION NEED TO BE INTRODUCED. DISINCENTIVES TO PRIVATE BUSINESS MUST BE REMOVED FROM TAX SYSTEMS AND LABOR LAWS; AND THE BUREAUCRACY'S STRANGLEHOLD ON ECONOMIC ACTIVITY LIFTED.

IN ADDITION, SPECIFIC BARRIERS TO FOREIGN INVESTMENT MUST BE REMOVED, SUCH AS LIMITATIONS ON FOREIGN OWNERSHIP OF REAL ESTATE, CEILINGS ON FOREIGN EQUITY HOLDINGS, AND RETROACTIVE LIABILITY FOR PAST ENVIRONMENTAL DAMAGE. MANY OF THESE

IMPEDIMENTS ALSO HAMPER THE DEVELOPMENT OF DOMESTIC ENTERPRISE; FOREIGN CAPITAL FLOWS BRING WITH THEM TECHNOLOGY AND MANAGEMENT EXPERTISE AND SERVE TO RESTRUCTURE INDUSTRY IN A WAY THAT DOES NOT BURDEN THESE ECONOMIES WITH DEBT. CENTRAL AND EASTERN EUROPE MUST AIM FOR INVESTMENT REGIMES THAT SEEK ULTIMATELY TO APPLY THE SAME OECD STANDARD OF NATIONAL TREATMENT (I.E., NO LESS FAVORABLE TREATMENT THAN THAT ACCORDED DOMESTIC FIRMS) TO FOREIGN INVESTORS. SUCH TREATMENT IS A REASONABLE EXPECTATION FOR INVESTORS READY TO TAKE A LONG TERM, AS OPPOSED TO "FAST BUCK," VIEW OF THESE MARKETS. IT WOULD ALSO BE CONSISTENT WITH THE DESIRE OF COUNTRIES OF THE REGION TO MORE CLOSELY ASSOCIATE THEMSELVES WITH THE EC AND THE OECD.

TO COMPLEMENT OUR EFFORTS DESCRIBED ABOVE, WE HAVE ANNOUNCED THE AMERICAN BUSINESS AND PRIVATE SECTOR DEVELOPMENT INITIATIVE. THIS IS A TWO-YEAR, \$45 MILLION PROGRAM DESIGNED TO PROMOTE THE GROWTH OF U.S. INVESTMENT, INCREASED PARTICIPATION OF U.S. FIRMS IN INFRASTRUCTURE DEVELOPMENT, AND INCREASED INVOLVEMENT OF SMALL AND MEDIUM SIZED U.S. COMPANIES IN BILATERAL TRADE WITH THE REGION. THE U.S. COMMERCE DEPARTMENT, A.I.D., THE U.S. TRADE AND DEVELOPMENT PROGRAM, AND OPIC ARE PREPARED TO WORK WITH THE U.S. PRIVATE SECTOR. AN AMERICAN BUSINESS CENTER WILL BE ESTABLISHED IN WARSAW TO PROVIDE ASSISTANCE TO AMERICAN BUSINESSES SEEKING TO ENTER THAT MARKET. THE INITIATIVE WILL ALSO PROVIDE GRANT TECHNICAL ASSISTANCE TO INCREASE U.S. PRIVATE SECTOR INVOLVEMENT.

A PRIMARY EMPHASIS OF OUR ASSISTANCE IN FY-1992 WILL BE TO PROVIDE TECHNICAL ASSISTANCE TO HELP GOVERNMENTS TAKE NEEDED ACTION ON THIS MICRO-ECONOMIC LEVEL. WE WILL CONTINUE TO PROVIDE ASSISTANCE, FOR EXAMPLE, IN PRIVATIZATION AND ENTERPRISE RESTRUCTURING AND IN DRAFTING ANTI-MONOPOLY AND PROCUREMENT REGULATIONS. BUT WE ALSO WILL FOCUS ON NEW AREAS AS THEY DEVELOP. THAT IS WHY WE NEED TO CONTINUE TO HAVE THE FLEXIBILITY THE CONGRESS GAVE US LAST YEAR.

ANOTHER WAY WE ARE SEEKING TO ACCELERATE THE INTEGRATION OF CENTRAL AND EAST EUROPEAN COUNTRIES INTO THE WORLD ECONOMY IS TO PROMOTE GROWING INVOLVEMENT, AND, WHERE APPROPRIATE, MEMBERSHIP IN INTERNATIONAL ECONOMIC AND FINANCIAL INSTITUTIONS. FOR EXAMPLE, WE HAVE TAKEN THE LEAD IN CREATING THE OECD CENTER FOR ECONOMIES IN TRANSITION AND THE "PARTNERS IN TRANSITION" PROGRAM, WHICH SEEK TO INVOLVE THOSE CENTRAL AND EAST EUROPEAN COUNTRIES FURTHEST ALONG IN REFORM IN A CLOSER RELATIONSHIP WITH THE OECD. WE HAVE CONTRIBUTED AN ADDITIONAL \$2 MILLION TO THE OECD TO SUPPORT THESE NEW EFFORTS BY DRAWING THESE COUNTRIES INTO THE OECD'S WORK IN A BROAD RANGE OF AREAS -- TAX POLICY, EDUCATION, LABOR POLICY, CAPITAL MARKET DEVELOPMENT, ETC., AS WELL AS TRADE AND INVESTMENT.

FY 1992 FUNDING AND AUTHORITIES

AS I STATED IN MY INTRODUCTION, THE ADMINISTRATION HAS REQUESTED \$470 MILLION FOR FY 1992, A SIGNIFICANT INCREASE OVER OUR FY 1991 REQUEST. OF THIS AMOUNT, \$70 MILLION IS FOR THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT. OF THE \$400 MILLION WHICH IS LEFT, ROUGHLY \$180 MILLION WOULD GO TO PROVIDE FUNDING FOR PROGRAMS BEGUN UNDER SEED I, INCLUDING THE POLISH- AND HUNGARIAN-AMERICAN ENTERPRISE FUNDS AND THE ENVIRONMENT AND ENERGY PROGRAMS. THIS WILL LEAVE APPROXIMATELY \$220 MILLION TO CONTINUE THOSE PROGRAMS WHICH WERE STARTED IN 1991 AS WELL AS THE NEW INITIATIVES WE ARE UNDERTAKING.

IN DISCUSSING THESE NEW INITIATIVES, LET ME FIRST MENTION THE ADMINISTRATION'S AUTHORIZATION BILL WHICH WAS FORMALLY SUBMITTED TO THE CONGRESS LAST WEEK. IN THAT LEGISLATION, WE ARE ASKING FOR A FEW NEW AUTHORITIES FROM THE CONGRESS. ONE IS THE AUTHORITY TO ESTABLISH NEW ENTERPRISE FUNDS SIMILAR TO THE ONE WHICH WAS RECENTLY CREATED FOR CZECHOSLOVAKIA. THE BOARD OF THE CZECHOSLOVAK-AMERICAN ENTERPRISE FUND HELD ITS FIRST MEETING ON MARCH 8 AND INITIAL FUNDS HAVE BEEN TRANSFERRED.

WE ARE ALSO SEEKING LEGISLATIVE AUTHORITY TO EXPAND OPIC'S PILOT EQUITY PROGRAM TO INCLUDE CENTRAL AND EASTERN EUROPE. ONCE WE HAVE THIS AUTHORITY, THE PILOT EQUITY PROGRAM WILL FORM PART OF THE AMERICAN BUSINESS INITIATIVE TO PROMOTE U.S. PRIVATE SECTOR INVOLVEMENT IN THE REGION.

ONE INITIATIVE THAT WILL NOT REQUIRE AN EXPENDITURE OF FUNDS BUT WILL REQUIRE SPECIFIC AUTHORIZATION IS AN AMENDMENT OF THE 1974 TRADE ACT TO ALLOW FOR THE GRADUATION OF CZECHOSLOVAKIA AND HUNGARY FROM THE PROVISIONS OF TITLE IV, INCLUDING THE JACKSON-VANIK AMENDMENT. THIS IS NOT PART OF OUR DRAFT LEGISLATION FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE BUT RATHER A SEPARATE BILL THAT ADDRESSES THAT SPECIFIC ISSUE. LIKEWISE, WE ARE SCREENING OTHER EXISTING U.S. LAWS AND REGULATIONS TO SEE IF THERE ARE PROVISIONS DISCRIMINATING AGAINST CENTRAL AND EASTERN EUROPEAN COUNTRIES WHICH ARE OUTMODED AND SHOULD BE REMOVED.

IN ADDITION TO THESE SPECIFIC AUTHORITIES, THE ADMINISTRATION'S DRAFT LEGISLATION PICKS UP ALL OF THE AUTHORITIES OF SEED I AND EXTENDS THEM TO THE OTHER COUNTRIES OF CENTRAL AND EASTERN EUROPE. IT PROVIDES FOR ASSISTANCE IN SEVERAL BROAD CATEGORIES RATHER THAN LISTING SPECIFIC PROJECTS TO BE CARRIED OUT IN PARTICULAR COUNTRIES. THIS, OF COURSE, IS IN KEEPING WITH OUR PREFERENCE FOR NO EARMARKS BY COUNTRY OR BY PROGRAM.

THERE ARE ALSO SOME OTHER NEW INITIATIVES PLANNED FOR 1991 AND 1992 WHICH DO NOT NEED SPECIFIC AUTHORITY. FOR EXAMPLE, THE ADMINISTRATION HAS MADE A COMMITMENT TO PARTICIPATE IN G-24 SUPPLEMENTARY FINANCING FOR CZECHOSLOVAKIA AND HUNGARY. IN

THESE CASES, THE IMF HAS IDENTIFIED NEEDS FOR SUPPLEMENTARY FINANCING WHICH IT HAS ASKED THE G-24 TO HELP PROVIDE. MOST OF THIS MONEY WILL BE PROVIDED IN THE FORM OF LOANS AND CREDITS, WITH SOME GRANTS. THE U.S. PORTION WILL TAKE THE SHAPE OF SECTOR GRANTS ADMINISTERED BY A.I.D. -- \$15 MILLION FOR CZECHOSLOVAKIA AND \$10 MILLION FOR HUNGARY. WE HAVE ALSO AGREED TO PARTICIPATE IN SUCH A MECHANISM FOR BULGARIA AND ARE DISCUSSING THE ISSUE NOW WITH THE BULGARIAN GOVERNMENT.

MR. CHAIRMAN: OVER THE LAST YEAR WE HAVE USED THE FLEXIBILITY THE CONGRESS GAVE US TO DESIGN AND IMPLEMENT OUR ASSISTANCE PROGRAM IN A WAY THAT HAS BEEN RESPONSIVE TO THE CHANGING NEEDS AND PRIORITIES OF THE CENTRAL AND EASTERN EUROPEANS. WE HOPE THAT YOU AND YOUR COLLEAGUES WILL PROVIDE US WITH THIS SAME FLEXIBILITY NEXT YEAR. FY-1992 IS THE FINAL YEAR FOR AUTHORIZATION UNDER THE SUPPORT FOR EASTERN EUROPEAN DEMOCRACY ACT. MAJOR FUNDING WILL BE DEDICATED TO MEETING COMMITMENTS UNDER THAT ACT, IN PARTICULAR, TO THE POLISH-AMERICAN, HUNGARIAN-AMERICAN AND, NOW, THE CZECHOSLOVAK-AMERICAN ENTERPRISE FUNDS. IN OUR EFFORTS TO EMPHASIZE THE IMPORTANCE OF INCREASED TRADE AND INVESTMENT IN THE REGION, THESE AND OTHER INNOVATIVE PROGRAMS SUCH AS THE AMERICAN BUSINESS INITIATIVE AND THE TRADE ENHANCEMENT INITIATIVE WILL BE ESSENTIAL IN HELPING TO ENSURE THE SUCCESS OF THE ECONOMIC REFORMS TAKING PLACE ~~THROUGHOUT THE REGION.~~

THANK YOU, MR. CHAIRMAN.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

14782
12 GEN. 1995

BIBLIOTECA

US Assistance to Central and Eastern Europe: An Overview



US Department of State
Bureau of Public Affairs
Office of Public Communication

OVERVIEW

A. Objectives and funding

In 1989, the United States undertook a program of assistance to support the political and economic transition of the countries of Central and Eastern Europe. Its initial focus was on Poland and Hungary, where progress toward democracy and a market economy was most advanced. The program included urgent humanitarian aid, technical assistance, and direct economic aid. Since 1989, we have expanded assistance activities to include Czechoslovakia, Bulgaria, Romania, and Yugoslavia and are now consulting with Congress on the inclusion of Albania.

The overall framework of US assistance was set out in a speech given by President Bush in April 1989. The President spoke of a vision of a free, democratic Eastern Europe and committed the United States to providing assistance to those nations in the region undertaking political and economic reforms. Later, in 1990, Secretary of State Baker elaborated a concept of a "new democratic differentiation" in which our assistance would be tailored to the specific needs of each country as it moved positively toward four objectives:

- Progress toward political pluralism, including free and fair elections;
- Progress toward economic reform through development of a market economy with a substantial private sector;
- Enhanced respect for internationally recognized human rights; and
- A willingness to build a friendly relationship with the United States.

Since 1989, the United States has committed approximately \$1.5 billion in grants and other assistance to Central and Eastern Europe. The vast bulk of this assistance has come in the form of grants.* These special assistance grant programs are being funded primarily through the US Agency for International Development (AID). AID and

* The United States believes that grant assistance is qualitatively better and more appropriate for the debt burdened economies of Central and Eastern Europe. Unless otherwise noted, assistance figures stated in this document refer only to grants.

other US government agencies, particularly the US Information Agency, the Treasury Department, the Environmental Protection Agency, the Department of Energy, and the Department of Labor, are engaged in designing and delivering a wide range of technical assistance. Private voluntary organizations, funded by the US government, are playing an important role in this effort as well.

