PROBLEMS AND OPPORTUNITIES
FOR THE BRITISH PRESIDENCY OF THE EC
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THE COMMUNITY PRESIDENCY IN 1992: AN OPPORTUNITY FOR BRITAIN

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Discussion Paper produced by members of the Trans-European Policy Studies Association (TEPSA) for the conference 'Problems and Opportunities for the British Presidency of the EC' held in London, 20-21 May.

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Trans-European Policy Studies Association (TEPSA)

SUMMARY OF MAIN POINTS

The report discusses some of the things the government could do with the Presidency which would serve the interests of the Community as a whole and not just Britain:

MONETARY UNION

1) move sterling to the narrow ERM band and do a deal with Germany on the site of the Central Bank;

SOCIAL EUROPE

2) do everything to stay involved in social legislation under the pre-Maastricht procedures and try to exercise a moderating influence;

THE EUROPEAN PARLIAMENT

3) report fully to the Parliament on the reasons for Council decisions on legislation and foreign policy;

4) agree to increase the number of German MEPs and to introduce a uniform electoral system for the Parliament;

COMMUNITY FINANCES

5) set the case for a British rebate in the context of a generally equitable fiscal and financial system;

6) find a compromise on the Delors II financial plan which leaves the Community with enough money to do all the things the member-states want it to do;

7) set in train a review to find new ways of financing the Community by the time the Delors II agreement runs out in 1997;

ASSISTANCE FOR THE NEW DEMOCRACIES IN THE EAST

8) improve the international aid effort for the states of eastern Europe and the CIS and improve the free trade deal which the Community offers them;

ENLARGEMENT

9) open accession negotiations with Austria, Sweden and Finland but recognise the need to strengthen the Community institutions before they join

COMMON FOREIGN AND SECURITY POLICY

10) move to majority voting on uncontroversial or procedural matters in foreign policy as soon as possible.

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INTRODUCTION: THE ROLE OF THE PRESIDENCY

Before the Maastricht Treaty, the Presidency of the Council of Ministers had few formal powers. It was not mentioned at all in the Treaty of Rome and only briefly in the Single European Act. Originally its job was little more than that of chairman. 1) With the growth of Political Co-operation and the move to majority voting under the Single European Act, its *de facto* role increased steadily and with the Single Market Programme, its legislative workload also became heavier. The Presidency's role in the decision-making process in Council is now very much that of mediator and an ability to broker compromises has become a key requirement for the job. 2) The government in office has to be able to make deals not only with the other 11 member-states, but with a strong Commission which has political goals of its own and with a Parliament which has powers of amendment over many draft laws.

Besides the growing volume of this routine business, since the mid-1980s the Community has been in an almost permanent state of internal transformation. A succession of major changes concerning enlargement, finances and institutions had to be managed by the Presidency, although it shared many of the burdens with the Commission.

To some extent all these reforms have been responses to external events. One of the other jobs which the Presidency shares with the Commission is to represent the Community and its policies to the outside world and to conduct the business of a network of co-operation which now spans the globe. As if all this was not enough, since the revolutions of 1989 it has also had to cope with a radically altered international environment and lately, with a number of very serious security crises right on the Community's doorstep. The foreign ministers of recent Presidencies have been lucky to spend any time at all in their national capitals during their six months in office.

The prestige which countries have attached to the job seemed to increase in proportion to the burgeoning responsiblites, for governments liked the challenge of proving themselves in a difficult job. Needless to say, the opportunities for failure have increased commensurately. The Presidency places a strain on the resources and skills of even the largest member-states; it is no shame on the smaller ones that they have sometimes struggled in the last few years to keep on top of the over-loaded agenda. It is important in any assessment of a government's prospects for the Presidency to begin by being clear about these burdens and about the limitations within which it has to work. Every government is first of all restricted by the fact that it can only occupy the Presidency cockpit for a limited period - and so it can't fly very far. In the case of the Presidency in the second half of the year, the time at its disposal is effectively much shorter, given the traditional Community break for August and the early closing for Christmas. Besides, in the field of foreign policy it is watched over by two co-pilots under the troika system and in the other fields of Community business, the scope for the Presidency to change the agenda which it inherits is limited.

Given these limitations, it is an illusion to think that one Presidency can change the course of Community history. The Presidency cannot change the world in six months, although many countries take up office with high ambitions. Countries pride themselves on handling the routine side of Community affairs in a business-like fashion; a friendly and healthy rivalry has evolved between Presidencies to see who can secure agreement on the greatest number of Single Market laws. But member-states have also come to see managing the more glamorous side of EC affairs - external relations and internal reform - as an opportunity for them to display their European credentials by advancing the cause of Union and stamping their own 'vision' on the future of the Community. This may involve a Presidency proposing new priorities for the Community and adding a different tone and emphasis in its approach. This is particularly true of the larger member-states. They tend to pursue those Community objectives in a high-profile way which are closest to their own traditional interests, using all the opportunities offered by being in the European limelight for six months.

Britain takes over the Presidency of the Community after a succession of three smaller countries. As one of the larger Member-States, expectations are high that the government will indeed be tempted to steer the Community towards its vision of the future. 3) On the routine business of the Community, Britain will do well, for the government is genuinely committed to achieving free trade through the Single Market and aims to make this a priority of its Presidency. It rightly judges the completion of the Single Market programme to be in the interests of Britain. The outstanding work comprises some difficult legislation in the financial sector crucial to the interests of the City of London. There are other measures pending on liberalisation of transport cabotage, air transport, telecommunications, and energy which are important to British interests and Britain will serve the Community well by pursuing them vigorously. However, on one fundamental aspect of the Single Market - freedom of movement - there is a danger that Britain may be taken to court for its failure to abolish border controls on persons. Similarly, although Britain will make the implementation of Single Market legislation by the member-states a priority for improvement during its Presidency, it may also be taken to court for its own failure to observe EC laws on the environment. If they arise during the Presidency these difficulties would embarrass the government and it will no doubt make every effort to avoid them by bringing itself more into line with best practice in the rest of the Community.

On the larger issues - ratifying and implementing Maastricht, agreeing the 'Delors II' package, and relations with EFTA and the new democracies, Britain may experience most acutely some of the limitations of the office and may find that its perceptions of what is best for Europe are not shared by the rest of the Community. Its position is made more difficult by the stance it took on the Maastricht Treaty.

BRITAIN, THE COMMUNITY AND THE MAASTRICHT TREATY

Only history will be able to judge whether the deal agreed at Maastricht was sufficiently strong to deliver the main reforms embodied in it. If it does not eventually deliver Emu and the

other reforms, then one of the main reasons will be the doubts which are now appearing in many countries about the treaty.

Undoubtedly Germany will be the key to its success. German doubts derived initially from the feeling that they did not get enough Political Union in return for what they are expected to give away for Emu. If the reforms ultimately fail, any sense of a British 'victory' at Maastricht will come to be seen as misplaced if future Europeans compare it ith the failure of Germany to get what it originally wanted. In their terms the treaty offers only modest progress towards Political Union. The lack of general co-decision between Council and Parliament is a severe disappointment for Germany.

This has led many Germans to have second thoughts about the pooling of national sovereignty required for Emu, and in particular about the sacrifice of the most potent symbol of their post-war identity, the Deutschmark. This has been compounded by doubts about the ability of Germany's partners to fulfil the strict criteria needed to move to the final phase of Emu consisting of permanently fixed exchange rates and low inflation. The unforeseen costs of re-unification and the economic problems it is causing mean that Germany might currently have difficulty in meeting the criteria itself. Furthermore, the German parliament wants to reserve itself the right to examine progress made in the Community towards meeting the criteria before a decision is taken in 1996 to move to the final stage. These uncertainties pose a serious threat to Emu. Since other member-states could in theory advance to the final stage without Germany, the treaty offers very insecure foundations for Monetary Union; without Europe's largest national economy, Emu would be a hollow sham.

As for the other EC countries, signs of German commitment wobbling in this way has unsettled the French. France is now not so sure that it has secured its major interest in the Maastricht deal, which was to get Germany irrevocably signed up for Emu. It can legitimately worry that by not going further on co-decision for the European Parliament than the British were prepared to go, it has not gone far enough for its German partners. By not going further on majority voting, particularly for foreign policy, it will be more difficult for Europe to channel Germany's economic weight towards common goals. A difficult internal debate about the implications of the Maastricht Treaty has been unleashed, since France now has to amend its constitution to be able to ratify the treaty.