These assistance projects complement the programs which several US government agencies are carrying out under their own budgets. For example, insurance programs of the Overseas Private Investment Corporation (OPIC) and trade credits of the Export-Import Bank worth several hundred million dollars offer additional support for private sector business activity in Central and Eastern Europe. The Trade and Development Program provides substantial financing of feasibility and project planning studies to help industries in the region restructure. The Peace Corps is offering English language instruction and environmental and business training. The US Information Agency is conducting its normal program of exchanges and cultural activities in the region.

The United States is also a major contributor to multilateral financial institutions such as the World Bank (IBRD), the International Monetary Fund (IMF), and the new European Bank for Reconstruction and Development (EBRD). The United States has encouraged the World Bank to provide strong support to Eastern Europe's redevelopment. The bank has plans to lend \$9 billion or more to countries in the region. We have also led the way in obtaining an additional \$7.5 billion in funding for Eastern Europe from the IMF.

During fiscal year (FY) 1991, US bilateral grant assistance to the region totaled approximately \$380 million. In addition to this grant assistance, the United States contributed \$70 million as its paid-in capital contribution to the new EBRD and is donating food aid valued at \$85 million or more. The Administration has requested \$470 million next fiscal year for grant assistance, including \$70 million for the EBRD. Our food assistance will be

financed from other sources. In addition, \$200 million committed in 1989 to the Polish Stabilization Fund may be converted into a direct grant to the Polish government as soon as Poland decides to dissolve the fund.

B. Programs

The types of assistance programs we have developed for Central and Eastern Europe fall within three broad categories which we see as particularly important to support a successful transition of these societies. These three areas are:

- Development of the institutions and practices of democratic, pluralistic societies based on Western values of human rights and individual freedoms;
- The transformation of centrally planned economies to market-based economies led by the private sector and integrated into the world economy; and
- Improvement of the basic quality of life while countries undergo the process of political reform and economic restructuring.

We have developed a variety of regional programs within these functional areas where we believe the United States has a "comparative advantage" over other potential donors. At the same time, we have been carrying out an extensive dialogue with the countries of the region in an effort to determine what their priorities are and how we can best meet them.

Concurrently, the G-24 coordination mechanism, chaired by the EC Commission in Brussels, and discussions among donors in each country have provided us with a means of ensuring that our programs complement those of other donors. This dialogue also offers an opportunity to focus our regional programs in ways that respond to the needs of each individual country. We seek to channel the major part of our assistance to a few priority areas which are key to the success of a country's reform efforts.

In designing our assistance for the region, we have sought to introduce a mix of traditional and non-conventional programs which can help identify solutions to new problems facing these societies in transition. Among the more traditional assistance mechanisms

we have used are private voluntary organizations which provide technical assistance to farms and enterprises and deliver humanitarian and medical aid directly to the people. In the area of management training and economics, we have sought to fund linkages between American universities and their East European counterparts.

Among the more innovative actions has been the US government's decision to help create and finance new private sector entities to deliver assistance to Central and Eastern Europe. Enterprise Funds with a mandate to invest and promote the private sector have been created for Poland, Hungary, and Czechoslovakia. These will have a total, multi-year capitalization of \$360 million. The International Media Fund has been established to assist broadcasters, publishers, and journalists attain autonomy and develop the standards and practices of free journalism. The Citizens Democracy Corps is a non-profit organization created to promote and direct private voluntary assistance to the region.

C. Trade and Investment

In the course of the last 2 years, it has become increasingly obvious that expanded trade and investment with the West will be more significant than aid in helping these countries make their economic transition. The United States has taken the lead in seeking debt reduction for Poland. The unprecedented debt forgiveness agreement reached in the Paris Club earlier this year should not only improve Poland's potential for economic growth but enhance its attractiveness to foreign investors. Exports from Poland, Hungary, Czechoslovakia, and Yugoslavia already receive most-favored-nation (MFN) treatment in the United States. (Bulgaria will soon be added to this list.) In addition, these same four countries benefit from duty-free access for some categories of exports under the Generalized System of Preferences. The President's new Trade Enhancement Initiative also seeks to eliminate internal and external barriers to trade and investment with the region.

In an effort to promote increased business activity by US companies in the region, President Bush announced the American Business and Private

Sector Development Initiative. This \$45-million, 2-year project is designed to promote:

- Growth of US trade and investment to the region;
- Participation of US firms in infrastructure development; and
- Increased involvement of small and medium-sized US companies in bilateral trade.

The primary emphasis of the initiative will be on five sectors which are key to the region's development: agriculture and agribusiness, energy, environment, telecommunications, and housing. The initiative provides, inter alia, for the establishment of an American Business Center to be established in Warsaw that can offer office space and technical services to visiting businessmen. We are also seeking to expand OPIC's authority to make equity investments in promising joint ventures not only in the region, but worldwide.

ASSISTANCE PROGRAMS BY COUNTRY:

POLAND

Priority Programs

Stabilization Fund

The United States granted \$200 million to the **Polish Stabilization Fund** in 1990 as part of a US-led multi-donor hard currency reserve in support of the transition of the economy. The Fund has made possible limited convertibility of the Polish zloty by creating a reserve to be used by the Polish government if additional foreign exchange is needed. Poland has not had to draw on the Fund to date and has earned substantial interest from it which may be used in support of its economic programs. The \$200 million will revert to the Polish government when the Fund is no longer needed.

Privatization and Business Development

The **Polish-American Enterprise Fund** received \$35 million in FY 1990 and was given an additional \$69 million in FY 1991. Congress has authorized a

total capitalization of \$240 million. This **privately-managed investment fund** can take equity or debt positions in new private businesses, joint ventures or recently privatized enterprises. The fund is already financing private banking, agribusiness projects, new housing construction, as well as hundreds of loans to small businesses.

AID is designing a multi-million dollar project through which we will provide expert advisers and consultants in FY 1991 and future fiscal years in support of privatization of state enterprises.

We are also funding a full time resident adviser on privatization attached to the Polish Ministry of Ownership Transformation.

Both the **International Executive Service Corps** and the **Financial Services Volunteer Corps**, private-sector initiatives with US government support, are supplying advisers to individual enterprises and the Polish government in management and privatization.

The **Trade and Development Program** is financing more than \$4 million in feasibility studies, consultancies, and training programs for major development projects in Poland.

The **Citizens Democracy Corps** (CDC), a private voluntary organization created with US government assistance, is helping to mobilize American corporate and private foundation resources to support Poland's transition. CDC Chairman Drew Lewis is directing a major effort to modernize the Polish transportation and distribution system.

Banking and Financial Services

The Treasury Department is providing support to **commercial bank training institutions**, including the National Bank of Poland's School in Katowice. This support includes curriculum development and instructor and staff training.

The Treasury Department has completed recruitment of resident **long-term advisers** in Poland. These will include: (a) two advisers in the Finance Ministry, one for macro-economic analysis and one for commercial bank privatization; (b) three advisers to the National Bank of Poland to assist in the establishment of

credit review systems in commercial banks; (c) a team of short and long-term advisers from the Internal Revenue Service to strengthen tax administration; and (d) a debt-management expert. The advisers will be in place by September.

The Securities and Exchange Commission has provided assistance in the area of **capital market development**.

Democratic Initiatives

The US Senate and House of Representatives are supplying equipment and training for Poland's national legislature. This program focuses primarily on the establishment of **parliamentary procedures** and development of effective research and information systems.

Joint AID and US Information Agency programs will fund training **local and regional legislatures** as well as municipal managers in the basic skills of governance and public administration.

The **International Media Fund**, a US government-funded private voluntary organization, is establishing a Media Resource Center and taking other actions to support **independent media**.

The US Information Agency administers a number of **democratic initiative programs** supporting civic organizations, educational reform, local government, media training, labor unions, and English language instruction.

Environment and Energy

US programs carried out by AID, the Environmental Protection Agency, and the Department of Energy are providing equipment and technical assistance to transfer **clean-coal technology** to improve **air and water quality** and to reduce environmental degradation. We have also helped finance energy efficiency centers in Warsaw and Katowice to disseminate information and apply indigenous expertise to promote energy conservation.

Final planning is under way for a \$20 million (\$3 million in FY 1991) project to be administered by the Department of Energy to help the city of Krakow reduce **air pollution**

generated by small coal-fired boilers and home furnaces.

A 3-year project (\$5 million) has been funded to improve **air monitoring and water quality** in the area around the city of Krakow. In FY 1991, the project will involve situating six air monitoring stations and installing laboratory equipment for the water quality project around the Krakow region.

As part of a Presidential initiative, the Department of Energy has selected a US company to install an advanced sulphur-emission control system at the **Skawina coal-fired power plant**. This project, which is estimated to cost \$7.7 million, can serve as a model for retrofitting other coal-fired plants in Poland and the region.

The United States is providing assistance to improve Poland's **energy efficiency**. An "emergency energy project", administered by AID, has carried out energy "audits" at several Polish factories and refineries to identify ways to conserve energy. Teams of US experts are following up to install equipment and take other measures to implement these recommendations.

We are supporting regional environmental projects in Upper Silesia, the Katowice/Ostrava corridor and the area around the Mazurian Lakes.

Housing

AID is designing a bilateral program as well as cooperating in efforts sponsored by the World Bank in the **housing sector**. This will involve the provision of technical experts in a number of public housing projects, including two model cooperative developments of 100 units total.

We are also carrying out programs to support the **privatization of public housing** and the creation of a private real estate market and system of home finance.

AID is carrying out training programs in **housing management** and land use and land and property appraisal as well as transferring **housing construction skills** to Poland.

Labor

The Department of Labor is providing approximately \$3.7 million in technical

assistance this fiscal year to support public employment services, counseling for displaced workers, private employment and placement services, training in entrepreneurial skills and in housing construction techniques, economic education for workers, assistance in developing an improved unemployment benefits system, labor statistics, and occupational safety and health. The Labor Department also organized a large seminar on private housing in Poland.

Model employment service offices have been set up so far in the northern Polish cities of Szczecin and Gdansk and a wider network of such services is planned.

Training workshops in entrepreneurial skills have been organized with Solidarity's Economic Foundation.

The Labor Department, in cooperation with the AFL-CIO, has set up a training center on construction craft skills in Praha, a suburb outside Warsaw.

Agriculture

Poland was a major recipient of American food aid (\$97 million) in FY 1990. This assistance generated local currency through the sale of these commodities. These funds are available to be used to develop Polish agriculture and support humanitarian and rural development initiatives.

The Volunteers for Overseas Cooperative Assistance, also known as "**Farmers to Farmers**", is placing American farmers and agricultural experts in Polish cooperatives to assist in privatization, management, and agribusiness. In support of this program, the Land of Lakes cooperative and the Agricultural Cooperative Development International are supplying technical assistance.

The US Department of Agriculture (USDA) is providing fellowships to farmers and professionals in agribusiness through its **Cochran Middle Income Exchange Program**. USDA's **extension service** program and its research service have been active in supporting Polish agriculture. Poland will also be eligible for assistance under the agriculture/agribusiness project being designed by AID.

Other Programs

Peace Corps. Approximately 100 **Peace Corps** volunteers in Poland are teaching English, working on environmental projects and assisting with small businesses.

PVOs. A number of US private voluntary organizations (PVOs) are being funded by the US government to carry out humanitarian and development initiatives. Examples include:

- The National Telephone Cooperative Agency working with the Polish Telephone Foundation to train and provide support for rural **telephone services**.
- The YMCA is starting a 3-year program to strengthen **leadership capabilities** of Poland's youth.
- Project HOPE is working on a 3-year program to enhance selected **health care service capabilities**.
- The Polish American Congress is providing assistance and **medical equipment** to Polish rehabilitation centers for the aged and for disabled children.
- Technoserve will create a local institution to support **agriculturally-related enterprise development**.

Management training. AID is negotiating grants to several consortia of American and Polish universities for **training in management and market economics**. These include the Midwest University Consortia for International Activities (MUCIA) and Warsaw University; the University of Minnesota, the American Trust for Agriculture in Poland, and the Warsaw School of Economics; Ohio State University with three Polish universities; and the Universities of Wisconsin and Warsaw and the Central Connecticut State University and Wroclaw Technical University. Total funding of the grants is \$4.7 million.

HUNGARY

Priority Programs

Banking and Financial Services

The United States is engaged in supplying technical assistance to modernize Hungary's banking and financial services sector. The Treasury Department has proposed five **resi-**

dent, long-term advisers: (a) an adviser to the Finance Minister; (b) three American bank consultants to advise senior managers of commercial banks; and (c) an adviser to the Minister (Without Portfolio) responsible for bank reform. The advisers are scheduled to be in place by September.

The Department of Justice and the Federal Trade Commission are making experts available to assist in drafting new laws on **banking and competition policy**.

Bank regulatory authorities, such as the Federal Reserve System, the Federal Deposit Insurance Corporation, and Comptroller of the Currency, are providing training in **bank supervision and examination** for Hungarian regulatory authorities. The US Federal Reserve System is providing assistance to modernize Hungary's bank clearing and payments system.

The Treasury Department will provide assistance to the International Training Center for Bankers in Budapest, including an **internship program** for placing Hungarian bankers in US banks and financial institutions.

The Securities and Exchange Commission (SEC) and Financial Services Volunteer Corps have provided training and conferences to officials of the **Budapest Stock Exchange** and the State Securities Agency. The SEC has advised the Hungarian government on company law and securities disclosure legislation.

Energy

Hungary will receive \$10 million in the form of an **energy sector grant** which can be used to import technology and equipment to support its reforms in the energy area.

Under an AID-administered **emergency energy project**, eight industrial plants and a refinery have received energy "audits" to identify ways to improve efficiency. US experts are following up with measures and the installation of equipment to achieve these energy savings. The program also provides training in the use of world spot and futures markets to purchase oil.

Under a regional energy project to start up this summer, Hungary will be eligible for **technical assistance** in

such areas as environmental controls in power plants, exchanges of personnel with US utilities, continued assistance on energy efficiency in industry and district heating, as well as technical assistance in nuclear safety.

Privatization and Business Development

The Hungarian-American Enterprise Fund has received a second grant installment of \$21 million this year, bringing its total capitalization to \$26 million. The remainder of the fund's \$60 million capitalization will be disbursed in FY 1992.