Because of their problems with the convergence criteria, caused in particular by the size of their public debt, Belgium and Italy, always two of the most federalist countries, face immense practical difficulties in realising their ambitions to play a full part in EMU. Denmark and Ireland have to face referenda on the Treaty, although evidence from recent opinion polls has shown enough support in both countries. On top of all these difficulties, recent elections and other political changes in Italy, France, Germany and Spain have weakened national governments just at a time when strong leadership is required to manage the successful passage of the Treaty and to cope with the consequences of Maastricht. **4)**

These developments may seem to confirm the views expressed by the British government throughout the period before Maastricht. It warned the other governments that they under-estimated the degree to which sacrifices of national sovereignty would have to be made in order to secure EMU. According to the British, once the demands which EMU would place on national budgets and economies became more widely known, their partners would find it difficult to convince their publics that it was the right course to take.

To some extent, these warnings have proved correct. Britain was lucky, due to the often controversial line its government took in the Community and the way the issue divided the governing party, that it had a full public debate about the Community reforms before the Treaty was signed at Maastricht. Its partners are only now catching up.

But it would be a mistake for Britain to take over the Presidency in any spirit of triumphalism; and misplaced ***Schadenfreude*** is not what the Community needs.

Maastricht was not a victory for the British Government. Its minimalist positions on monetary union and social policy were rejected by the other Member-States, who left Britain to opt-out if it wanted while they agreed to forge ahead. The Community could not go beyond the lowest common denominator in key areas of the negotiations such as the powers of the Parliament and majority voting. Unfortunately the lowest common denominator that was eventually accepted often represented the British position. The result is the growing dissatisfaction in many parts of the Community with what the governments agreed, particularly in the case of Germany.

Britain could help to continue the recent constuctive phase in Community development which led up to the Maastricht agreement. It takes office in a position of political strength; unlike its partners, 5) it enjoys a relatively stable domestic situation, based on the majority it won in the general election. The election also saw the departure from the House of Commons of many of the most vehement opponents from within its own party ranks. So it can afford to give away a little something for the greater good and to advance Community interests.

Britain's responsibility begins with the Maastricht Treaty. It would not be proper for a Presidency to try to exert pressure in national ratification debates. Nevertheless, it will be important for Britain to set an example by ensuring a smooth passage for the Treaty through its own ratification procedures. Furthermore, it will be important for the Presidency, through its actions and statements, to rally wavering support behind the treaty and to support those governments who are in particular difficulty.

During the Presidency, Britain could begin to take some small steps to rectifying its anomalous position on the Maastricht. If it can move closer to the European mainstream, that would rally support back to the European cause. If the Prime Minister can move his party closer to the Christian Democrats on Monetary Union, social Europe and the European Parliament, that would go some way towards re-assuring Germany. The more Britain can be seen to be taking the side of the Community interest, then Germany will be

encouraged to maintain its commitment to Maastricht and European Union. This would also make it easier to find agreement on the most difficult items on the Presidency agenda, such as the 'Delors II' package.

MONETARY UNION

It is in Britain's interest for the Single Market to be complemented by a successful monetary union and the necessary degree of economic union, and for Britain to be a full member of both. It is in the interests of the Community as expressed by the majority of states in their acceptance of the Maastricht Treaty's provisions for Emu. The interests of the City and British industry will be damaged if Britain remains outside. It is not just that the European Central Bank would go to Frankfurt, while the natural place for its operations is London. More serious is the fact that Britain would continue to have no influence over an interest-rate system which determines the crucial parameters of its national economy. British companies would have practical difficulties in doing business in the new currency bloc, and the foreign exchange costs involved would place them at a disadvantage in the Single Market. Foreign investors would find the Ecu currency zone more attractive.

Under the Maastricht Treaty, the government must notify the Council by 31 December 1996 whether it intends to exercise its right to opt out or if it is ready to move to Stage 3. The disadvantages of Britain's current position will begin to be felt long before this decision becomes necessary. Unless it is decided at the Lisbon European Council, the issue of where to site the Central Bank will arise during the Presidency with the decision due before the end of the year both on the bank and on the European Monetary Institute. The latter organisation is supposed to be in place in time for Stage 2 to begin in January 1994. In the run-up to Emu, British business, and not just in the financial sector, will be inhibited from making the necessary preparations and adjustments by the uncertainty of the government's intentions. There may be reason to believe that the principal economic actors will not wait for the EC decision in 1996, but will begin to change their behaviour as if it had already happened, making monetary union a self-fulfilling prophecy. **6)**

It would be best for British business if the government made clear at the earliest possible opportunity its preference for joining Emu along with the other member-states - although still quite rightly insisting that the decision to do so will be taken by Parliament. This could best be done by a declaration to the effect that the government did not expect to have to exercise its right under the Maastricht Treaty to opt out when the time came in 1996. Failing this, to give a clear sign of its long-term intentions, the government could at least use the Presidency to gain maximum publicity for a decision to move sterling into the narrow band of the Exchange Rate Mechanism (ERM).

There is no doubt that Chancellor Kohl would welcome such a signal and that it would strengthen his hand in the German ratification debate. Anything that Britain can do to help maintain the Germans' European commitment is good for the Community. It could perhaps do even more. If Britain begins to remove the uncertainty over its intentions on Emu, then the case for siting the central bank in

London grows stronger. A deal with the Germans could then be feasible. Either the leadership of the bank could be based in Frankfurt and its operations in London, or the whole thing could be sited in London, with a German at its head. An arrangement like this could avoid damaging rivalry between Frankfurt and London, which have clearly the two strongest bids, and is perhaps the best way to re-assure Germany about Emu.

SOCIAL EUROPE

It was a mistake for Britain not to sign up for the same social chapter as the eleven other Member-States. They have always made clear their perception that a 'Social Europe' is an integral part of the Single Market. For Britain's partners, this has become part of the original deal. Better social provision and employment protection constitute one of the major cultural differences between Europe on the one hand and the United States and Japan on the other and it was unrealistic to expect our partners to abandon the standards that mark them off from the rest of the world. Furthermore, 'opting-out' is not in Britain's interest, for employment and social legislation can now be made without Britain having a say although the same laws may eventually find *de facto* application in this country. British companies with large continental operations will be affected; international companies who are in the vanguard of improving working conditions for their employees will want to apply the same standards in Britain as they do in the rest of Europe. 7)

It is only possible to influence the outcome of the law-making process if one is fully involved in it from the beginning. By opting out, Britain has missed the opportunity for exercising a moderating influence. This is a pity, for British pragmatism would help to produce the best possible social laws for Europe: laws that do not add significantly to a company's cost burden; laws which can be applied in a differentiated way to preserve a degree of competitiveness for those regions with a cost advantage; and laws which respect the principle of subsidiarity and allow a wide margin for traditional variations in national practice. Britain could still influence the Community's social legislation in this positive way. To do so, it must try to exhaust existing decision-making procedures under the unchanged Treaty of Rome to reach agreement between all twelve Member-States, and wherever possible, it should try to apply the resulting laws on an ***ad hoc*** basis. Although the new Maastricht procedures will not be ratified in time, if Britain does not show some willingness to compromise under existing procedures this may well encourage the other eleven Member-States to proceed to apply the new procedures without Britain. This would be bad for the Community, and the Presidency will want to do everything within its powers of persuasion to prevent such an eventuality arising.

THE EUROPEAN PARLIAMENT

The Council, which the Presidency leads and represents, is a hybrid institution. It is a legislature and an executive rolled into one, and in both guises its relationship with the European Parliament is not satisfactory. On the one hand it represents the member-states in the process of deciding laws jointly with the representatives of the people in the European Parliament, but the balance of powers is still too much in its favour for the system to be called truly democratic. On the other hand, especially in

the field of foreign policy, the Presidency fulfils many of the functions of a government on behalf of the Community, yet it is not fully accountable to the Community's Parliament.

The Maastricht Treaty makes minor changes to the Council's functions in both roles. Yet its relationship with the European Parliament and with the Commission is going to change, and it is important that the necessary adjustments begin to be made soon. In the Presidency the British government will be confronted with some of the issues involved. Relations between the Presidency and the Commission will have been raised by the Commission's paper on the institutional implications of enlargement to the Lisbon European Council. (This subject is discussed below.) Negotiations are already underway to increase the number of MEPs for Germany to ensure that the eastern Länder are properly represented. This is unfinished business left over from Maastricht and a decision has to be made before the end of the year. The European Parliament 8) wants to use the occasion to press for assurances about how the changes agreed at Maastricht will be put into practice. Furthermore, the Parliament intends to make a proposal to the Council this year on the introduction of a uniform procedure for its elections.

The failure to extend the new co-decision procedure under Article 189b to all laws adopted by Council is a major cause of German disillusionment with the treaty and hesitation over Emu. In many areas of decision-making, Parliament still only has the right to be consulted for its opinion or worse, merely to be informed about what the Council has done. The Community interest is for the Parliament to play as full a role as possible in all the decisions of the Council; this is supported by Germany and most other countries, as well as by consistent majorities of public opinion throughout the Community. 9) The government's attitudes to the Parliament moved closer to this position for the Maastricht negotiations. True to British parliamentary traditions, it quite rightly insisted on increasing the Parliament's powers to control Community finances more strictly and to enquire into cases of maladministration by the Commission. In the end the government also accepted more co-decision for the Parliament than its pronouncements in public initially suggested it would.

These were positive developments, and the Presidency is an opportunity for Britain to continue this trend. There are a number of practical things the government could do under existing procedures. The Presidency has to keep the Parliament informed of the activities of the member-states in European Political Co-operation and has to ensure that Parliament's views are taken into account. More importantly, under the co-operation procedure for making laws the Council has to inform the Parliament fully of the reasons for the position it adopts on each legislative proposal, but the Presidency has never been done this adequately. Few other countries in the Community practise accountability to parliament as seriously as the British do. It is to be hoped that the government will adopt the same rigorous standards in reporting to the European Parliament as it does in reporting to Westminster, particularly in giving reasons for Council's common position on Single Market laws. A good working relationship with Parliament is important given its existing amending powers.

The government could go further and help prepare the Community institutions for the constructive application of the Maastricht Treaty. Parliament is concerned that the new 'co-decision' procedure under Article 189b despite its safeguards still leaves open the possibility of Council adopting laws of which it disapproves. Parliament can only vote to overturn Council's decision in such cases by an absolute majority of its members. An agreement will have to be reached between Parliament and Council about this provision so that conflict between them is avoided. The British Presidency would put its relationship with the Parliament on a good footing if it could secure such an agreement. **10)**

Before the elections in Britain Mr Major is reported to have said that he would consider the issue of proportional representation for elections to the European Parliament. Parliament will propose a more proportional system for agreement during the Presidency. Previously Britain was the main opponent of such proposals. Mr Major must see that British and Community interests now coincide on this issue, for the present system distorted the last European election result both for national politics and for the European Parliament. To have a uniform system in place in time for the next elections in 1994 will be difficult, but it would be a considerable boost to the effectiveness of the European Parliament.

If the government can take such steps, and if it handles the decision on the number of German MEPs with due sensitivity for the importance of the issue to Chancellor Kohl, then it will be in a much better position to rally support behind ratification of the treaty and the work of the Presidency.

COMMUNITY FINANCES

Positive British moves on the above issues - Emu, Social Europe and the European Parliament - will be very helpful for the relationship between Germany and the Presidency. This will be of greatest help when it comes to the most urgent matter on the Community agenda, the financial perspective for the five-year period to 1997 contained in the 'Delors II' package. **11)** Agreement on this is unlikely to be reached under the Portuguese Presidency and it will fall to the British to find a consensus. This will be the priority of the Presidency and if it succeeds, its greatest achievement. But if the Common Agricultural Policy reform has still not been agreed and the GATT negotiations remain blocked as a result, then these will be equally urgent priorities. The government is certain to take its Community responsibilities seriously in this regard; on both GATT and CAP its insistence on free trade and free markets would be good for Europe. But the question of EC finance causes the worst potential conflict between its perceived national interest and the interest of the Community.

The initial disagreement is with the size of the proposed increase in Community expenditure, where Britain's concerns are now shared by many other member-states. **12)** There is no doubt that the decision on the new five-year financial programme has fallen due at a bad time. The economic recession has placed extra burdens on public exchequers throughout the Community. The economic convergence required for EMU will place yet more restrictions on spending in many countries. These circumstances make it difficult for many governments to contemplate the proposed annual 5%

increase in the Community's Own Resources in real terms which the new ceiling would allow. The most serious opposition has come from Germany. The concern to reduce the growing burdens on their public finances have led many Germans to become very firm in their resistance to the idea that increased resources are needed.

It is crucial for Britain to provide leadership which is in the Community interest on this difficult question. The reaction in Britain and elsewhere has been one of shock at the audacity of the Commission to be asking for more money so soon after the Community was granted new powers under the Maastricht Treaty. But the Commission could hardly avoid proposing help for the poorest member countries to fulfil the convergence requirements for Emu. There is a strong case for certain flanking policies to enable European industry fully to exploit the benefits of the Single Market. And the common foreign policy will lack sufficient substance without a future development of the Community's role in helping its weaker neighbours to the east and south.

The Cohesion Fund is already on the agenda separately from the Delors II package. The commitment made at Maastricht was for it to be up and running in 1993 so as to assist the four poorest countries with the adjustments they have to make to meet the convergence criteria. The Commission's proposal will have to be agreed under the British Presidency. Spain may well make progress on setting up the fund a condition for the prompt ratification of the Maastricht Treaty. **13)**

It is in no one's interest if the Community cannot pool enough resources to do all the things which its member-states want it to do. That would be bad for its credibility among the general public, especially in the poorer member countries, and bad for its standing in the world. A mere re-allocation of resources within the existing budget will not be sufficient. **14)** Hopes that funds will be released quickly from the CAP reform to be used for other purposes are misplaced. Even if the member-states can agree on the reform, agricultural expenditure, while remaining within existing restraints, should only fall from 53% to about 46% of the budget by 1997. Spending will still be needed to fund the shift from price to income support; expenditure will actually rise slightly over the five year period and the full effects of the reform will not begin to be felt until 1995.

The Commission has been modest in the increases it has proposed, playing the role of consensus-seeker rather than radical 'motor' of integration. For an evolving political system that will be on the verge of full monetary union and much closer economic union by the time this ceiling is reached, Community expenditure will still be only 3% of total public expenditure in all the member-states. **15)** This is within the spending limits which according to the MacDougall Report would define a public finance union that is still at the stage preceding monetary union. **16)** The Presidency must support the Commission in its attempt to find a compromise.

Emu is in everybody's interest, but without the under-pinning of the structural and cohesion funds, the necessary convergence will be much more difficult to attain and may not happen. As the Commission has pointed out, and the Presidency should again emphasise, it is not only for the sake of Emu that the poorer

regions should catch up. It is also in the best interests of the richer countries of the Community. Their transfers to these regions will eventually return in the form of increased demand for their goods and services. **17)** The proposed increase in the Structural Funds will in any case benefit Britain and many of the other states who hesitate about supporting it. For example, provided the UK can solve past problems with additionality, the proposed two-thirds increase in Objective 1 assistance will benefit Northern Ireland and from 1993 onwards, it will begin to flow to the eastern German *Länder* as well. The 50% increase in assistance under Objective 2 will help regions in the rest of the UK as well as France and Italy, two of the other countries which the Presidency has to convince, and it is already available to eastern Germany and parts of the west.

As regards the proposed investments in infrastructure and technology, Mr Heseltine, now in charge of the Department of Trade and Industry, is in the process of developing an industrial strategy. **18)** He could bring his German and French colleagues onto Britain's side if he accepted the need to put such a policy in a European framework and to pool resources with our Community partners. This is what the Commission proposes to do for joint research and development and for measures to improve the competitiveness of industry in key technologies.

The government should also be able to support the proposed money for 'trans-European networks' in infrastructure and communications which will promote connections between national markets that are still separate. This is in the interest of the many utilities which the Conservatives have privatised or plan to privatise, for it will help to create a genuine Single Market for their services and as private-sector companies, they will be in a strong position to expand and to compete. British support would give these measures considerable impetus. Again, many of the benefits of such investments would return directly to the countries which made the largest contributions.

Common policies like these achieve significant savings through economies of scale, which the British and others should welcome. This argument is particularly true of external aid. No EC country can hope to bring enough resources to bear by itself to make a significant impact on the problems of the eastern democracies and the states of the former Soviet Union and Yugoslavia. But by pooling resources, the Community can play an important role. Calls on the Community for assistance have increased since the revolutions in eastern Europe and the Soviet Union. The new democracies and nations there look to the Community as a pole of stability in a dangerous and rapidly-changing world. The Community has been able to respond: the resources allocated to external action doubled between 1990 and 1991, and despite the new calls on its budget the Community remained within its spending limits. But its response has been barely adequate to meet the needs of its co-operation partners.