A full-time US adviser has been provided to the Hungarian State Property Agency (SPA) to assist in the country's privatization program. We are also making available additional computer and other equipment over and above the \$250,000 already supplied to the SPA.

AID will shortly finalize a regional multi-million dollar program to supply **technical assistance** in the area of **privatization**. The SPA and individual Hungarian enterprises will be able to receive expert privatization advisers under this program.

The International Executive Service Corps and Financial Services Volunteers Corps are providing expertise on financial services, management, and privatization to Hungarian government agencies and newly privatized or privatizing enterprises.

The Trade and Development Program is providing approximately \$6 million in grants to support feasibility studies on infrastructure development projects in the energy sector, environmental protection, transportation, and telecommunications.

Management Training

The United States is providing approximately \$3.5 million to Hungary for **management training** through grants to American universities. AID is now negotiating these grants with the State University of New York and the Midwest Universities Consortium for International Activities (MUCIA) and the University of Wisconsin. These universities will run in-country training programs in cooperation with Hungarian institutions. These programs will supplement faculty and student

exchanges in management training already carried out by the US Information Agency (USIA).

Environment

US experts from the Environmental Protection Agency (EPA) and AID will be traveling to Hungary in July to develop an **environmental action plan** and expand collaboration on environmental assistance. Hungary is already eligible to use US-funded technical assistance covering industrial health, safety, and pollution prevention as well as environmental economic analysis offered through the World Environmental Center.

US technical assistance will support **regional cooperation** between Hungary and its neighbors on environmental projects, particularly in the Danube River basin. EPA and Tennessee Valley Authority experts have helped develop a protected wetlands area at Lake Tatra near Budapest.

Hungary, along with other East European countries, will be able to draw on the expertise and resources available through the **Regional Environmental Center in Budapest**. The United States has provided an additional \$1.7 million for funding the center this fiscal year.

Democratic Initiatives

Since the fall of 1990, the United States has funded the Center for Parliamentary Democracy, under which the State University of New York has provided technical assistance, computers, and books to the Hungarian Parliament.

Under a program carried out by the Congressional Research Service and supported by the US House of Representatives, we are providing approximately \$2 million in **equipment and training** this year to help improve the functioning of the **Hungarian parliament**.

The International Media Fund is helping to finance a new **American Journalism Center** in Budapest in cooperation with the Hungarian Journalism Association.

The US Information Agency administers other **democratic initiative programs** amounting to more than \$2 million in support of civic organizations, local government, educational reform, management training, labor

unions, and English language instruction.

Other Programs

Peace Corps. Fifty-four Peace Corps volunteers are already teaching students, training English teachers, and promoting environmental education. Another 60 education volunteers are slated to arrive in Hungary in June. Twelve more environmental protection specialists are expected by November.

Agriculture. In the agricultural area, we will be bringing up to 25 Hungarians to the United States to participate in the **Cochran Middle Income Fellowship Program**. Participants in this program come from agribusiness, cooperatives, and other sectors, including banking.

Housing. AID is providing approximately \$1 million in technical assistance in supporting **private housing** and urban development.

Labor. The Labor Department is providing technical assistance to support employment services and dislocated worker programs, economic education for workers, dispute avoidance and resolution techniques, and labor statistics. The focus of this assistance has been the development of a **model employment office in Baranya County**. Regional workshops have also addressed the issue of occupational safety and health hazards.

PVO initiatives. The United States is funding a number of initiatives by private voluntary organizations. These include: a YMCA program to strengthen the leadership capabilities of Hungary's youth, work by **Project HOPE** to strengthen health care services, and a program organized by the **American Jewish Joint Distribution Committee** to develop skills and training for the care of disadvantaged senior citizens.

Health care. We will continue to fund projects such as the Center for Disease Control and Project HOPE's **Influenza immunization program** which was carried out last winter and inoculated 30,000 Hungarian children. AID will also conduct a program of linkages and exchanges between Hungarian and American health institutions.

CZECHOSLOVAKIA

Priority Programs

Banking and Finance

The Treasury Department, in cooperation with the Czechoslovak Bankers Association and the State Bank, is establishing a **commercial bank training institute**. A memorandum of understanding on the institute is scheduled to be signed this June and classes could begin as early as this September.

Resident and short-term advisers will be provided by the IRS in FY 1993 to strengthen tax administration. The Treasury Department is providing a long-term resident American bank consultant to the State Bank. This consultant will serve as a management adviser to a commercial bank.

The **Financial Services Volunteer Corps (FSVC)**, a private sector organization funded by the US government, has visited Czechoslovakia and is offering technical assistance in the areas of privatization, banking, and the formation of capital markets. As one example, the FSVC has provided experts to the Ministry of the Economy to help draft a privatization manual for state-owned enterprises.

Privatization and Restructuring

The US government is funding an **International Executive Service Corps (IESC)** program in Czechoslovakia which will directly place advisers in management and privatization in local enterprises. IESC has opened an office in Prague.

The **Citizens Democracy Corps (CDC)** has a local representative in Prague (and a regional office in Budapest). One of its major functions will be to serve as a clearinghouse, matching interested sources of American investment or assistance from the private sector with Czechoslovak partners. The CDC will also be looking at ways of funding assistance projects in health care and the environment.

The **Volunteers in Overseas Cooperative Assistance (VOCA)**, better known as the "**Farmers to Farmers Program**," will be playing a role similar to that of the IESC in the agricultural sector.

AID is designing a multi-million dollar project through which we will provide expert advisers and consultants in FY 1991 and future fiscal years in **support of large-scale privatization** of state enterprises.

The **Czech and Slovak-American Enterprise Fund** is expected to open its offices in Prague in June. The fund will seek to foster small and medium-sized private enterprises through equity investments and, to a lesser degree, loans. It will turn these investments over in the medium term to allow it to reinvest in new enterprises. Its \$60 million in capitalization will come over a 3-year period and has started with an initial grant of \$5 million this fiscal year.

The **Trade and Development Program (TDP)** has funded a number of feasibility studies related to privatization and enterprise restructuring: a \$450,000 study for modernization of the steel industry, a \$400,000 study for a new digital overlay for the telephone system, a \$150,000 study for a computer information system for the Ministry of Trade, and a \$400,000 study for modernization of the railway system.

Energy

Short-term assistance in **energy efficiency** has been supplied by energy "audit" teams. These have identified energy-saving measures, including the installation of instrumentation, that have been carried out by US private-sector experts at six industrial plants and two refineries. The United States is also helping to fund an "Energy Efficiency Center" in Prague which is disseminating information and technology on energy conservation.

AID and the Department of Energy are developing a program to transfer technical assistance in the areas of **clean coal and nuclear safety technology**.

Environment

As its contribution to a G-24 financing gap exercise for Czechoslovakia, the United States will make a **\$15 million sector grant** in the environmental area. The grant can be used in a number of ways, including the purchase of equipment and technology to support the country's environment program.

AID, EPA, and the World Bank have cooperated with Czechoslovak officials in drafting a national environmental action program for the country. The United States will be providing technical assistance in the amount of some \$7 million this year to carry out some of the recommendations of this plan.

Regional projects to improve air quality in the Upper Silesia/Northern Bohemia area and an integrated environmental management plan for the Katowice/Ostrava region are being developed.

The Trade and Development Program has funded two environment-related feasibility studies: \$300,000 for toxic waste remediation at Chabarovice near Usti nad Labem and \$400,000 for hazardous waste management in Bratislava.

Housing

AID is now designing an assistance program which will focus on **privatizing the housing stock** and creating the financial and other conditions to permit a private real estate market. It will also seek to transfer new construction technologies.

Education and Exchanges

Czechoslovakia will be able to draw on regional programs funded in cooperation with American universities to provide **management and economics training** in Eastern Europe. Three university consortia involving American and Czechoslovak institutions are now in the process of negotiating grants to provide training in management and economics:

- The University of Pittsburgh's Management Center in Prague for a \$1.8 million grant (supplemented by \$1.8 million in non-governmental sources).
- The Indiana University School of Business for a \$1.3 million grant to support a regional management training program which will include work with the Prague School of Economics.
- Iowa State University for a \$1.5 million grant to support training programs at the agricultural faculties at the universities in Prague, Nitra and Brno.

The US Information Agency is providing a broad range of **educational exchanges** in law, educational reform, the environment, management, and the mass media. More than 200 Czechs and Slovaks will travel to the United States this year on visits under these programs and a large number of US experts will travel to Czechoslovakia.

Other Programs

Private voluntary organizations. The United States is providing \$2 million in funding to support three **private voluntary initiatives** in Czechoslovakia. The projects will involve the YMCA developing leadership skills among the young, Project HOPE strengthening health care services, and the American Jewish Joint Distribution Committee training Czechoslovaks to treat the handicapped and disabled.

Legislature. Under an initiative of the House of Representatives, the United States will supply technical assistance and equipment to the Czechoslovak Federal Assembly. The objective of this program, which will be administered by the Congressional Research Service, is to **strengthen the legislative process** and research services in the Assembly.

Democratic Initiatives. The US Information Agency and AID administer a number of **democratic initiative programs** supporting civic organizations, educational reform, local government, media training, labor unions, and English language instruction.

Health care. AID has established an **emergency medical supply program** to combat shortages of medicines, vaccines, and items such as sterile bandages or disposable syringes. We have also supplied Czechoslovakia with antibiotics and vaccines, particularly against influenza. AID is developing a program of direct linkages and exchanges between Czechoslovak and American health facilities.

Peace Corps. The Peace Corps has placed 22 of its volunteers in Czechoslovakia to train English teachers and another 30 are due this summer.

Agriculture. The Department of Agriculture, under its **Cochran Middle Income Exchange Program**, is funding a program of exchange fellowships and internships for farmers and

professionals in agribusiness. Czechoslovakia will also be eligible for assistance under the agriculture/agribusiness project being designed by AID.

Labor. The Department of Labor is initiating a program of technical assistance to Czechoslovakia. Current discussion of that program with Czechoslovak officials focuses on assistance to dislocated workers and reform of the country's social insurance system.

Competition policy. The Department of Justice and the Federal Trade Commission are providing technical assistance to in the areas of anti-monopoly law, bankruptcy law, and competition policy.

Telecommunications. The Federal Communications Commission and the National Telecommunications and Information Administration are providing technical assistance in Spectrum Management. In conjunction with this, we will be providing assistance on issues related to the privatization of the telecommunications industry.

BULGARIA

Priority Programs

Agriculture

Assistance in agriculture and agribusiness will be the central focus of the Bulgaria program. To support activities in this sector we will be providing \$10 million in the form of an **agricultural sector grant**.

We will be providing a **long-term adviser** to work with the Ministry of Agriculture for a 1-2 year period to address economic research, agribusiness development, and policy reform. **Short-term advisers** will also be provided.

In direct response to specific requests, the US Department of Agriculture (USDA) is developing a model for returning land to private ownership, a watershed plan for a highly erodible region that produces export crops in southwestern Bulgaria, a soil survey, and conservation plans.

USDA is extending the **Cochran Middle Income Country Exchange Program** to Bulgaria. Participants in this program would come from

agribusiness, cooperatives, mid-level management, agricultural credit, or other related sectors.

AID will provide funding to the **Volunteers for Overseas Cooperative Assistance (VOCA)** to provide technical assistance to agribusinesses and cooperatives, including agricultural banks. VOCA volunteers have already arrived in Sofia to begin work.

Bulgaria will also be eligible for assistance under the **agribusiness and agricultural education project**.

Humanitarian Assistance

We are providing a total of 300,000 metric tons (valued at approximately \$48 million) of **feed grain** to Bulgaria in FY 1991. The first shipment arrived in early March.

Under the **Emergency Medical Assistance** program, Project HOPE will be providing approximately \$1.5 million worth of medicines to Bulgaria. A Project HOPE team visited Sofia in early March to discuss with the Bulgarian government its priorities.

AID is also developing a **"Partners in Health Care"** project which will provide for direct linkages between medical institutions in the United States and similar institutes in Bulgaria.

The YMCA has received a grant under the **Humanitarian/ Development Project** to strengthen the leadership capabilities of youth in Bulgaria. Under the same project, the **International Eye Foundation** received a grant to work with the Ministry of Health, the Medical Academy, and the University of Sofia to establish a national "Center for Sight" capable of providing a sustainable infrastructure of eye care.

Democratic Institution Building

In the area of democratic institution building, the US Information agency and AID will provide assistance for the election process and civic education, party building, parliamentary training, technical assistance in the area of electoral law reform, independent media, rule of law, citizens networks, educational reform, books for democracy, support for local government, and English teaching.

The US Information Agency is providing a broad range of **educational exchanges** in law, educational reform, the environment, management, labor unions, and the mass media.

Privatization

Bulgaria will be eligible to draw upon the resources available under an AID privatization project which should be operating by mid summer. This multi-million dollar project will provide a wide range of experts and consultants to support Bulgaria's privatization efforts.

Other Programs

Management Training. We are negotiating a grant of approximately \$1.5 million to the University of Delaware to carry out a management training and market economics program. The University of Delaware already has relationships with nine institutions in Bulgaria.

Energy. The United States will supply technical assistance and a more modest amount of equipment and material support in the energy area. The program of energy audits to identify short-term efficiency measures is now underway. Audits were conducted on eight plants. The program also provides training in the use of world spot and futures markets to purchase oil. Bulgaria will also be eligible to draw on the regional energy efficiency project being developed with the World Bank. Technical assistance in the area of nuclear safety will be provided through AID and the Department of Energy as well as through the International Atomic Energy Association.

Financial Services. The Treasury Department will be providing at least one **long-term adviser** to work with the Ministry of Finance and the Central Bank. Treasury is considering the possibility of supporting the establishment of a Bank Training Institute and Bulgaria will be eligible to draw upon the services of regional tax policy advisers. The Financial Services Volunteer Corps (FSVC) will begin operations in Bulgaria in July 1991.

Competition Policy. The Department of Justice and the Federal Trade

Commission are planning to provide technical assistance to the Bulgarians in the areas of anti-monopoly law, bankruptcy law, and competition policy.