The doubling in the allocation to external policy from ECU 3.65 billion to ECU 6.3 billion proposed by the Commission in 'Delors II' is only commensurate with the Maastricht objective of a common foreign policy and a stronger international identity for the Community. The economic situation of the regions neighbouring the

Community to the east and south is likely to remain unstable. Their needs will grow and new needs will appear. For example, the current financial protocols for the Maghreb and Mashriq countries for the period 1992-6 will be up for review before the new financial perspective ends in 1998. Other challenges will appear in the Middle East. **19)** It is in the Community's interest to help its neighbours develop their economies, for without economic growth at home their unemployed will come to western Europe in search of work, despite immigration controls.

Britain will not secure agreement on the increases which are necessary unless it can solve the most pressing problem, which is to find a way of raising resources for the Community that distributes the financial burdens more fairly between the member-states. What has been needed since the early 1980s is a system which makes net payments to the Community more proportional to a country's ability to pay. Britain claims to have been most severely affected by this problem and a rebate has been paid to the UK every year since 1984 based on the difference between the contributions its makes and the actual amount of EC money spent in this country.

More than in any other area of Community affairs which will cause particular problems for the Presidency, the question of the rebate places Britain in a delicate position. This is no longer just a problem for the British. It is now one shared by several member-states. Most seriously, given that it has always made the largest contributions, Germany is seeking greater burden-sharing from its partners. The more the Presidency can point the Community in the direction of a generally equitable fiscal and financial system, the less troublesome this problem will become.

The problem at the centre of this dispute is that basing the bulk of Community resources on VAT is a regressive way of raising revenue. The poorer states pay more and it bears no relationship to a country's relative wealth, as expressed by per capita GNP. To solve this problem the member-states introduced a fourth resource in 1988 based on a country's GNP which is more proportional to its ability to pay. But VAT, the most regressive resource, remains the largest source of EC revenue. It still represents over 50% of total EC receipts as compared to 20% for the GNP contributions.

In tackling this problem, the Commission has followed a compromise path by proposing to extend the existing system rather than radically change it. It is proposing to cap the VAT base on which contributions are calculated so that poorer countries who tend to raise a higher than average proportion of their GNP as VAT will not be penalised. Furthermore, it proposes to reduce the maximum amount the EC takes from VAT from 1.4% to 1% and to increase the share taken by the fourth Own Resource, the GNP-based contribution, which corresponds more closely with a country's ability to pay.

More radical alternatives were available but the Commission chose not to put them forward. One idea has been to shift Own Resources entirely to VAT, but to apply a 'progressive key' to payments to make them correspond to a country's income per head. **20)** The Commission did not suggest the creation of any new Own Resource, although the idea has been widely supported. There are problems

with the proposal that the Community should continue to rely on GDP contributions, because these are not really an Own Resource. 21) Part of the reason why the issue of net contributions to the EC budget has remained a recurrent source of conflict is that these payments look too much like traditional national contributions to any normal international organisation. Since the Community decides how to spend the money it receives, the idea of involving it more closely in the raising of its revenue through taxation would have many advantages. 22) While the British government has been loth to cede any fiscal sovereignty, **Eurobarometer** opinion polls have recently shown substantial support among EC citizens for the idea of a direct EC tax 23) provided that it does not increase their overall tax burden. The Community is considering the introduction of a carbon tax. There may in future be scope for the Community to raise the revenue it needs for other policy areas through taxation. Given the scale of the problems facing the Community's neighbours both to the east and the south and the likely demands they will place on it, such a financial instrument may become the only way to raise funds in future and the sooner the idea is broached the better. Perhaps a contribution which the British Presidency could make to the long-term development of European Union would be to begin a review of the Community's finances similar to the MacDougall Report. If such a review is to be ready in time for the end of the new financial perspective, it is not too early to start preparations.

These are longer-term issues; agreement on a financial framework for the next five years based on the Commission proposals is absolutely essential to the good functioning of the Community and the successful implementation of Maastricht. It prevents the recurrence of the debillitating conflicts about the budget which occurred almost every year previous to 1988. It means that for such a complex political system, the Community has relatively stable public finance arrangements and can adopt its budgets every year on time and without too much fuss. As far as British priorities are concerned, the financial perspective must come first, as the member-states agreed at Maastricht that preparations for enlargement could not begin until it had been agreed.

ASSISTANCE FOR THE NEW DEMOCRACIES AND NATIONS IN THE EAST

The government has said that it wants to ensure that all the states in Europe which are willing to join the Community are admitted as soon as possible. Obviously, the eastern Europeans will not be in the first wave of new members, which is more likely to consist of the Eftans. We discuss the question of enlargement below. On this issue the government will perhaps feel that the limitations on the office of Presidency are preventing it from achieving its ambitions. Here we consider what the British Presidency could do to help the new states and democracies in the east short of offering them membership; and there is a great deal that could be done.

It is in the Community's interest to increase its aid to the new democracies and nations of Europe as much as it can. Their future is of greatest concern to Germany and it is better for Europe to see the Germans investing in the east as part of a wider Community programme rather than on the basis of an ***Alleingang***. Furthermore, it would help to renew their commitment to the Maastricht Treaty and EMU if the Germans felt that their partners were willing to

share some of the heavy burdens they perceive themselves to be carrying in Eastern Europe. It would be worthwhile for the British Presidency to explore the possibility of a renewed international effort to assist eastern Europe based on an extented 'PHARE II' type scheme and co-ordinated by the Commission. The existing PHARE programme will have channelled almost Ecu 2.3 billion when current arrangements come to an end in 1992. **24)** The Community has to think about its replacement. It should seek a comprehensive programme covering all the eastern European states. Its association agreement with the former Yugoslavia gives the Community an additional responsibility to do all it can for the new states which have been created there. The Community will not find sufficient funds itself and it has an interest in maintaining the G-24 multilateral aid effort. More resources can be pooled, and those resources used more effectively, if the efforts of agencies and states continue to be co-ordinated by the Commission.

The amount of funds already committed and the likely amounts to be available over the next few years are already sufficient to merit serious discussion of some kind of 'Marshall Plan'. Politically this would be an extremely attractive proposition for Germany and for the Community. It is not beyond the bounds of possibility that larger amounts could be found, both to meet these expenditures and others that will arise.

The greatest challenge is to assist the states of the former Soviet Union. The G-10 group of industrial countries recently approved a $6 billion rouble stabilisation fund on the condition that Russia agreed a structural reform programme with the IMF; and later the World Bank and IMF agreed a $24 billion aid package over several years. **25)** Even with this impressive effort it is clear that there will be a major funding gap. Russia asked for a $4-5 billion stabilisation fund together with $12 billion balance of payments aid and a $5-6 billion interest re-payment for this year alone. Furthermore, there is a need for greater co-ordination and monitoring to improve effectiveness of aid. Although international commitments of some Ecu 62 billion were made in the period September 1990 to June 1992 only Ecu 13 billion had actually been received by the end of 1991. **26)**

Under EC auspices an international conference will be held in June in Lisbon to co-ordinate the international effort. The Community and its member-states are giving more to the CIS states than the rest of the world put togther, with some 70% of total international aid. **27)** This gives it a special interest in ensuring that this aid is co-ordinated more effectively and delivered more efficiently. The Community could use its experience with PHARE and the G-24 to good effect to improve the international aid effort. Through the troika, Britain could encourage the current Presidency to promote such a role for the Community at the Lisbon conference and depending on the outcome of that meeting, it might fall to the British Presidency to put such a decision into effect.

Besides direct financial assistance in the form of grants and loans, the Community has at its disposal the various instruments of trade policy contained in association Agreements. This British government will be particularly keen to ensure that the 'Europe' agreements are not only ratified promptly but that Poland, Hungary

and Czechoslovakia are given the best deal on trade that is possible under the treaties. At present trade is not fully liberalised: the Commission estimates that they liberalise trade immediately for only 60% of industrial exports from the three countries and the remaining restrictions and delays affect sectors where they have particular advantages like textiles, coal, steel and agricultural produce. **28)** The government should use the Presidency to advance its own commitment to free trade with central Europe by improving the trade deal with these countries wherever it can. Scope for improvement may arise if the GATT agreement is signed in the intervening period.

Besides these three countries, it will fall to the British Presidency to begin negotiations on association with Rumania and Bulgaria and some of the republics of the former Soviet Union and Yugoslavia may not be far behind. But it is illusory to think in terms of membership for these countries for the time being.