Telecommunications. The Federal Communications Commission and the National Telecommunications and Information Administration will provide technical assistance in Spectrum Management. In conjunction with this, we will be providing assistance on issues related to the privatization of the telecommunications industry.

Environment. AID, EPA, and the World Bank will begin cooperating on a joint environmental action plan with Bulgarian authorities in June. The World Environment Center will provide technical assistance in environmental conservation legislation. In addition, Bulgaria will be able to draw upon the resources of the Regional Environment Center (located in Budapest) and a regional environment project managed by AID.

Labor. The Department of Labor will be providing technical assistance to Bulgaria in FY 1991. This assistance will focus on assistance for employment services, including establishment of a model employment office.

Peace Corps. The Peace Corps will place approximately 20 volunteers in Bulgaria in summer 1991 to teach English. It is anticipated that volunteers will focus on business education in the coming years.

ROMANIA

Priority Programs

Democratic Institution Building

Democratic institution building is a high priority in our Romanian assistance program. In this regard, we will be providing a variety of technical assistance ranging from electoral processes to the rule of law.

In the area of civic education, the National Democratic Institute and the National Republican Institute will each station a full-time representative in Bucharest for a year to work with parties and civic organizations.

The International Media Fund will provide support to the Bucharest School of Journalism and the Society

for the Organization of Independent Television, SOTI, the Romanian newspaper, *Romania Libera*, and to assist in the creation of short-range FM radio stations and television production studios. In addition, USIA will conduct a television workshop in Romania administered by USIA's International Media Training Center.

Under the rubric of the Rule of Law program, USIA will conduct a judicial seminar and put a long-term legal advisor into Romania to assist with the drafting and revising of laws and administrative procedures and with the establishment and training of independent judicial and regulatory institutions.

USIA is also supporting educational reform programs to provide assistance through the Books for Democracy program, and is supporting an English language training program totaling about \$500,000.

The University of Washington and Washington State University will conduct management training and market economics education programs totalling about \$1.2 million in FY 1991.

Romanian Children/Family Planning

US assistance for institutionalized Romanian children attempts to improve their health care and general condition.

In FY 1990, the Congress appropriated \$4 million for assistance to Romanian children. Of this, \$2 million was granted to the United Nations Children's Fund (UNICEF) and \$2 million to a consortium of US private voluntary organizations. This consortium, which is comprised of Private Agencies Cooperating Together (PACT), Project Concern International, and World Vision, expects to generate an additional \$9 million in resources from private sources.

Project Concern International has fielded two medical teams to perform treatment on close to 100 institutionalized children.

In January 1991, Holt International Children's Service received a sub-grant of approximately \$325,000 from PACT to carry out adoption-related activities in Romania. The focus of this program is to provide training and technical assistance to enhance the prospects for

Romanian children to live with their natural families.

In FY 1991, the Congress earmarked \$1.5 million for assistance to institutionalized Romanian children. AID is considering funding five proposals to assist the children of Romania under the FY 1991 private voluntary organizations initiatives grant program. If all are funded, they would amount to \$3.3 million, or more than double the Congressional earmark.

In addition, the Peace Corps has 14 American volunteers in Romania to serve directly in several orphanages to help in early childhood development, special education, and community outreach.

In the area of family planning, the Agency for International Development has designed a project which will establish the necessary clinical data base to define both family planning and women's health needs, improve the capability of Romanian medical personnel to provide family planning services and information, and provide support for local family planning associations.

Humanitarian/Food Assistance

The United States provided \$71 million worth of food assistance to Romania in FY 1990 and will be providing approximately \$40 million in FY 1991.

The United States is providing funding to World Vision Relief and Development to train Romanian health care professionals and lay care providers to deliver comprehensive services to the handicapped and to initiate a community based health care network.

Romania will also be eligible for assistance under the emergency medical assistance program, which is designed to provide medicines and medical supplies to targeted populations.

Emergency Energy Assistance

The United States will supply technical assistance and a more modest amount of equipment and material support in the energy area. A program of energy audits to identify short-term efficiency measures is underway. Audits were conducted at eight plants. Romania will also be eligible to draw on the regional energy efficiency project being developed with the World Bank.

Technical assistance in the area of nuclear safety will be provided through AID and the Department of Energy as well as through the International Atomic Energy Association.

YUGOSLAVIA*

Priority Programs

Banking and Financial Services

The Treasury Department has signed a memorandum of understanding with the Yugoslav Bankers Association to help support a commercial bank training institute (total US government funding \$2 million) to be headquartered in Belgrade.

Treasury has offered to place a long-term resident adviser in the Federal Finance Ministry and a senior commercial bank privatization expert in the National Bank of Yugoslavia.

* The Nickles-Bentley Amendment to the FY 1991 Foreign Operations Appropriations Act, the Congressional legislation authorizing our FY 1991 assistance program to Central and Eastern Europe, went into effect on May 5. The amendment restricted assistance to Yugoslavia to the areas of humanitarian aid and support for democratic reform and human rights unless Yugoslavia had by that date conducted free and fair elections in all of its republics and was observing its human rights commitments. On May 27, Secretary Baker invoked the discretionary waiver authority in the amendment to allow us to resume assistance on a discretionary basis. US assistance will now be directed to Yugoslav federal and republic authorities on the basis of their commitment to democratic and market-oriented reforms.

The IRS has made short-term tax advisers available to assist on tax reforms. Yugoslavia would be eligible for use of a regional tax policy advisory team to be headquartered elsewhere in Europe.

The Financial Services Volunteer Corps is considering a number of requests for technical assistance to support bank reforms and privatization in the financial sector.

Privatization

A long-term resident adviser has been attached to the Federal Ministry of Industry in Belgrade to support privatization efforts.

The International Executive Service Corps (IESC) has opened offices in Zagreb and Belgrade. The IESC is placing retired business executives in local enterprises as management and privatization advisers. IESC experts have also worked on the development of Yugoslavia's stock exchanges.

Energy and Environment

Under AID's "emergency energy program", US experts have performed energy "audits" at several Yugoslav factories and refineries. In follow-up visits, US technicians have carried out measures and installed equipment to improve energy efficiency in these plants. Another element of the program is training Yugoslavs in the

effective purchase of oil on the international spot and future markets.

Through a cooperative arrangement with the World Environmental Center, we are providing technical assistance and training in industrial health, safety, and pollution prevention. Yugoslavia can also draw on the expertise and resources of the Regional Environment Center in Budapest.

Democratic Initiatives

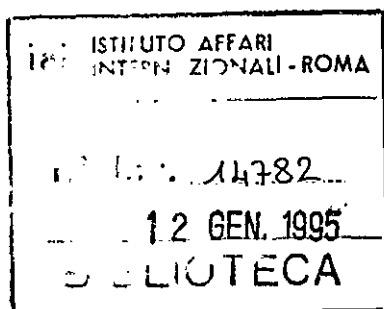
The United States has funded a number of democratic initiatives to support political reform in Yugoslavia, including the international monitoring of elections by groups like the National Republican Institute.

Other programs scheduled for later this year include: support for an independent broadcast and print media from the International Media Fund, training for democratic political parties in Serbia by the National Republican and Democratic Institutes, civic education programs in democracy, and support for republican legislatures.

Other Programs

Health care. AID has provided emergency influenza vaccinations and some antibiotics through Project HOPE. Yugoslavia will also be eligible for a program to be instituted later this year that will link health care facilities in Yugoslavia and American hospitals.

Management training. AID is planning to fund a \$1 million program organized by the University of Nebraska on management and entrepreneurial training. ■



ENCLOSURE I

FACT SHEET

**Institutional links between US/EC-Europe I:
systematic overview**

FACT SHEET ON EC/US CONTACTS

In December 1989, at the annual ministerial meeting between Commission officials and members of the U.S. Administration, EC Commission President Delors and U.S. Secretary of State Baker acknowledged their shared belief that global stability is enhanced by a strong EC - U.S. relationship. Both sides declared their intent to strengthen the EC - U.S. relationship further, with the goal of assuring the continued vitality of transatlantic ties at a time of accelerating European integration.

One concrete result of various initiatives taken in 1989 - 1990 to deepen EC - U.S. institutional links while increasing spheres of cooperation is evidenced in the adoption of the Declaration on EC - U.S. Relations on November 19, 1990. This document identifies new sectors of transatlantic cooperation, reinforces norms for frequent consultation, and institutionalizes a series of official contacts which previously existed on an ad hoc basis. The mechanisms progressively established throughout 1990 for more extensive EC - U.S. links have resulted in a significant acceleration of high - level political dialogue and a broad range of forums in which EC and U.S. representatives meet to discuss mutual global concerns.

The scope and variety of the ongoing EC - U.S. dialogue is striking. This non-exhaustive fact sheet recording the frequency and depth of EC - U.S. contacts existing on a wide range of levels helps to place the incidences of EC - U.S. dispute, which although limited in number have often tended to be the focus of international attention, in the perspective of a broad and developing relationship between the European Community and the United States of America.

THE EXISTING FRAMEWORK OF BILATERAL CONTACTS BETWEEN THE EUROPEAN COMMISSION AND THE U.S. ADMINISTRATION

Members of the Commission and the U.S. Cabinet

1. Individual Commissioners have established an intensive dialogue with their U.S. Counterparts; these have tended to be of an ad hoc nature and have served to concentrate on issues related to their specific fields of responsibility. The Commission has also sought to develop contacts at the highest Cabinet level on the U.S. side, so that sectoral concerns can be placed in their proper context.

2. Since 1982 there has been an annual Ministerial level "round table" between delegations led by the President of the Commission and the U.S. Secretary of State, covering the international situation as well as multilateral and bilateral economic and trade issues. Until 1989, this high-level conference followed the annual December NATO Ministerial meeting.

However, it was decided in 1989 to hold the Commission/U.S. meetings twice a year, and to decouple them from the NATO Ministerial. This intent to meet on a bi-annual basis is codified in the section of the Declaration on EC - U.S. Relations entitled "Institutional Framework for Consultation". The first "new style" meeting took place in Washington on 23 April 1990, followed by the ministerial meeting of 16 November 1990. Such a meeting has not to date been scheduled for 1991.

3. Separately, there are also ad hoc meetings between the U.S. President and the President of the Commission, as well as ad hoc meetings between the President of the Commission and the U.S. Secretary of State. Since President Bush took office, he and President Delors met in Brussels in May and December 1989, and in Washington in April 1990. Mr. Delors joined with Mr. Andreotti to meet President Bush on 13 November 1990. President Delors met with Secretary of State Baker on July 4 in Brussels, preceding by two weeks an encounter on the fringes of the London G-7 Summit between President Delors and Mr. Andriessen for the Commission, Mr. Lubbers and Mr. Van den Broek for the Council's Presidency, and President Bush, Secretary of State Baker, and Secretary of Treasury Brady for the U.S. Administration.

Commission and U.S. Officials

4. In order to reinforce these links and to maintain a political overview of the multiple contacts at official level, it was decided in 1988 to reinstitute regular "Sub-Cabinet"

meetings (between the U.S. Under Secretary of State for Economic and Agricultural Affairs and the Director General for External Relations at the Commission).

5. In addition, there are constant formal and informal working level contacts between officials. A range of current and potential trade problems have been encountered in this way, including the role of government in supporting and regulating agriculture, telecommunications, food safety, steel, shipbuilding and aircraft manufacture, as well as customs matters, standards policy and financial, audiovisual and transport services.

6. Official-level consultations also take place in the context of various EC/U.S. agreements or informal links on bilateral cooperation (see annex). These also provide an opportunity for each side to express its views on the other's legislative and regulatory proposals.

HIGH - LEVEL POLITICAL COOPERATION

The Declaration on EC - U.S. Relations formalized a series of high-level political encounters which were previously agreed on the occasion of the Bush-Haughey meeting of February 1990. These include:

1. Bi-annual consultations to be arranged between the President of the United States, the President of the European Council and the President of the Commission (the optional presence of the Commission President is determined by the President of the European Council). The first meeting of this sort took place on 27 February 1990 in Washington between President Bush and EC Council President Charles Haughey. On 13 November 1990, President Bush met with Council President Andreotti, President of the General Affairs Council Michelis, and Commission President Delors. On 11 April 1991, Council President Santer and Commission President Delors met with President Bush in Washington. The next meeting of this nature is scheduled to take place in The Hague between President Bush, EC Council President Ruud Lubbers, and Commission President Delors.

2. Bi-annual consultations between the European Community Foreign Ministers, with the Commission, and the U.S. Secretary of State. The first meeting of this sort took place on 3 May 1990 after the NATO Ministerial meeting. Secretary of State Baker met again with his EC counterparts on 17 April 1991 in Luxembourg.

U.S. - EUROPEAN POLITICAL COOPERATION (EPC) DIALOGUE

Provisions Outlined in the Declaration on EC - U.S. Relations

The Declaration on EC - U.S. Relations also makes formal provision for two other instances of EC/U.S. contacts within the EPC framework, namely:

1. Ad hoc consultations between the Presidency Foreign Minister or the Troika and the U.S. Secretary of State. This type of meeting has witnessed a startling acceleration since the adoption of the Declaration on EC - U.S. Relations. On 7 January 1991, Secretary of State Baker held talks in London with EC General Affairs Council President Jacques Poos. On 28 January 1991, Mr. Poos, accompanied by Commission Vice-President Andriessen, met in Washington with Mr. Baker. On 20 March 1991, Mr. Poos met in Washington with Secretary of State Baker for a third time since the beginning of the year. On 12 April 1991, Secretary of State Baker met with the EC Troika (Jacques Poos, Gianni De Michelis, Hans van den Broek, and Able Matutes for the Commission) in Geneva. On 3 July 1991, Mr. Hans van den Broek, current chairman of the EEC Council of Foreign Affairs Ministers, was accompanied by Commission Vice-President Andriessen for talks in Washington with Secretary of State Baker.
2. Briefings by the Presidency to U.S. Representatives on EPC meetings at the Ministerial level.