ENLARGEMENT

The question of accession does arise however for the Eftan states; Sweden, Austria and Finland have already applied to join and Norway is likely to do so soon. They pose less of a difficulty for the Community than the central Europeans, who will form the next wave of accessions, while talk of membership for the republics of the former Soviet Union is premature and even dangerous. Britain has made it a priority to begin accession negotiations with applicant Efta countries as soon as possible, either during its Presidency or immediately after. **29)**

It should be remembered that the European Economic Area agreement required considerable investment of diplomatic energy from both sides; and in it, the EC and EFTA have a workable temporary alternatve to full membership which should not be discarded immediately. For some EFTA countries it will remain the preferred option for some time to come. For those who have applied for membership, it will make the accession negotiations easier. These states will already have adopted all the Single Market legislation before they join. They will be welcome as probable net contributors to the EC budget and with their traditionally generous development aid, they will make a strong addition to the Community's aid programmes. Most of these countries already align their currencies with the EC bloc of currencies led by the D-Mark, and the convergence criteria are unlikely to present serious difficulty for them.

It is not here that the difficulties over enlargement arise. Most other countries will support the British if they place the emphasis on widening the Community to include the Eftans. But many people are worried about the implications of widening for the Community's institutions. They are asking if the rotating Presidency system and the current reliance on unanimity for taking many Council decisions are really going to be workable in a Community with many more member-states - perhaps 30 or more by the beginning of the next century. The Commission intends to present the Lisbon European Council with a report on the institutional implications of enlargement which Jacques Delors claims will come as a shock to the EC governments. **30)** In advance of his report, the government has already made clear its refusal to contemplate any major institutional changes accompanying enlargement. Britain

may have difficulty in realising its ambitions for making progress towards widening during the Presidency if it does not show a greater willingness to take the institutional implications into account.

The principal question which Delors will raise is how the Community should solve the problem of its government. 31) Currently, as we have seen, the Presidency performs many executive functions, although the Council is in reality also a part of the Community legislature representing the states. Its effectiveness is considerably reduced by the fact that it rotates every six months between national governments and that even the smallest member-states take their turn, despite the enormous burden it places on them. Confusion arises because the Commission also has executive responsibility for those areas in its competence. Even for those areas outside its competence - such as foreign policy, where the decisions are taken by the member-states - it is still responsible for many of the instruments by which those decisions are implemented, such as trade policy and development assistance. The result of these arrangements is often an incoherent or ineffective foreign policy. If the Presidency cannot obtain a consensus between the member-states, neither it nor the Commission has the authority to act, in which case the Community is left without a voice in world affairs.

Under the Maastricht Treaty, the Commission will begin to have a the same five-year term of office as the European Parliament from 1994 onwards. Parliament will be consulted and will take a vote on the President of the Commission and will have the power to approve the Commission as a whole. This is potentially a very important development, for it could mean that the Commission would have more authority to represent the Community's interests and to act on its behalf. Its democratic legitimacy would approach that of representative government, particularly if the question of who is to be President becomes a party-political issue in the elections to the European Parliament in 1994.

There are many arguments in favour of considering these institutional questions before the next enlargement. Even three or four new members would be bound to place existing institutions under more strain. And with each addition of new members, it becomes more difficult to change those institutions. Although they will be easy to accommodate in the economic affairs of the Community, the strongest argument for changing the system before the Eftans come in is that there are four neutral countries among them. If these states were members under current arrangements, even with the latest reforms they could lower the lowest common denominator even further in the important field of foreign and security policy. Moreover, they could prevent the Community from ever developing a common defence policy, to which existing member-states committed themselves at Maastricht. This will depend on what progress the existing Twelve make in improving procedures before the neutrals join; some opportunities for the British Presidency to do so are discussed below.

Britain thought that Community solidarity was poor during the Kuwait War. With neutral Eftan countries as members, it would be even more difficult to obtain a consensus on difficult security policy matters, unless some reforms of the institutions are

carried out beforehand. It is not just a question of moving to majority voting and developing a stronger 'acquis politique' in foreign policy which new members will have to accept before they join. Under an unreformed Presidency system, it would seem inadvisable to have neutral countries representing the Community and directing its foreign policy at times of crises, when they would be even more opposed to certain types of intervention than existing member-states. Since its treaty expires in 1998, the Community will have to make decisions about the future of the WEU and about Community competence in defence well before that date. It is difficult to envisage these countries in the Presidency steering through decisions to develop a common defence in the WEU, the 'defence arm of the union', if they are not members of that organisation and cannot accept its principle of collective defence.

In the Presidency, Britain will have to find agreement on opening negotiations with the Eftans between the member-states and between the institutions. A policy which rejects the need to consider the institutional implications will not reflect majority opinion. To take its own priority of widening further and to fulfil its responsibilities as the Presidency, Britain will have to compromise.

COMMON FOREIGN AND SECURITY POLICY

One of the major innovations agreed at Maastricht was the commitment of the Member-States to implement 'a common foreign and security policy which shall include the eventual framing of a common defence policy'. By the time the British take over the Presidency, the Lisbon European Council will have decided, on the basis of a report from the Foreign Ministers, which areas of foreign policy could form the first subjects of 'joint actions' under the new Maastricht procedures. The conclusions of the Maastricht summit indicate that likely subjects include the CSCE process, disarmament and arms control; non-proliferation; and the economic aspects of security.

If these have been agreed, then the way will be open to develop the Maastricht procedures for common foreign policy-making. Here, the onus will be on the British to press the Community into applying the new procedures even before the treaty is ratified by all member countries. For the Community will need to improve its foreign policy-making sooner rather than later; the international situation will continue to demand an effective and united response from Western Europe on a whole range of issues. The old arrangements for European Political Co-operation did not work well, as the experience of the Kuwait War showed; the new arrangements under the Maastricht Treaty are clearly intended by the majority of Member-States to make decision-making better. But it is uncertain to what extent the new treaty will actually change anything. 32) A lot will depend on the will of the Member-States, led by the Presidency, to apply the new provisions in the spirit in which they were agreed, that is, with a will to streamline decision-making and to be bound by common policy. This was one of the most difficult areas in which to find agreement at Maastricht. It would be a shame if this investment of diplomatic energy and goodwill was to be wasted by a failure to maintain the momentum of change by applying the new procedures as soon as possible.

There will be three criteria by which we can judge whether Maastricht has really changed anything in this field and the British could begin to make useful changes under all three headings. First, decisions must be better prepared. The Community must no longer be caught out by crises such as the Kuwait War, having reached no consensus beforehand on what it should do in such a contingency; nor should it intervene in situations like the Yugoslav civil war without having a clear idea, worked out in detail, of what exactly it wants to achieve. The preparation that is needed will be strengthened if undertaken by an independent policy planning body, permanently based in Brussels and staffed by full-time specialists. Unfortunately, the new treaty does not address this issue. In our view such a body would best be located in the Commission, as the guardian of the Community and with its responsibilities for external economic policy. Now that the Commission formally shares a right of initiative in foreign policy matters, the Presidency will in any case have to work more closely with it than before in the development of agreed policy positions in advance of crises occurring. The involvement of COREPER will doubtless also increase, as its official task under existing treaties is to prepare Council meetings. Equally, the Council Secretariat will need strengthening. This would best be done by giving it full-time staff permanently based in Brussels, and not rotating officials from the national capitals, as is the case with the existing EPC Secretariat. Some of these choices will be made under the British Presidency and it will influence future evolution by the practices it adopts. Early development of these alternative options would be a valuable contribution on the part of the British Presidency.

Secondly, decisions must be taken more quickly and applied more efficiently, which implies an early move to majority voting. The Presidency should experiment with introducing this practice as soon as possible, even if only for procedural matters. The Member-States did not wait for the ratification of the Single Act before doing the same for urgent decisions. At the latest by the time of the Edinburgh European Council, the Presidency should be able to put forward a series of agreed policies for each of the areas of 'joint action' adopted at Lisbon which could then be implemented by Council acting by majority vote.

Thirdly, policy must be carried out more effectively, with greater central co-ordination and monitoring of its implementation. Again, it is desirable that the Commission's role be strengthened and in any case the Presidency will have to work closely with it in the implementation of decisions as many of the key policy instruments fall within the sphere of Community competence. It was frequently the case in the run-up to the Kuwait War that Member-States appeared to waver in their support for EC policy and in some cases actually diverged from the agreed line, much to the annoyance of the British. In cases like this it falls to the Presidency to call recalcitrant states to order. Britain will have more authority to do so than many of the other Member-States and it should be able to ensure a relatively stable and effective six months of EC foreign policy, particularly if it builds a constructive relationship with the Commission and develops the Maastricht procedures. This will be good for the Community and good for the further development of the CFSP.

CONCLUSION

If Britain can temper its commitment to widening, and is satisfied with getting negotiations started with the Eftan applicants and offering the central Europeans a better trade deal and perhaps, an extented PHARE package; if it can qualify its objections to Emu and social policy in Maastricht by moving sterling to the narrow band of the ERM as a sign of its commitment to Monetary Union and by applying social laws on an ***ad hoc*** basis wherever it can; and above all, if it can solve its particular problem with the financing of the Community in the perspective of a general more equitable solution which nevertheless leaves the Community with the money to do all that the member-states want it to do; if it can achieve all these things, then it will have served Europe well with its Presidency. Although the government may not yet be fully convinced of the need for all these things, it will have served future generations of Britons better too.

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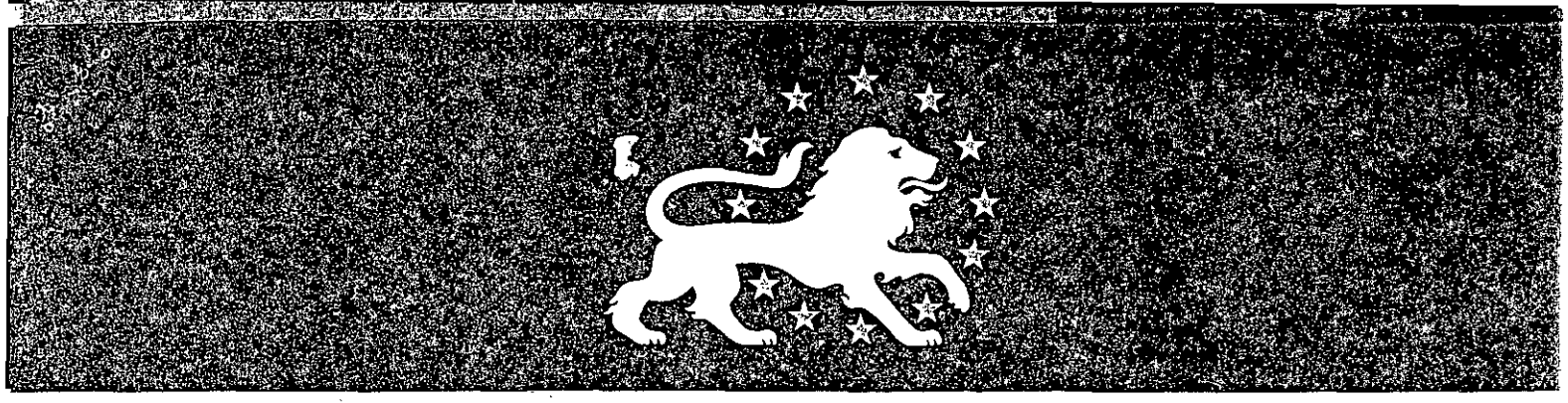

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PROBLEMS AND OPPORTUNITIES FOR THE UK PRESIDENCY

KEY-NOTE ADDRESS TO THE FEDERAL TRUST CONFERENCE

THE RT HON TRISTAN GAREL-JONES MP
MINISTER OF STATE AT THE FOREIGN AND COMMONWEALTH OFFICE

Queen Elizabeth II Conference Centre: London, 20 May 1992

Foreign and Commonwealth Office

UK PRESIDENCY JULY – DECEMBER 1992

FEDERAL TRUST CONFERENCE, 20-21 MAY

"PROBLEMS AND OPPORTUNITIES FOR THE UK PRESIDENCY"

KEY-NOTE ADDRESS

Introduction

I am glad that the Foreign and Commonwealth Office has been able to support the Federal Trust's organisation of this topical conference. I am privileged to have been invited to give the key-note address.

The theme of this conference is the problems and opportunities of the UK Presidency. Problems and opportunities are two sides of the same coin. If there has been fault in the British approach in the past, it is that we have seen the Community as a series of problems, to be dodged or quashed. In fact it is a series of opportunities, to be made the most of. The Community does not have to be an armlock; it can be a key.

One Community negotiator is reported to have asked why the British, despite their reputation for pragmatism, objected to so much in "principle". I think in fact you will find us a persuasive mix of principle and pragmatism during our Presidency. Douglas Hurd in the Chair, the archetype of the pragmatic diplomat. I'll be in the UK Chair, fighting our corner. Together we'll make the most of this opportunity which comes to Member States only once every six years - and perhaps more seldom as the Community enlarges.

The start of the fourth UK Presidency of the Council of Ministers of the European Community is just six weeks away. The agenda facing us is perhaps the heaviest faced by any British Presidency. And the Presidency coincides with a dynamic stage in the Community's development.

- The final six months of the year mark the completion of the Single Market.

- Member States will be ratifying the Maastricht Treaty on European Union.

But we will also be preparing for the next phase of Community development. The Presidency gives us the chance to throw the spotlight onto new areas:

- I would mention two areas in particular: first, preparations for enlargement; second, the implementation of the Maastricht Treaty. Although the Treaty does not enter force until 1993, we can do a good deal of work to prepare the Community for the application of its provisions. We must

start to build up the two new pillars dealing with the Common Foreign and Security Policy and Interior/Justice cooperation.

But before I get onto specific tasks, I'd like to say something about what I see as the basic role of a Presidency.

Role of the Presidency

Any country holding the Presidency enhances its role both within the Community and on the world stage. There is intense interest in the run-up to any Presidency on how the organisation is going, what the overall objectives will be, and what underlying themes will emerge.

But a word of caution. It enhances status but it doesn't really make a country more powerful. Everyone should have realistic expectations of what a Presidency can achieve.

The country holding the Presidency has a duty first and foremost to manage Community and inter-Governmental business. We regard running an efficient and effective Presidency as an objective in itself.

Much of the agenda facing a Presidency is beyond its choice or control. The Presidency must handle business which it inherits from the preceding Presidency, as well as measures which emerge during its six months in office. The Presidency can order the agenda to some extent. Perhaps most importantly, Member States and the Commission will look to the Presidency to steer discussion, table compromises when necessary, and generally to seek an outcome to negotiations which all Member States can support.

Having limited expectations, I feel safer in expanding them a little. The key opportunity offered to the Presidency is establishing priorities, choosing themes. The British Presidency will be no exception!

Opportunities for the UK Presidency

The British Presidency will focus on two major areas:

- Completion of the Single Market;

- And preparation of enlargement negotiations;

Let me say something about each.

Single Market

It is fitting that the task of steering the Single Market to completion by the end of 1992 should fall to the UK. Fitting because the Single Market programme, with its emphasis on liberalisation and market-opening legislation, was largely inspired by the UK.

We will be emphasizing the key outstanding areas:

- public procurement (which represents 15% of EC GDP);
- agreed standards for animal and plant health.
- trademarks and copyright legislation.

In addition, we shall push many of the measures that were not included in Lord Cockfield's original White Paper but which we consider vital to an open and liberal Single Market. There are proposals for example, on the liberalisation of energy and transport markets.

All of these measures, together with those already adopted should be beneficial to both industry and to the consumer with common standards, liberalisation and the opening up of national markets.

There is still however, a lot of hard work to be done on some of the more detailed Single Market legislation: for example on indirect taxation and in cutting away remaining border controls on goods before the end-1992 Single Market deadline.

Implementation

No matter how well the Community does in agreeing measures, the Single Market will only become a reality if Member States implement agreed legislation fully and promptly in their domestic legislation. In general, Member States have improved their rates of implementation recently. But it is important that this process continues throughout this year if the Community's businesses and consumers are to benefit fully from 1 January.

We must also look beyond the implementation phase to consider how we ensure Member States enforce legislation once it has been enshrined in their national law. Barriers to trade will continue to exist if enforcement of Community law is not taken seriously.

This is an issue to which we and the Commission will be paying increasing attention. For example last week's meeting of the Internal Market Council agreed an ambitious exchange programme between Member States of enforcement officials.

I am glad to say that the Maastricht Treaty includes certain provisions to tackle the problem of non-compliance with Community directives. No longer will the indolent be allowed to flout judgements of the European Court of Justice. Instead the Court will have the power to impose fines. You could say that our referee will at last have a red card to use. These provisions are not due to come into force until the Treaty has been ratified by all Member States, but during the UK Presidency we will encourage all our partners to implement directives as quickly as possible. There is no time to lose.

Enlargement

We believe that the Community should be open and outward looking. So the second major challenge facing the UK Presidency will be to take forward the enlargement of the Community.

The lengthening queue of applicants is a sign of the Community's success. We believe the Community should be open to all democratic European countries which want to join and can take on all the responsibilities of membership. Accession by those countries which can fulfil the political and economic criteria will be good for the Community, good for Europe. Each new member will have something of its own to contribute to the Community, their own experience or insights to add.

The EFTA countries, likely to be first new members, will among other things strengthen the Community's economic base - important if the Community is to continue to provide support to its poorer members and meet the new challenges of Eastern Europe.