Informal Arrangements

Various informal arrangements concerning EPC contacts with U.S. officials also exist to facilitate political coordination. These include:

3. Briefings by the Presidency to U.S. representatives on EPC meetings at the Political Directors' level.
4. Regular contacts between the U.S. Administration and the diplomatic missions of the twelve in Washington.
5. Provisions for the country holding the Presidency of the Community to inform the U.S. Embassy in its capital before and after a Political Committee meeting about the agenda and the results.
6. Since 1986, meetings between the Political Director's Troika and their respective American counterparts occur during each Presidency. The participants generally involve two representatives from the Presidency of the Troika, one representative from each of the two other Troika members, one to four members of the EC Commission, one member of the

EPC Secretariat, the U.S. Assistant Deputy Secretary of State, and an administrative official from the U.S. government.

7. At the beginning of every year since 1986, the Foreign Minister of the country holding the EC Presidency has paid an official visit to the United States.

8. EC - U.S. working group encounters, previously limited to the Political Directors' level, were expanded following the Bush - Haughey agreement of February 1990. Beginning with the Irish Presidency, U.S. - EC working groups at the expert level regularly come face-to-face. Three such working groups met under the Irish Presidency, seven under the Italian Presidency, and nine under the Luxembourg Presidency.

OTHER CONTACTS

1. Parliamentary links exist which bring together delegations from the European Parliament and the U.S. Congress on a six - month basis. In addition, U.S. Congressmen and Senators also frequently have informal contacts with European Parliamentarians and with the Commission.

2. The first official contact between the European Commission and a group of U.S. governors took place in July 1989. The governors of nine states spent one day in the Berlaymont for meetings with President Delors and Vice-President Andriessen. Both sides affirmed that more regular encounters of this nature might aid in developing direct links between EC officials and members of U.S. state governments.

3. The first meeting of the representatives of economic and social circles in the U.S. and the EC was held in Brussels on 17 - 18 April 1990 on the initiative of the Community's Economic and Social Committee. Fifteen representatives of various American economic organizations and the trade union AFL - CIO examined future relations between the Community and the U.S. with members of the foreign relations section of the ESC. It was decided to establish this bilateral contact of economic and social forces twice a year, preceding by one month the top level meetings between the EC Commission and the American government.

4. EC - U.S. relations are also discussed in business contacts (e.g. between members of Business Round Tables or through the American - European Community Association). The Commission has also sought to assist European small firms interested in cooperation with U.S. counterparts. The first EC - U.S. Small Business conference was held in Frankfurt in 1989 ("Export '89"), following which the EC and U.S. Small Business Associations agreed to set up a Trade Council.

5. The U.S. Mission to the European Communities in Brussels plays the important role of distributing information and facilitating communication between EC and U.S. officials and private parties interested in Community affairs. The U.S. Missions receives over 7,000 official visitors per year.

EXCHANGE PROGRAMS AND ACADEMIC CONTACTS

1. Both the EC and the U.S. have an International Visitors program. The EC invites American academics, Hill staffers, local government leaders, and media to learn about the EC institutions.

2. The Eisenhower Fellowship program now regularly considers candidates from the EC. In 1989 there was a "reverse Eisenhower" program under which an American economic journalist spent several weeks working in and observing EC institutions.

3. The Atlantic Visitors Association (AVA) arranges visits by leading U.S. figures to EC institutions.

4. The Center for European Policy Studies (CEPS) in Brussels receives financial support from the Community as well as support from the U.S. Mission on specific projects which examine U.S./EC relations.

5. About 15 EC interns visit the U.S. each year under a program worked out with the U.S. Mission. Several U.S. interns work as well at the Commission.

A N N E X

Existing Informal Sectoral Cooperation

1. High Technology

It was decided at the December 1983 EC - U.S. Ministerial Meeting to create an EC - U.S. High Technology (HT) Group. The following points were agreed:

- the work of the Group should concentrate on examining the current situation in High Technology, its future development and the environmental factors which affect it;
- the possibilities for joint cooperation in the field of High Technology should be actively borne in mind at all stages;
- specific trade problems should be dealt with in the appropriate fora.

Each year, the Group has submitted a report to the EC - U.S. Ministerial meeting. The Group has held fourteen meetings since its inception and has discussed a broad range of subjects, including information technology, telecommunications, biotechnology, employment, education/training, renewable energies, the financial/fiscal environment, automated manufacturing technology, advanced materials, mutual access to government - sponsored R+D programs, intellectual property, semiconductors, superconductivity, HDTV, clean technologies, the impact of High Technology on agriculture and the future of dual use industries.

The group has proved to be a very useful channel for discussing in an informal framework important subjects which it would not be possible to treat as effectively in a broader, more public setting. The discussions have provided both parties with the opportunity to obtain a comprehensive and balanced view of current developments and a better understanding of the factors underlying the policies which are being pursued in the different fields. The group has also provided a useful forum to explore potential areas of cooperation. It is the only forum in which both parties can have, at present, a comprehensive overview of the High Technology field from both a sectoral and a horizontal perspective.

2. Scientific Research and Nuclear Energy

In addition to the more formal frameworks for cooperation referred to above, a considerable amount of informal cooperation is taking place. It includes areas such as: standard reference

materials, energy system analysis, medical technology and some major health problems, ozone shield changes, health effects of lead, CO2 and other greenhouse gases, remote sensing, and high temperature materials.

There have been two meetings to consider cooperation on the external effects of the fuel cycle.

3. Telecommunications

Since 1986 regular fact-finding meetings between the EC and the U.S. have taken place. All subjects connected with telecommunications policies were discussed, in particular standards and procurement.

4. Standards and Certification

In May 1989 the Commission and the U.S. agreed that the dialogue between European and U.S. standards bodies should continue, and that U.S. and EC officials should meet to examine issues of mutual concern in the area of technical regulations and related standardisation activity. A follow-up meeting took place in October 1989.

With regard to testing and certification issues, experts from both sides have met to compare U.S. and EC systems for conformity assessment, with a view to preparing future discussions on arrangements for mutual recognition of tests and certificates which will take place after the Council of ministers has pronounced on the Commission's proposals for negotiating directives. A first such meeting took place on 13 - 14 June 1990. In July 1990, U.S. Department of Commerce officials were present when Commission representatives met European regional standards organizations for discussions on standardization issues. In addition, a conference of standardization took place in Washington on 20 - 21 June 1991, attended by U.S. Secretary of Trade Mosbacher and Commissioner Bangemann.

5. Information Technology Standards

Informal but regular contacts (biannual) have also taken place between the Commission and the U.S. National Institute of Standards and Technology regarding such issues as open System Interconnection and Conformance Testing Services.

6. Regulation of Food, Pharmaceuticals and Medical Devices

For a number of years there have been contacts between Commission staff and the FDA on questions concerning food, pharmaceutical and medical devices. During Spring 1989 these contacts were formalized. Two plenary sessions have been

held so far, in November 1989 and March 1990. In the future plenaries may be held annually, while stepping up cooperation in technical working groups.

In the food field a number of specific areas have been identified where direct cooperation would be of great mutual benefit, including nutritional labelling and lead contamination. In addition, close cooperation on general questions such as rapid alert for food contamination and a common approach to safety assessment has been set in hand. In the areas of pharmaceuticals and medical devices, discussions have concentrated on the criteria for approval of these types of products.

7. Environmental regulation in the field of biotechnology

A permanent technical working group was agreed in July 1989 and endorsed in September 1990. The objective is to promote closer bilateral cooperation on technical issues associated with evaluating and validating data to assess the environmental risk of releases of genetically modified organisms, in the context of EC and U.S. environmental regulation. A similar meeting took place in Brussels in December 1990.

8. Agriculture

Specialists in sanitary and phytosanitary matters from the Commission and the U.S. Department of Agriculture meet to exchange information. The first such meeting took place in Brussels on 28 - 29 May 1990.

9. Transport

Discussions in the field of air transport with the U.S. Government (Departments of Transportation, State and Commerce) take place on an ad hoc basis and have covered computer reservation systems (CRS) rules and airport slot allocation.

Up to now Member States have conducted their own negotiations with the U.S. on other aviation matters, usually by amending existing bilateral air service agreements. The Commission, in its proposal of 12 February 1990, took the initiative of setting up a framework for the future handling of aviation matters with third countries (including the U.S.) based on Article 113 of the Treaty. Ad hoc contacts should continue, pending the outcome to the Council's deliberations.

Commission - U.S. bilateral discussions on maritime transport have also taken place on legislation and policy on both sides and possible common action. There have also been contacts with the U.S. Federal Maritime Commission.

10. Customs

10. Customs

In recent years, the Director General of DG XXI has met the U.S. Commissioner for Customs periodically. There are also informal bilateral contacts on the implementation of the harmonized system, the operation of origin rules and drug enforcement.

11. Development Aid

There have been many reciprocal senior level contacts between the Commission and U.S. State/USAID in the past few years as well as numerous working level visits whereby Commission personnel combine visits to USAID with calls on the World Bank or missions to the Caribbean, and USAID/State personnel on mission to Africa pass through Brussels.

At project level, a number of projects have been co-financed with the U.S., requiring considerable working contact at head office, at co-donors meetings wherever located, and on the spot, in order to adapt the needs and procedures of one to the other to produce a commonly agreed result. One such project was the coordination of the supply and transport of famine relief to East Africa in 1985, where indeed some part of the U.S. food aid was transported by the EC, and the later coordinated attack on West African locusts. There is an agreement to exchange detailed information on four countries - Mali, Niger, Zaire, and Jamaica - that has been running for 3 years.

12. Non-Nuclear Energy

Annual bilateral energy talks have been established, held alternately in Brussels and Washington. At these talks the Director-General for energy and his U.S. counterpart exchange information and views on current energy policy issues with particular reference to those bearing international implications. At the most recent meeting, held in Brussels on 7 May 1990, attention focused on the drive to complete the Community's internal energy market; environmental challenges to energy policy; developments in international markets including Eastern Europe and the Soviet Union; energy technology and energy efficiency; and emergency preparedness. Talks on renewable energies took place in the context of the High Tech Group in July 1990.

13. Competition Policy

For a number of years there have been annual meetings at Director General level between DG IV for the Commission, and the U.S. Assistant Attorney General for Anti-trust and the Chairman of the Federal Trade Commission. The purpose

is to exchange views informally on matters of mutual interest affecting competition policy. The most recent meeting was on 6 November 1990. There were also regular, informal staff contacts throughout the year. The two sides agreed on 6 November to draw up a work program with a view to intensifying cooperation in this area.

NEW AREAS OF COOPERATION

1. Science & Technology

The Commission and the U.S. are exploring priority areas for possible concertation and cooperation. Among those under consideration are: large scale scientific projects (global change, the human genome, fusion, high energy physics, space stations, deep sea research stations and deep drilling on land); precompetitive and basic research in information technologies; prenormative research in the biotechnology sector; energy and environment; research and technological development with and for the countries of Eastern Europe.

The establishment of a joint permanent "U.S. - EC Task Force" to initiate and review EC - U.S. cooperation was agreed with the signature of a "Statement of Intention" in November 1990. On 25 February 1991, Commissioner Pandolfi met in Washington to participate in the first meeting of the U.S. - EC Joint Consultative Group on Science and Technology.

Among the new fields of cooperation are a number which are already under discussion with representatives of the U.S. Administration. Apart from the group on biotechnology research, these include basic research on the external effects of the fuel cycle (agreement has been reached to launch a joint study on the development of a common methodology for assessment of these effects); remote sensing; and information technology.

2. Biotechnical Research

During a six-day visit to the U.S. in March 1990, Commissioner Pandolfi held exchanges of views with American authorities on science, technology, research, telecommunications, information industries and innovation. During this visit Mr. Pandolfi proposed five priority areas for cooperation between the EC and the U.S. in R&D: large scale scientific projects, information technology, energy and environment, research and technological development with East European countries, and prenormative research in the biotechnical sector. In addition, Mr. Pandolfi and Mr. Bromley, President Bush's Assistant for Science and Technology, signed an agreement for a Task Force which will serve to increase the knowledge of the EC and the U.S. on research in

2. Small and Medium-Sized Enterprises

A number of European small and medium-sized enterprises have expressed an interest in developing contacts in the U.S. market and in improved exchange of information on market opportunities. The U.S. Department of Commerce and Small Business Administration have welcomed new areas of cooperation and discussion with the EC on issues relating to small and medium sized enterprises.

3. Financial Services

Working level contacts have taken place between the Commission and the U.S. Treasury and other parts of the U.S. Administration involved in financial services policy and regulation on matters of mutual interest. At a meeting in July 1990, insurance issues were discussed.

4. Accounting Standards

Some discussions with the U.S. have taken place on the problems of mutual recognition of the accounts of public companies. There is scope for useful cooperation in this area.

5. Educational Exchanges and Educational/Vocational Training

On 22 - 23 October 1990, a conference entitled "European Community/United States Cooperation in Education" was held in Washington. The sponsors of the conference were the Commission's Task Force for Human Resources, Education, Training and Youth, the U.S. Information Agency, the Woodrow Wilson International Center for Scholars, and the J. William Fulbright Board of Foreign Scholarships.

The program consisted of a series of discussions on various aspects of U.S. - European educational exchanges, covering existing situations and issues. It was agreed to explore the potential for future cooperation.

The Commission (Task Force for Human Resources) and the U.S. Administration (Education Department, USIA) have recognized that there is scope for a U.S. - EC dialogue particularly on higher education (including credit transfer, open learning, visiting schemes, etc.) and skill needs for the 1990's (in particular continuing training). An EC - U.S. Working Group on Higher Education and Vocational Training will oversee these initiatives.

6. Transport

Following the April 1990 U.S. - EC Ministerial, the

U.S. and EC agreed to a broad, informal dialogue concerning transportation in order to share respective visions of the transport relationship, to exchange information, and to establish a mutual commitment to ongoing dialogue at senior levels. In addition to continuing working-level meetings to discuss specific issues as in the past, regular meetings at Ministerial level are periodically held. Such a meeting took place on January 7 - 8 in Washington between the Commissioner for Transport, Mr. Karel Van Miert, and the U.S. Transport Secretary, Mr. Samuel Skinner.