A larger Community will carry more clout abroad. The admission of new members and the prospect of more will ensure that the Community remains outward looking.

Finland's recent bid takes the total number of present applicants to six. Norway and Switzerland are considering applications and the countries of Central and Eastern Europe have made clear that they see membership as their ultimate goal.

The Portuguese Presidency plan a thorough debate on enlargement at the Lisbon European Council. We support this. We hope the Lisbon European Council can agree to clear the way for early negotiations with the EFTA applicants, who are self evidently ready now for membership. That would allow preparation of the Community's negotiating position under the UK Presidency. Providing future financing is settled, the negotiations themselves could then open in late 1992 or early 1993, aiming at accession in 1995. The negotiations should be facilitated by recent agreement on the European Economic Area, which will extend the Single Market and a large body of Community law to all seven EFTA countries from 1993.

It is of the greatest importance that the Community looks eastwards. We must send a clear signal to the Central and Eastern Europeans of the Community's willingness to welcome them in as soon as they are ready. The Community must also consider the right response to the other applicants: Turkey, Cyprus and Malta . All are European democracies. The Community's relations with each of them, already close, must be developed further.

Other UK priorities

The top priorities of the Single Market and Enlargement will not exhaust the Presidency machine. I cannot go through all the areas of business but let me mention a few areas needing attention.

Future financing

Internally, the Community's future financing review may prove the key negotiation of our Presidency. Much will depend on the Lisbon outcome. The Commission has presented far-reaching proposals on Community finances that would have a major impact on the future direction of Community activities. They would also have a considerable impact on national exchequers, at a time when the priority for most Member States, in the run-up to Stage III of EMU, is the reduction of budget deficits.

It is in this context that a significant number of Member States have already made clear in discussion that they do not accept the Commission's assumption that the decisions reached at Maastricht require a higher budget for their implementation.

Discussion on the Community's finances is intrinsically linked to negotiations in a number of areas of importance to UK. This includes enlargement negotiations (though not enlargement preparations).

We naturally have high ambitions for the Community and for our Presidency. But there is a growing realisation among Member States that an ambitious and successful Community will place a high premium on sound finances. Without the foundation of sound finances, nothing else will stand.

On research and development for example, our objectives will be to ensure that Community funds are spent effectively and provide value for money. We will emphasise our view that it is right and proper for the Community to encourage research into generic technologies which can be applied across a wide range of industrial processes. This will be of general benefit and avoid subsidising commercially-oriented research for specific industrial sectors.

Structural Funds

It now seems unlikely that proposals for new structural funds regulations will emerge in time for discussion and adoption during our Presidency. But we shall work hard to obtain agreement on the funds, including the new cohesion fund. I need hardly add that the Commission proposals for massive increases to the size of the funds look excessive to a number of those round the Council table.

Social Dimension

In the UK Presidency, we will also continue to work for a positive and sensible social dimension to the European Community, one that benefits individuals, recognises the diversity of practice in member states and takes account of the need to remain competitive with the outside world.

Negotiations on the Social Action Programme have continued under the Portuguese Presidency. Some 21 of the 38 proposals

so far published by the Commission have now been agreed. Under the banner of "A Community at Work" the UK Presidency will be aiming to make sensible progress on dossiers in the Social Action Programme, particularly - during the European Year of Health and Safety - in the area of health and safety at the workplace. We will also be looking to take forward improvements in labour mobility and will continue to promote the importance of employment growth and enterprise.

We plan a comprehensive programme of special events in the social field , including an Informal meeting of EC Employment Ministers in Wales, and major conferences on training and flexible learning; the role of public employment services; risk assessment in health and safety; and the European labour market post-1992. Through our events programme we will be seeking to contribute towards the debate on the future direction of EC social policy.

Environment

The environment is not merely a fashionable issue, it is crucially important. We will take forward the measures agreed at the Rio earth summit. And we shall lead a full discussion of the Community's Fifth Environmental Action Programme which will set out the Community's environmental policies to the year 2000. We want to ensure that environmental considerations are taken fully into account in other areas of EC activity - by this means, we aim to promote the "greening" of the Community.

External Issues

Enlargement is just part of the story of the Community's relations with the outside world. Before they join we need to develop relations with applicants and with all the countries of Central and Eastern Europe and the former Soviet Union.

In the aftermath of the peaceful revolution there, the Community - prompted by Britain - recognised the need for new relationships with its neighbours. The EC of course has a pivotal role: all Europeans see the Community as the key organisation for the future. As a new element in the Community's relations with Poland, Hungary and Czechoslovakia, Britain proposed Association Agreements, in keeping with our overall approach to Community development: open, outward-looking and liberal.

The Association Agreements, which have now been signed, provide a dynamic framework with real incentives. Crucially, they acknowledge the prospect of eventual membership. Their signature last December was a new departure in Eastern Europe's economic development. It is now important to make them work, to give them substance and practical effect. Our Presidency gives us an opportunity to give this process a kick-start. We plan to make full use of the scope for dialogue between the EC and Poland, Hungary and Czechoslovakia to give added political impetus to the Association Agreements, and to consider how they might be developed.

We hope that negotiations on Association Agreements with Bulgaria and Romania will be concluded during our Presidency.

We also want new, enhanced Trade and Cooperation Agreements to be negotiated with Russia, Ukraine, Belarus and Kazakhstan. These will build on the old EC/USSR Trade and Cooperation Agreement, and should include new elements of trade liberalisation and political dialogue. We hope they will also be ready for signature during our Presidency.

EC Agreements will bolster the economies of these countries bringing them closer to the Community and its member states. In so doing, they will reinforce the process of political and economic development.

The United Kingdom will also work during its Presidency to ensure that the Common Foreign and Security Policy agreed at Maastricht comes into force on 1 January 1993 as the effective foreign policy system we have been looking for since the Single European Act, giving the Twelve a stronger and clearer voice in the world.

That means two things. It means getting the practical arrangements right. These will be agreed during the Portuguese Presidency, and it will be up to us to start moving towards them so that there is the smoothest possible transition to arrangements that actually work. And it means developing the content of CFSP. There will be a report to the Lisbon European Council on the development of the CFSP and on areas which could be subject to joint action.

We have put forward some ideas. We want to see a paper that sets out the framework within which the Council can take specific decisions, in line with the Maastricht Treaty. There may be scope for some pilot projects during the UK Presidency, which would allow us to practice this new way of doing things, drawing on the experience we have already gained through European Political Cooperation. For the truth is that in recent years EPC has been developing fast, so that, in Yugoslavia and at the Middle East Peace Conference, the Twelve are already acting together in ways that could fairly be described as "joint action".

While we are developing CFSP we will of course also have to manage the ever-increasing stream of business with which European Political Cooperation has to cope, covering every corner of the globe. Our aim will be to despatch this business as quickly and effectively as possible, looking for areas where our particular experience and expertise can help to give a lead to the Twelve's policies. We will develop the Twelve's dialogue with its most important partners, building particularly on the EC/Japan and transatlantic declarations.

As you know, the provisions on CFSP are contained in a separate pillar of the Treaty on European Union and are dealt with on an inter-Governmental, not a Community, basis. The same is true of the provisions governing Interior/Justice cooperation.

The pillar formalizes intergovernmental co-operation on the growing problems posed by cross-border crime, drugs-trafficking, terrorism, irregular asylum seeking and illegal immigration. We will use our Presidency to ensure that the right structures are in place for this work to be taken forward with increasing effectiveness next year when the Treaty comes into force.

But not all aspects of work in this area will be easy. The debate under way on internal frontiers, following the Commission's publication earlier this month of its communication on internal frontier controls and its interpretation of Article 8a of the Treaty of Rome, will have to be conducted in a measured and sensible way against the background of very real practical issues, like the increase in illegal immigration into Europe. As an island nation, controls at our ports and airports are our best defence.

One particularly important aspect of Interior/Justice cooperation for us is Europol - a European Police Office. In time this could become a valuable medium for intelligence on serious crime which poses a threat to member states collectively. But such a body cannot be created overnight. We are putting it together step by step. Its first element will be the Europol Drugs Unit. We will be working in our Presidency to bring this to fruition, and will also use the opportunity our Presidency offers to explore what other areas of criminality might be dealt with by Europol.

We will also make the most of the opportunity provided by the Presidency to concentrate attention in Britain on the achievement of 20 years of EC membership and on the continuing role of the UK in the EC. A comprehensive programme of special events covering a wide range of interests and issues is being co-ordinated by the FCO. This is in addition to the 600 or so events which form the European Arts Festival, organised by John Drummond on behalf of the Government. We intend the European Council in Edinburgh to be a memorable occasion, the Palace of Holyrood House and Edinburgh Castle providing impressive venues for the climax to the Presidency.