7. Tourism

Senior-level contacts between the U.S. Travel and Tourism Administration and the Commission have begun with the purpose of reviewing trends in U.S. and EC tourism and of discussing matters of mutual importance. At a June 1990 meeting in Brussels, the U.S. Undersecretary for Travel and Tourism and the EC Commissioner responsible for tourism began to explore the feasibility of developing a U.S. - EC tourism Agreement.

This list is not exhaustive. U.S. and EC officials are currently in the process of examining various ways of expanding U.S. - EC cooperation to new sectors in accordance with the stated objectives of the Declaration on EC - U.S. Relations.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° inv. 14782
12 GEN. 1995

BIBLIOTECA

10

ENCLOSURE II

FACT SHEET

**Institutional links between US/EC-Europe II:
chronological overview**

US - EC INSTITUTIONAL LINKS
FACT SHEET ON BILATERAL ADMINISTRATIVE ENCOUNTERS
January 1989 - July 1991

January 1989:

January 10 - 11: 32nd semiannual meeting held alternatively in the United States and in Europe between the permanent European Parliament (EP) delegation for relations with the United States and the delegation of the American Congress. The EP delegation consisted of 26 members and the US delegation of 13 members. Issues of discussion during the three-day meeting included: current disputes in EC/US trade; the US/Canada free trade agreement and a review of the 1993 internal market; third world debt; environment; and the possibility of a future enlargement of the Community. An exchange of views on major foreign policy themes focused on disarmament and a series of regional conflicts including the Middle East, Libya, South Africa, and Latin America. Participants of the conference favored a future Euro-American conference to coordinate efforts in the fight against drug-trafficking and a similar coordinated effort in anti-terrorist research.

February 1989

Feb. 2: Mr. Ray MacSharry, European Commissioner for Agriculture, met the US Ambassador to the Communities (Mr. Kingon) to confirm the EEC position on the hormone affair.

Feb. 17: US Secretary of State James Baker met with President Delors, after which an enlarged meeting occurred which also included Vice-President Andriessen and Commissioner Matutes. The bilateral discussion focused on the role a large unified European market will play in the international trade order and in East-West relations. The enlarged meeting comprised a working session dealing with the following pertinent questions in transatlantic relations: a coordinated global strategy towards Eastern and Central Europe; the multilateral trade system; the EEC's relations in Central America; and the structure of EEC/US dialogue.

Feb. 17 - 18: Friday morning meeting in Washington between Commissioner MacSharry and the American Agriculture Secretary Mr. Clayton Yeutter. Friday evening - Saturday morning meeting in Washington between Mr. Andriessen, Mr. Clayton Yeutter, US Trade Secretary Mr. Mosbacher and the representative for trade questions, Mrs. Carla Hills. The agenda of these meetings included the hormones affairs and related measures; section 301 of the US Trade Act; the Uruguay Round and the conclusion of the mid-term review.

March 1989:

March 6: The Community troika, made up of Mr. Ordonez, Mr. Paoulias, Mr. Dumas and Commissioner Matutes held a meeting with Mr. Baker on the margins of the Vienna negotiations. The European interlocutors sought to inform the Secretary of State regarding a series of contacts which the troika had developed in the Middle East (Mr. Arafat's visit to Madrid, visits by the troika to Amman, to Cairo and to Damascus). At a moment when the new American administration was in the process of formulating its policy concerning the Middle East, the troika noted Mr. Baker's openness to a European contribution to a peaceful settlement in the region.

March 10 - 11: Commission Vice-President Andriessen and Commissioner MacSharry met with American Agriculture Secretary Yeutter and the US Special Trade Representative Mrs. Carla Hills. The focus of the discussions concerned the mid-term review of the Uruguay Round and several bilateral dossiers including Airbus, telecommunications, and those aspects of the American Trade Act which make possible the adoption of unilateral measures. Following the talks, an EC-US hi-level technical working group was instituted to work towards compromises in agricultural during the Uruguay Round multilateral trade negotiations.

March 13: Mr. F. Fernandez-Ordonez, Spanish Minister of Foreign Affairs and acting President of the Community Council, met in Washington for talks with Secretary of State Baker, Commerce Secretary Mosbacher and US Special Trade Representative Carla Hills. The talks centered on the situation in the Middle East and on the principal economic problems; tendencies and repercussions of the Single European Market; bilateral divergences such as the hormone matter; the Uruguay Round and Third World debt.

May 1989:

May 17 - 18: Commission Vice-President Andriessen in the United States to participate in the official opening of the Commission bureau in San Francisco. Andriessen also met with Mrs. Carla Hills to exchange views on numerous trade problems such as Airbus, telecommunications, hormones, GATT "panels", etc.

May 29 - 30: American Commerce Secretary Mosbacher met in Brussels with Commission Vice-President Andriessen, Commissioner Bangemann, and Commissioner Pandolfi. Talks focused on dossiers of a general nature - progress and prospects for the Uruguay Round, creation of a unified European economic area - as well as on several specific dossiers such as: Airbus and state aid to the aeronautics industry; high definition TV and possible EC-US cooperation on industrial

matters and standards.

May 30: President Bush visited the Commission at the end of the Atlantic Alliance summit. Bush first met with President Delors, during which major world developments were discussed such as détente, disarmament, and East-West relations. An enlarged meeting then took place, including Secretary of State Baker and Commission Vice-President Andriessen. Both sides noted a shift in American perceptions of the Single Market project, now recognized as reinforcing the open multilateral trade and economic order.

June 1989:

June 13 - 16: Second official visit of Jacques Delors to the United States. On June 14, President Delors met with President Bush for a working lunch. The two, who were accompanied by senior advisers, discussed ongoing cooperation between the US and the EC Commission on issues of mutual interest including the implications of the EC's 1992 integration program, international trade and the Uruguay Round, the efforts toward political and economic reform in Eastern Europe and the Soviet Union and transnational problems such as the environment. Both sides emphasized a key point in Bush's Boston speech: that the US and the European Community must strengthen their dialogue and cooperation. They stressed the importance of the annual US-EC Ministerial meeting in December as an opportunity for high-level review of all aspects of the relationship and agreed that other channels, such as the sub-cabinet consultations held in November 1988, can help to broaden US-EC understanding. During this Washington visit, President Delors also met with Secretary of State Baker, President of the Federal Reserve Board Alan Greenspan and held talks in the Congress with Speaker of the House Tom Foley as well as with the Chairman of the Senate Finances Committee Lloyd Bentsen. On June 16, Mr. Delors took part in a working meeting with President Bush and five American ministers: Secretary of State Baker, Treasury Secretary Mr. Brady, Secretary of Commerce Mr. Mosbacher, Special Trade Representative Mrs. Hills, and Secretary of Agriculture Mr. Yeutter. In this context Mr. Delors had the opportunity of explaining EEC action and intentions in a large number of areas: relations with Eastern bloc countries and agreement plans with the USSR and Poland, trade policy, industrial policy, audio-visual policy, etc. Overall, the talks showed a large degree of agreement; the accusation of "fortress Europe" was not discussed and the Bush administration's support for the creation of the Single European Market was undisputed. At a press conference after the talks, President Delors highlighted the role that high level contacts play in facilitating solutions to technical difficulties.

July 1989:

July 5 - 7: The governors of nine states in Brussels for the first official contact between the European Commission and US governors. Governors from Iowa, Washington, Arkansas, New Jersey, Utah, Vermont, Kentucky and Porto Rico were received for a day at the Commission to meet with President Delors and Vice-President Andriessen, as well as Commissioner for cultural affairs, information and communication Jean Dondelinger. Mr. Andriessen was particularly satisfied with this first meeting, stating that the Community tends to overly concentrate on contacts with the US Federal Government while it is often very useful to know the points of views of the state governments.

July 18: President Bush concluded the European trip he undertook on the occasion of the summit of the seven major industrialized nations in Paris with a visit to the Netherlands. Speaking in Leiden during what was the first visit to the Netherlands by a US President, Mr. Bush highlighted the shift in US attitudes towards Europe. President Bush was quoted as saying that "a stronger and more united Europe is good for the U.S.", a confirmation which marked his most specific endorsement to date of moves towards closer European political and economic integration. The shift in US attitudes towards Europe was also reflected in the positive support for the creation of the single European market in 1992 and the decision at the seven nation summit in Paris to give the European Commission responsibility for coordinating western assistance for reform in Eastern Europe.

September 1989:

September 7: Mr. Clayton Yeutter, American Agriculture Secretary, made an official visit to the Commission. The Secretary met with Vice-Presidents Bangemann, Pandolfi and Andriessen before a meeting and a working lunch with his counterpart, Mr. Ray MacSharry. The main theme of the discussions centered on proposals for the Uruguay Round and the settlement of the hormone dispute.

September 8 - 10: Symposium in Copenhagen on American and European policies and methods of environmental protection sponsored by the America - European Community Association. Danish Environment Minister Mrs. Lone Bybkaer, European Commissioner responsible for environmental policy Mr. Carlo Ripa de Meana, Mr. Daniel Beardsley of the American Environmental Protection Agency, and various environmental lawyers and business executives participated in the symposium entitled "A Comparison of American and European Policies and methods for the Protection of the Environment."

September 11 - 16: US Trade Representative Carla Hills

visited Paris, London, Brussels, Bern, Geneva, and Bonn. The stated purpose of the trip was to give political impetus to the Uruguay Round and to express US concern over certain aspects of the Single Market, including: the limitation on the import of non-European TV programs; Airbus subsidies; rules of origin and local content; and quotas on automobile imports. In her September 16 meeting with the European Commission, Mrs. Hills met with Vice-Presidents Andriessen, Bangemann, Pandolfi, and Scrivener. This meeting was said to have led to improvements in the American administration's perception of the Single Market project and to broad agreement on the main objectives of the Uruguay Round.

September 18 - 22: Commission President Jacques Delors visited the United States to address the International Industrial Conference in San Francisco and to meet with the Secretary General of the United Nations.

September 29: Commission Vice-President in the US to meet with Mrs. Carla Hills as a follow-up to the September 16 meeting. New developments in the agenda of the previous meeting were discussed.

October 1989:

October 12: Commission Vice-President Andriessen held talks with a delegation of the US Congress led by Mr. Gephardt. Talks focused on international economic issues (notably the Uruguay Round) and certain bilateral differences between the EEC and the United States, specifically the "television without frontiers" directive. The significance of these meetings in avoiding misunderstandings was recognized by both sides.

November 1989:

November 4 - 5: Meeting in Washington, the US/EC Advisory Business Group - made up of European and American parliamentarians, diplomats and businessmen - asked the American administration and the European Commission to "draw up a balance sheet of their relationship and make proposals to improve the regularity and consistency of their contacts." The group concluded that the US-EC dialogue should include systematic contacts between Commission and Administration officials as well as between Members of Congress and Members of the European Parliament, "along the lines of the Franco - German Treaty for Friendship and Cooperation." This dialogue should initially cover agriculture, environment, investment, and trade as well as technological, monetary and political cooperation.

November 10: The first EEC-US bilateral meeting of

high-level officials in charge of regulations on food and drugs took place in Washington. It was decided that this type of meeting would be held twice a year as an exchange of information and experience regarding legislation on food, human and veterinary medicines, human biology, and medical devices. Although the purpose of this meeting was to reach an agreement on working methods, future meetings should cover specific problems such as hormones in meat and BST.

December 1989:

December 4: President Bush, accompanied by Secretary of State Baker, met with President Delors and Vice-President Andriessen in Brussels for a 35-minute meeting. President Bush first provided information on the Malta meeting concerning three distinct areas: human rights, economic development and disarmament. He then underscored the role the EEC must play in most of these fields. Mr. Delors summarized the broad lines of the European Commission's efforts to coordinate the industrialized world's aid to Poland and Hungary, described the new initiatives the EEC plans to announce at the Strasbourg Summit and also recalled the upcoming signing of the cooperation agreement with the USSR. This meeting represented the third encounter between President Bush and President Delors in 1989, an indication of the increasing importance attached to the US-EC relationship.

December 15: Annual meeting at ministerial level between the European Commission and the American government. The Commission was represented by President Delors, Vice-President Andriessen, Commissioners Ripa di Meana and MacSharry; the delegation from the American administration led by Secretary of State Baker included Commerce Secretary Mosbacher, Agriculture Secretary Yeutter, Special Trade Representative Carla Hills, and Mr. Reilly, the official in charge of environmental issues. Topics of discussion notably included the Uruguay Round, the completion of the Single Market, Economic and Monetary Union, and the strengthening of institutional links between the EEC and the US.

December 18: President Bush held informal talks of a duration of three hours with President Mitterrand on the Isle of Saint-Martin in the Antilles, during which time he acknowledged a "very privileged relationship" with the French President. For his part, President Mitterrand stated that Secretary of State Baker's speech in Berlin contained "many elements...of which I approve."

February 1990:

February 5 - 8: The status of the European Community's representative in Washington, which to date was similar to

that of the representative of an international organization, was upgraded to the status of a state ambassador. During this week, the new head of the Commission delegation in Washington, Andreas van Agt, presented his letters of accreditation to President Bush, while his predecessors were accredited to the State Department. This development was presented as concrete evidence of the US Administration's desire to develop its relations with the European Community.

February 22 - 23: After meeting with GATT director Dunkel in Brussels, Commission Vice-President Andriessen left for Washington for meetings with Mr. Baker and Mrs. Carla Hills. In an address on the "Role of the United States in a United Europe" giving to the Columbia Institute in Washington on the same occasion, Mr. Andriessen called for a pragmatic ad hoc approach to the intensification of relations between the EEC and the US as proposed by Secretary of State Baker.

February 27: Meeting in Washington between EC Council President Charles Haughey and President George Bush. Both sides acknowledged the significance of such meetings for strengthening relations between the US and the EC and emphasized the importance of these first steps in an evolving process towards a new framework for enhanced political and economic ties between the EC and the US. It was agreed that such meetings between the President of the United States and the President of the European Council should become a regular feature of US/EC relations and that at least one such meeting should be held during each presidency of the European Council. These meetings would serve to give overall political direction to the further development of consultation and cooperation. The arrangements would also include biannual meetings between EC Foreign Ministers and the US Secretary of State. Areas of common interest meriting further examination as subjects for practical cooperation were also identified, including the fight against international drug trafficking and the protection of the environment. During his visit Mr. Haughey also met Secretary of State Baker, Mrs. Carla Hills, and the administrator of the Environmental Protection Agency Mr. Reilly.

March 1990:

March 1 - 6: During a six-day visit to the United States, Commissioner Pandolfi held exchanges of views with the American authorities on science, technology, research, telecommunications, the information industries and innovation. Mr. Pandolfi met, inter alia, US Trade Minister Mosbacher as well as Mr. Allan Bromley, President Bush's Assistant for Science and Technology. During his visit, Mr. Pandolfi made a speech before the US National Academy of Sciences Forum on "Science and technology and European market

integration," during which he proposed five priority areas for cooperation between the Community and the United States in Research and Development: large scale scientific projects; information technologies; prenormative research in the biotechnology sector; energy and environment; research and technological development with and for the countries of Eastern Europe. Mr. Pandolfi emphasized that although this was not an exhaustive or binding list, these five areas for concertation and cooperation between the Community and the United States should be explored. It was furthermore agreed that a Task Force covering these areas would be set-up before the EEC - United States Ministerial meeting planned for April 23 - 24. This task force, which would be formed at a high political level on a temporary basis, would aim to encourage work undertaken jointly. Mr. Pandolfi concluded from this meeting that the American administration wanted to reaffirm US - EC ties and that cooperation was possible, without questioning the existing competition between both sides.

March 6 - 8: Mrs. Scrivener, European Commissioner responsible for taxation and the customs union, met in Washington with members of the American administration, senior officials from international organizations, and economists. She met specifically with Mr. Wayne D. Angell, Governor of the Federal Reserve, Mr. Robert Glauber, Under Secretary of the Treasury for Finances, Mr. Kenneth Gideon, Assistant Secretary of the Treasury for Tax Policy and Mrs. Carla Hills, US Trade Representative. Within the context of her meetings with the American administration and with the Director-General of the IMF, Mrs. Scrivener studied in particular the possibility of an eventual extension of cooperation between the fiscal administrations to the main financial partners of the EEC. Such an enlargement of cooperation would include the EEC's main partners in order to avoid a capital leak towards "tax havens" outside the Community after the lifting of restrictions on capital movements on July 1, 1990.

March 20: Meeting in Brussels between European Commissioner K. Van Miert and American Secretary for Transportation Mr. Skinner, accompanied by the Assistant Secretary for Transportation, Mr. G. Shane. Mr. Skinner welcomed the prospect of being able to count on the Community as a single entity for the negotiations and future arrangements between the United States and European countries in the area of air transport. The participants reviewed bilateral problems in the area of transport in light of the GATT negotiations on the liberalisation of services and the completion of the Single Market. The American delegation expressed a great interest in the Commission's ideas concerning the development in Europe of an infrastructure network integrating advanced technology for means of communication.

April 1990:

April 17 - 18: The first meeting of the representatives of economic and social circles in the United States and the European Community held in Brussels on the initiative of the Community's Economic and Social Committee. Fifteen representatives of various American economic organizations (National Association of Manufacturers, American Chamber of Commerce, United States Council for International Business) and the trade union federation AFL-CIO examined future relations between the Community and the United States with members of the foreign relations section of the ESC. After discussing EC - US bilateral relations and these relations within the multilateral framework of GATT, the economic and social agents tackled the matter of the social dimensions of economic changes in these two regions. The usefulness of such meetings was recognized by both parties; it was decided to establish this bilateral contact of economic and social forces twice a year, preceding by one month the top level meetings between the European Community and the American government.

April 23: Ministerial EC - US meeting. Representing the Commission, President Delors and Vice-President Andriessen met with Mr. Baker, Mr. Yeutter, Mr. Mosbacher, and Mrs. Hills. A new feature of the ministerial meeting was the participation of the Council President, Irish Prime Minister Haughey, who met with President Bush before the plenary session chaired by Mr. Baker. The main issues of discussion included: developments in Eastern Europe; the interests of the United States and the Community at the world level, especially in conjunction with the Uruguay Round; new possibilities for concrete cooperation such as in the area of science and technology, the fight against drugs and vocational training. Carla Hills, US Trade Representative, told the press that the two sides had set up joint working groups to speed up resolution of their differences over the agricultural aspects of the Uruguay Round. Agriculture Secretary Clayton Yeutter announced that the working groups would meet about every two weeks until December, with the first meeting to be held in mid-May and the second just before the meeting of the OECD Council of Ministers in Paris on May 30, during which time Mrs. Hills and Mr. Yeutter would hold another meeting with the European partners. President Delors concluded the ministerial meeting by stating "the intensified number and rhythm of bilateral meetings at all levels is the correct response to the acceleration of history in which we are participating. That is the significance of that meeting, which has taken place four short months after the last one in Brussels in December last year, at which we agreed in a joint declaration to strengthen our relations. That strengthening is now well under way."

April 24: President Bush met with Commission President Delors in Washington to discuss the development of relations

between the United States and the European Community. President Bush emphasized the United States' traditional and continuing support for European integration and the importance the U.S. attaches to the Community's role as coordinator of a broad Western effort to aid Hungary and Poland, as well as other Eastern European countries. President Bush and President Delors discussed the roles of the U.S. and the EC in a changing Europe and stressed the need to further strengthen institutional links as the EC integration process progresses.

May 1990:

May 3: The first meeting between the EC Foreign Ministers (accompanied by Commission President Jacques Delors) and the United States took place at the Charlemagne building in Brussels after the NATO ministerial meeting. Mr. Baker and the Twelve debated international issues of mutual interest, including: German unification and the insertion of the GDR into the Community; relations with countries from Central and Eastern Europe, and the Lithuanian problem. In addition, Secretary of State Baker addressed the question of coordinating aid to Central America and the Caribbean in a way similar to that for East European countries. Mr. Baker claimed that the work carried out within the Group of 24 "is one of the best examples of cooperation" between the United States and the Community. The meeting began at 4:30pm, and was followed at 7:00pm by a joint press conference given by Council President Collins and Secretary of State Baker. On the Community side, President Collins maintained that the address given in Berlin by James Baker marked the beginning of a "new era" and a "new partnership" between the United States and the Community which has "come of age" as a partner in world affairs. For his part, President Delors spoke of a "new course" and a "new departure" in relations with the United States: by adding to the regular meetings with the European Commission these meetings on political cooperation, he said, we have available "an adequate framework on which to concert better."

May 8: The American Assistant Secretary in the Department of Energy, Mr. Easton, and the Deputy Assistant Secretary in the State Department, Mr. Ramsay, held a meeting with Mr. Maniatopoulos, Director General for Energy at the European Commission, following the international energy conference that took place the preceding week in Brussels. It was agreed that discussions of this type would take place once every year, alternating between Brussels and Washington. At the outcome of the meeting, Mr. Easton welcomed the opportunity to discuss with the Commission "the wide range of shared objectives in the energy field, including energy security and emergency preparedness, energy efficiency, safeguarding the environment, research, development and deployment of energy technologies, and the need to create and maintain open markets for trade in energy and energy equipment."

Mr. Maniatopoulos found that, "what is remarkable is the degree of common understanding we have regarding the problems and the solutions required."

May 15: American Agriculture Secretary Clayton Yeutter met in Strasbourg with the European Parliament's Committee on External Economic Relations. In a press conference after the meeting chaired by Mr. Willy de Clercq, Mr. Yeutter acknowledged that he did not see "a good way to bridge the differences" between the United States and the Community with regard to the elimination of agricultural export subsidies.

May 17 - 19: The annual European - American journalists conference organized with the support of the European Commission was opened on May 17 in Milan by Italian Foreign Minister Gianni de Michelis and closed on 19 May by EP President Enrique Baron. The proceedings included: new polls on American and European attitudes on Europe; reforms in Central and Eastern Europe; the future of alliances; German unity; global environmental priorities in the 1990's; and US/EC relations (discussion held by Mr. Tom Niles, US Ambassador to the Community and Mr. van Agt, the Community's Ambassador to the United States).

June 1990:

June 22 - 25: 35th meeting between the European Parliament and the US Congress. MEPs, lead by British Labour MEP Geoffrey Hoon (chairman of the EP delegation for relations with the Congress), debated transatlantic relations and the future architecture of Europe with members of the US Congress. In an address to the House of Representatives, Mr. Hoon proposed the organization of a joint session of the European Parliament and the United States Congress. "Imagine", he said, "the impact on public opinion and lawmakers alike of joint resolutions on key issues of the day - the environment, drug abuse, human rights and much more besides - adopted by a joint session of the US Congress and the European Parliament, representing together some 600 million people." Mr. Hoon welcome intensification of the transatlantic dialogue and recommended holding regular meetings on political cooperation between Foreign Ministers from the Community and the American Secretary of State, in order to "forge and implement transatlantic foreign policy initiatives". Yet another suggestion made by the European Parliament concerned the participation of American ministers at meetings of the Councils of the Ministers for the environment, agriculture, science and technology. On this occasion, the EP delegation also held talks with Defense Secretary Cheney and Assistant Secretary of State Mr. Eagleburger. Trade issues were debated with Mrs. Carla Hills. The MEPs also visited the Environmental Protection Agency.

July 1990:

July 4: American Secretary of State James Baker, in Brussels for the ministerial meeting of the group of 24, held a 45-minute meeting beginning at 8:30am with European Commission President Jacques Delors. This meeting served to clear up respective positions on the issues of economic aid to the USSR and a program of aid to Central America. In association with the work of the group of 24, Mr. Baker also held a bilateral meeting with the new President-in-Office of the Community Council, Mr. De Michelis.

September 1990:

Did he? September 5: Mr. Michael Dukakis, Governor of Massachusetts, met with President Delors as well as European Commission officials and members of the Belgian government during the occasion of a trade mission in Europe from Sept. 3 - 14. The aim of the mission was to seek partners for joint ventures with firms in Massachusetts in the fields of technology, environment and energy conservation.

September 10 - 11: The first meeting of the Task Force on biotechnological research between the EC and the United States took place as a result of the administrative agreement signed in March 1990 by Mr. Pandolfi and Mr. Bromley (see above). The object of the agreement is to increase the knowledge of the EC and US on research in biotechnology and to act as a mechanism for the exchange of information and concertation between the parties. The Task Force on biotechnological research also concretises a wider cooperation proposal in the field of science and technology, a proposal also formulated in March by Mr. Pandolfi. Mr. Pandolfi put forward the idea of setting up a permanent joint Task Force intended to explore the means for achieving increased collaboration between the EEC and the United States in sectors considered to be the most important and in the common interests of both parties. In addition to this concrete meeting of the Task Force on biotechnical research, contacts and action were noted to be taking place in other sectors. In the information technologies area, two working sessions bringing together over 80 European and American research workers were held since the month in July - one in Brussels and one in Washington. The participants studied the implementation of EEC/US cooperation in a way so that each party would reap comparable benefits. Concrete possibilities were apparent in several leading sectors, including: high performance calculators, opto-electronics, data engineering, processing of images and robotics.

September 18: Mrs. Carla Hills met Mr. Mac Sharry in Brussels to discuss various proposals for the agriculture dossier in the Uruguay Round. Speaking to journalists in Brussels, Mrs. Hills noted that she did not discern a lot

of enthusiasm for the American ideas.

September 18 - 19: High-level meeting held in Brussels between representatives of the US government and the Commission to discuss issues of mutual interest in environmental policy. The meeting concluded with important agreements on the environmental control of chemicals and biotechnology. The specific areas for US - EC cooperation in the areas of chemical to include: efforts to test and assess existing chemicals; joint efforts in developing testing of CFC substitutes; a commitment to improve and make consistent the method of risk assessment of chemicals; improvements in hazard communication systems, such as warning labels, by moving toward world-wide consistency in the criteria and methodology for determining the degree of hazard. As regards biotechnology, it was decided to establish a permanent technical group to hold its first meeting before the end of the year, and to develop methodology for the identification, detection and monitoring of organisms in the environment.

September 20: Mrs. Carla Hills met with External Trade Council President Renato Ruggiero in Rome on the subject of the Uruguay Round negotiations.

September 21 - 23: The America - European Community Association International (AECA) organised a conference in Annapolis on "US/EC relations and Europe's new architecture" with the support of the European Commission. The conference provided an opportunity to debate the following topics: the changing nature of power and security; redefining US/EC common and diverging values and interests; Europe's new architecture and the institutional aspects of Europe's new architecture.

September 27: Mrs. Carla Hills met with Mr. Frans Andriessen in Washington to discuss different dossiers in which divergences of opinion existed under the auspices of the Uruguay Round. This meeting took place in the context of an official visit to Washington by Mr. Andriessen from September 26 - October 1.

November 1990:

November 13: The bi-annual meeting between the U.S. President and the European Council President took place in Washington. President Bush, accompanied by Secretary of State Baker, met Council President Andreotti, President of the General Affairs Council Mr. De Michelis, and Commission President Delors. The one-and-a-half hour meeting formed a preparation for the upcoming CSCE, although East/West relations and the Middle East conflict were featured prominently on the agenda. The participants also discussed the advisability of endowing their relations with a long-term perspective

in a declaration that would be made solemnly public in conjunction with the CSCE summit in Paris.

November 16: The bi-annual meeting between the American government and the European Commission was held in the Berlaymont. The American delegation was led by Secretary of State James Baker and included the Agriculture Secretary Mr. Yeutter, the special trade representative Mrs. Carla Hills and the Secretary of Commerce Mr. Mosbacher. For the Commission, the delegation was led by President Delors, Vice-Presidents Andriessen and Pandolfi, as well as Commissioners MacSharry, Cardoso e Cunha and Matutes. The talks focused on the following topics: the Gulf crisis, cooperation with the USSR and countries from Central and Eastern Europe; cooperation with Central America; the CSCE summit; the Uruguay Round; domestic developments in the United States and the EEC. The progress and prospects of the Uruguay Round were the main focus of the talks, since President Bush and Andreotti had reaffirmed on Tuesday of the same week their will to make a success of the negotiations. In addition, two cooperation statements on science and technology and higher education/continuing training were adopted.

November 19: Commissioner MacSharry met in Brussels with his American counterpart, Mr. Clayton Yeutter, for a 90-minute discussion on the controversies surrounding the agriculture dossier in the on-going Uruguay Round. Mr. MacSharry set out to convince his colleague that European proposals were not so far removed from American proposals and that they included many concessions concerning the elimination of export refunds. Mr. Yeutter made no comments but agreed to remain in close contact until the opening of GATT negotiations in Geneva. A Commission delegation of experts was also in Washington at this time to try to resolve the problems in the context of GATT Article 23 on consultation in the event of conflict.

December 1990:

December 14: After the adjournment of the Uruguay Round negotiations, Commissioner MacSharry and American Secretary for Agriculture Yeutter met to prevent the adjournment from resulting in measures and mutual counter-measures concerning disputes which were still unsettled. Both sides emphasized the importance of diffusing a trade war situation and preventing the suspension of negotiations from creating retortion which would make it more difficult to renew negotiations. Emerging from their meeting, both the EEC and US farm leaders appeared more optimistic about the state of US/EEC trade relations. "I am satisfied that we have made progress on the three bilateral issues (including the US ban on EEC wind and EEC ban on US pork and beef) while diffusing an outbreak of trade wars", stated Mr. MacSharry. Secretary Yeutter also said

hat he was more optimistic about the current state of the GATT talks than he had been when the talks collapsed in Brussels on December 7.

December 18: Commission officials met in London with US officials for negotiations concerning the long-running subsidies dispute between the Airbus industry and US aircrafts manufacturers Boeing and McDonnell Douglas. Although the U.S. had previously threatened to walk out of the negotiations, agreement was reached in this meeting leading to considerable concessions in the respective negotiating positions.

January 1991:

January 5 - 9: 36th US/EC inter-parliamentary meeting in Luxembourg. The European Parliament delegation, headed by Geoffrey Hoon, also included the Luxembourg Head of State and high officials who occupied the EEC Council Presidency for the first half of 1991, as well as European Parliament President Enrique Baron Crespo. The Gulf crisis and the Middle East, GATT trade talks, and EEC/US relations since the fall of the Berlin Wall were among the featured topics.

January 7 - 8: Karel Van Miert, the EEC Commissioner for Transport met with US Transport Secretary Samuel Skinner in Washington in the framework of regular high-level meetings on transportation issues. While in Washington, Commissioner Van Miert also held a brief meeting with the US Trade Representative Carla Hills at which they discussed transport in the framework of the General Agreement on Tariffs and Trade (GATT).

January 7 - 11: Secretary of State Baker met with a series of European leaders on the subject of the Gulf conflict. Mr. Baker met with President Mitterrand for a 90-minute discussion, after which he noted an "absolutely total agreement between France and the United States on the full application of the United Nations' Security Council resolutions". On the previous day, Mr. Baker held individual talks with both Douglas Hurd and EC Council President Jacques Poos. Mr. Baker additionally met with the German government in Bonn and with Gianni De Michelis in Milan.

January 15: Competition Commissioner Leon Brittan met with United States Attorney General, Dick Thornburgh to discuss the possibilities of a cooperation agreement on competition policy between the United States and the European Community. Both sides recognized that a legal framework would enable the two trading blocks to better cooperate when dealing with anti-trust and competition cases. US and EC officials are expected to draw up a draft agreement which will be considered by Sir Leon and Mr. Thornburgh later in the year.

January 27: External Relations Commissioner Andreissen met in Washington for discussions with Mrs. Carla Hills and Mr. Clayton Yeutter concerning the Uruguay Round.

January 28: The first EC/US meeting within the context of the "Declaration on EC - U.S. Relations" took place in Washington. Representing EC Foreign Ministers, Mr. Jacques Poos, Luxembourg Foreign Minister and then President of the EEC's Council of Ministers, was accompanied by Commission Vice-President Andreissen for talks with Secretary of State James Baker. The Gulf War and the deteriorating situation in the Baltic States dominated the high-level consultations. Concerning the Gulf war, the participants insisted upon the necessity of maintaining consultations between countries participating in the coalition which formed against the Iraqi regime. Furthermore, they considered that the Community and the United States should give a concerted look at post-war prospects, and contribute to the creation of conditions for stability and development in the region. Mr. Poos also briefed Mr. Baker on the Luxembourg Presidency program in the first six months of the year, noting that the international situation must not be allowed to slow the process of integration within the Community, especially in the areas of political union and economic and monetary union.

January 28 - 29: Four members of the European Parliament - also members of AECA (American European Community Association) - in Washington to discuss with the Administration and the Congress how to reach a "unified approach" between the Community and the United States on the most urgent current questions: the Gulf crisis, the situation in the Baltic and GATT negotiations. MEPs James Elles, Michael Welsh, Elmar Brok, Alain Lamassoure and Manuel Porto held talks with David Gompert, special counselor of President Bush for European affairs and the Soviet Union, with the main counselor of Secretary of State James Baker, Robert Zoellick. Meetings also occurred in the House between the leader of the majority Richard Gephardt and the president of the sub-committee for foreign affairs Lee Hamilton and in the Senate with Senators William Roth and Sam Nunn.

February 1991:

February 4 - 7: President of the European Parliament, Enrique Baron, in Washington for talks with the US Congress and the US Administration. He met in particular with Deputy Secretary of State Eagleburger, Secretary for Agriculture Yeutter and US Special Trade Representative Carla Hills.

February 22 - 26: During a visit to Washington, Commission Vice-President Pandolfi signed with Deputy Secretary of Energy Mr. Henson Moore an agreement to carry out a joint study on the costs of fuel. The purpose of the study (EC - US

Department of Energy Study of Fuel Cycle Analysis) is to develop a commonly acceptable range of estimates for the full costs of fuel production, transformation, transport and use. Mr. Pandolfi also had a meeting with Mrs. Carla Hills, during which the principal topic of discussion was telecommunications trade between the US and the EC. This covered both the targeting of the community as a "priority country" in relation to telecommunications trade under the U.S. Trade Act and the Community's concern over certain problems of access to the U.S. telecommunications market.

February 25: Commission Vice-President Pandolfi in Washington to participate in the first meeting of the US/EC Joint Consultative Group on Science and Technology. At this meeting, it was agreed: a) to investigate further possible collaborative activities in the field of energy and the environment; b) to regularly exchange information on respective science and technology activities with Central and Eastern Europe; c) to conduct consultations in preparation for discussions on megaprojects at the spring 1992 OECD ministerial meeting on science and technology; d) to continue the efforts of the Task Force on Biotechnology; e) to enhance information exchanges on human resources, workforce data and the prospect of increased exchanges of young scientists; f) to continue the activities initiated during the previous summer on information technologies. Participants in the meeting also discussed US and EC science policy issues and priorities.

March 1991:

March 14: President Bush met with President Mitterrand to give definition to the post-war period.

March 16: President Bush met in Bermuda with British Prime Minister John Major.

March 20: Community Council President Jacques Poos met for the third time since the beginning of the year with Secretary of State Baker in Washington. The purpose of these addition transatlantic consultations was to discuss the post-war period in the Gulf and the prospects for an EEC foreign and security policy. According to a press release, the two officials acknowledged that the time was particularly propitious to cooperate in seeking political solutions to provide stability in the region. Mr. Poos urged the American Secretary of State to meet his colleagues from the European Community soon.

March 24: Mr. Bush met with Italian Prime Minister Andreotti and Italian Foreign Minister Gianni De Michelis at Camp David.

April 1991:

April 11: In conformity with procedures written into the Declaration on EC - US Relations, the President of the European Council, Mr. Santer, and Commission President Delors met with President Bush in Washington. The aftermath of the Gulf war and in particular the refugee problem were prominent issues during the discussions. Also on the agenda were the following subjects: the Soviet Union and the baltics; Eastern Europe; European architecture and the Uruguay Round trade talks. President Bush was quoted after the meeting as saying: "...as part of our mutual efforts to deepen US - EC cooperation, we discussed a wide range of issues. We talked about the situation in the Middle East, in Europe - East and West - and in the Soviet Union. I'm happy to report that we see eye to eye on these issues, and that the EC is prepared to take on growing responsibilities."

April 12: Secretary of State Baker met with the EC Troika (Jacques Poos, Gianni De Michelis, Hans van den Broek, and Able Matutes for the Commission) in Geneva. After the meeting, Council President Poos said that a security zone had been created in the north of Iraq to protect the Kurds. Furthermore, Mr. Poos said that the Troika had discussed the question of European participation in the peace process in the Middle East with Mr. Baker (which Mr. Santer and Mr. Delors had done with President Bush), adding that "it was clear that it was the beginning of the process...but we noted no differences between the European approach and the American one."

April 17: Secretary of State James Baker met with his EC counterparts in Luxembourg before a new tour of the Middle East. The purpose of this meeting, proposed by the United States, was to discuss the place to be reserved for EC Europe in a Peace Conference for the Middle East. During the meeting, Mr. Baker stated that he was in favor of the European Community's association with the regional peace conference that the US is attempting to organize for the region. Secretary of State Baker allegedly raised the idea of "co-sponsorship" of an Israeli-Arab conference by the United States, the Soviet Union and the Twelve.

May 1991:

May 2 - 3: The European Commissioner charged with agriculture, Mr. MacSharry met in Washington with Mr. Ed Madigan, the new US Minister for Agriculture. The main subjects for discussion included: GATT negotiations, the Community system for oil-producing seeds; American slaughter houses; and reform of the Common Agricultural Policy. Mr. MacSharry also met with US Special Trade Representative Mrs. Carla Hills.

May 7: President Bush met in Washington with Italian President Francesco Cossiga and Prime Minister Giulio Andreotti, with whom he spoke of the situation in the Middle East, the problem of European security and the developments in Eastern Europe. According to a White House communiqué, the Italian President and Prime Minister "stressed the great importance they attribute to the Atlantic Alliance and to the indispensable role of the United States with a view to ensuring European security".

May 10: German Foreign Minister Genscher and Secretary of State Baker met in Washington for a comprehensive dialogue on mutual efforts to address the evolution of the European and transatlantic structure. In particular, they focused on the security concerns of Central and East European countries and on ways to continue to reach out to the USSR so as to demonstrate a spirit of cooperation.

June 1991:

June 20: On the fringe of the CSCE ministerial, Secretary of State Baker spoke with French Foreign Minister Roland Dumas and British Foreign Minister Douglas Hurd on the problem of the Kurdish refugees and the need to continue to ensure adequate protection.

June 17 - 21: During a week-long trip to the United States, where they held talks with members of Congress, MEPs Elmar Brok and Hans-Gerd Pöttering said that the United States and the EC should govern their relationship with a formal agreement. They noted that it is anachronistic for the EC to have contractual relationships with almost all countries in the world, including the USSR, but not with "the most important partner", the United States, adding that such an agreement must include political relations, including security policy, economic cooperation, environmental protection as well as joint aid to the Third World. They furthermore stated that rules are needed to allow the swift resolution of differences and lasting global solutions. MEPs Brok and Pöttering specified that these proposals were received with interest by the Americans and would receive support from members of Congress.

June 20 - 21: Conference in Washington on standardisation, attended by American Secretary for Trade Robert Mosbacher and Commissioner Martin Bangemann. Commissioner Bangemann told the press that the standardization progress and mutual recognition of norms would lessen American fears of a "fortress Europe".

July 1991:

July 2: Commission Vice-President Andriessen met in Washington with Mrs. Carla Hills for an exchange of views on the Uruguay Round, international trade relations, and bilateral questions such as Airbus and aid to the aeronautical industry.

July 3: Commission Vice-President Andriessen was joined by Dutch Foreign Minister and current chairman of the EEC Council of Foreign Affairs Ministers, Hans Van den Broek, for a meeting in Washington with US Secretary of State James Baker. These high-level talks, held on July 2 - 3 in the context of the Declaration on EC - US relations, permitted the European interlocutors to discuss the international situation and EC/US bilateral problems with members of the American administration. At the end of their talks in Washington, Mr. Baker, Mr. Van den Broek and Mr. Andriessen adopted a joint statement on Yugoslavia in which they resolved to work together through the CSCE to dissolve the situation.

July 16: At the G-7 Summit in London, the delegation from the European Community, formed by Mr. Delors and Mr. Andriessen for the Commission, and by Mr. Lubbers and Mr. Van den Broek for the Council's Presidency, had about an hour's meeting with President Bush, Secretary of State Baker and Secretary of the Treasury Brady. The main themes were: developments in Yugoslavia, the situation in the Soviet Union, Eastern and Central European countries, Iraq and the Uruguay Round.

July 30: A series of meetings took place in Brussels between Mrs. Carla Hills, US special trade representative, Mr. Ed Madigan, American Secretary of State for Agriculture and Commissioners Andriessen and MacSharry. A plenary session was followed by separate talks between Mrs. Hills/Commissioner Andriessen and Mr. MacSharry/Mr. Madigan. The objective of the talks was to examine in what conditions the Uruguay Round negotiations might be relaunched in the aim of closing them before the end of the year. After the political will to terminate the multilateral trade negotiations was affirmed at the end of the G-7 Summit in London, both sides considered mutual concessions imperative to succeed. Apart from discussions over the agricultural dossier, several outstanding bilateral issues were discussed, including Airbus and the problem of agricultural exports from East European countries.

November 1991:

The next high-level meeting between the President of the United States, the President of the European Community, and the President of the European Council will be held in on November 9 in The Hague. The previous meeting (the first

since the adoption of the Declaration on EC - US Relations which provides for this type of meeting during each of the Community's presidencies) was held in Washington on April 11 between George Bush, Jacques Santer and Jacques Delors.

ERRATA

Enclosure II, Fact Sheet, page 4, paragraph 1,
line 3 should read "Governors from Virginia, Iowa,
Washington, Arkansas, etc..."