Problems

I have so far concentrated on the "Opportunities" element of your conference. I have not overlooked that you will also be deliberating on the "Problems" facing the UK Presidency.

It goes without saying that we hope the problems will be as few and far between as possible. But it would be naive to assume that there will be none!

I have already cautioned about excessive expectations.

Let me also point out that a Presidency cannot expect to control the items it has to deal with. In many respects it must react to events - sometimes at quite short notice.

This is particularly true of international issues: for example the Dutch and Portuguese Presidencies have had to devote considerable time and effort to the situation in Yugoslavia.

We will obviously deal with any such issues arising during our Presidency as well as taking forward Community involvement in existing problem areas.

Conclusion

I am sorry if what I have had to say has seemed too technical, too dense - but attention to detail and thoroughness are the key to success in the Community. I hope you will agree we have a coherent programme, and one which addresses Europe's real needs and priorities, not the hobby-horses of one country. We will tackle the programme seriously. As the Prime Minister said last year, we want to be at the heart of Europe. I believe we are at the heart of Europe, the trick now is to stay there.

EMU: Institutional timetable and economic effect
Peter-W. Schlüter

Conference on "Problems and Opportunities for the British Presidency - an Agenda Review" at Lancaster House, London, on May 21, 1992.

Working Group on "Implementation of the Maastricht Agreement: Progress and Effect"

I.

In drawing up the Maastricht Agreement, the Community has set itself an ambitious timetable for integration. In less than a decade it intends to establish an economic and monetary union, in which those EC countries which "fulfil the necessary conditions for the adoption of a single currency" (Article 109j) shall participate. The Community had already set itself a similar target at the beginning of 1971. According to that plan, EMU was to be achieved in stages based on the Werner Report over a period of ten years. Given the world monetary crises and the recession in the wake of the oil crisis of 1973-74, the decisions taken on EMU proved to be unworkable. The member states could not muster the political will to overcome the crisis jointly. In addition, the idea of implementing the union in stages was found to have serious flaws; above all, it lacked clear guidelines on stability-orientated monetary and financial policies. At that time the member states were still not seriously disposed to transferring to the Community those powers which it needs to carry out its supranational functions.

The Maastricht Agreement appears to demonstrate that the member states have learned from their mistakes. The demand for a high degree of convergence in economic and monetary policy aimed at price stability permeates the agreement like a leitmotif. Compared

with what the Community has achieved so far, the requirements for economic convergence which participants in the EMU must fulfil are quite demanding. The institutional arrangements, especially in the monetary field, are comparable to the constitutions of the most successful central banks. However, the main thing which the agreement demands of the member states is the unequivocal transfer of powers to the Community at least in the monetary field. All of this seems to indicate that the member states, in drawing up the Maastricht Agreement, have laid a reliable basis which will enable the Community to develop further into a viable and stable EMU.

II.

Following the Maastricht negotiations, the agreement is being rigorously examined on the critical rostrums of public debate. The agreement will have to undergo its most crucial test in the parliaments of the EC member states; their assent is required if it is to be implemented in its present form.

The prospect of the Deutsche Mark being abandoned in the foreseeable future in favour of a Community-wide ECU has caused quite a stir in my country. This may be due not least to the artificially devised term ECU, which is unfamiliar to most of my countrymen and which has still to win their trust.

Quite apart from emotional reservations the agreement has given rise to criticism, which stems not so much from the actual wording of the agreement but is based, instead, on the fear that implementation of the agreement could fail to maintain the level of stability standards suggested by the text. This is not an unjustified fear. Firstly, the Maastricht Agreement - like every international agreement-is open to a variety of interpretations allowing, "politically motivated decisions", to be taken which do not necessarily comply with the original basic aim of the agreement. This is especially clear in the case of decisions on

which member states fulfil the criteria for participation in the EMU and which do not.

Secondly the Maastricht Agreement - again, like other agreements - is subject to uncertainty as to how the various people responsible for implementing it will treat the rules and institutions which this agreement creates. For example, one is occasionally aware of secret reservations about the fact that the decision-making bodies of the future European central bank will include representatives from those countries which, traditionally, have not been among the countries committed to a stability-oriented policy and yet they will have the same votes as the representatives from the low-inflation countries. I would like to oppose this view on two fronts: firstly, no economy holds an ever-lasting monopoly on a low inflation rate - I am sure I do not need to elaborate on that; secondly, the "Beckett effect" can be just as beneficial in the decision-making bodies of a European central bank as it is in any national central bank: in cases of doubt -and even when it is against the will of their sovereigns - the Thomas Becketts will not fly the flag of stability any lower on a European level than they do on a national level.

Besides these rather irrational and secret fears there are justified doubts as to whether the timetable for integration will actually be realised as laid down in the Maastricht Agreement. The road to EMU is to be taken in three stages, each of which entails specific requirements regarding economic convergence within the Community and the statutory and institutional prerequisites of EMU. For that reason basically fixed schedules appear to make sense only where they are aimed at the **bodies responsible for policy-making decisions** designed to fulfil specific **economic targets**; it would be unrealistic, on the other hand, to set schedules for specific steps in the integration

process without taking account of what degree of convergence has already been achieved between the member states.

The beginning of the first stage of EMU on June 1, 1990 clearly illustrates how successfully political bodies can be put under Community pressure. This stage was not supposed to come into effect until all member states - with clearly defined exceptions- had liberalised their capital transactions. The countries concerned agreed to this deal not least because they did not want to run the risk of being accused of delaying EMU. They put aside their fears that a flight of capital could be the markets' reaction to liberalisation. These fears were unfounded. Instead, the markets rewarded the willingness of the countries concerned to expose their currencies to international competition and to put more emphasis on the anti-inflationary orientation of their monetary policy rather than relying on external safeguards. The result was that their currencies actually did not come under pressure on the foreign exchange markets.

On the other hand, it seems questionable from the outset to expect that specific results arising from the development of economic and monetary policies have also to be achieved by specific dates. Prices and interest rates are the results of complex market processes, which are not determined by economic and monetary policies alone. The behaviour of economic agents and of their social groupings and, not least, external influences cannot be predetermined by "planification". The belief in the manageability of macroeconomic aggregates would wear thin if one wanted to determine in advance the date at which these aggregates will be achieved.

This problem characterises what is probably the most contentious rule in the Maastricht Agreement, namely, the inconsistency of regulations which, on the one hand, set specific convergence criteria as the prerequisite for EMU membership and which, on the other hand, lay down January 1, 1999 as the definitive date for the start of stage three (Article 109j). This combination of

regulations can easily lead to a dilemma. Except in the fortunate case where the convergence criteria define all EC countries as qualified by this date, situations are conceivable in which only a few countries fulfil these conditions from the very outset. Under these circumstances the Community would be faced with the predicament that in view of the small number of eligible countries it would be unjustifiable to inaugurate the final stage of EMU and yet this would have to be done because of the fixed schedule. There would probably be strong political pressure to achieve EMU by including those countries which had not yet fully met the convergence criteria and for which a further transitional period would actually have been advisable.

Other things being equal, i.e. provided there are no changes to the Maastricht Agreement, this dilemma can only be reduced or removed altogether if all participants use the transitional period to make the utmost efforts to achieve convergence. Adjustment to comply with the convergence criteria must **precede** the transition to the final stage; it must not be postponed until after EMU has begun because that would remove the necessary means of exerting pressure on governments to pursue convergent policies. What is therefore required most during the transitional period is that member states prove as early as possible that they seriously regard the agreement as a binding principle for their policies.

III.

What basic tasks confront member states and the Community as a whole in view of the final stage of EMU? Firstly, I would like to mention the most obvious tasks associated with the realisation of the single European market on January 1, 1993. It is generally agreed that this objective which was laid down in the single European Act of mid-1987 is the basis on which further progress on the integration of economic and monetary policies must be made. As I have already said, the Community, in inaugurating the first stage of EMU, brought about the liberalisation of intra-Community capital movements; the last residual national

restrictions on capital flows are scheduled for deregulation by the end of 1995 at the latest. Thereafter, capital can flow freely within the Community and also, to a large extent, across third country borders.

In implementing the single European market, much progress has been made in other areas, too. By the end of March 1992 approximately 94 % of the EC Directives which were in force at the end of 1991 had been translated into national legislation. The Council of Ministers has still to pass about 50 of the measures set out in the EC Commissions' White Book. Admittedly, regarding the complete abolition of border controls for persons and goods there are still a number of issues, such as indirect taxation, which have to be settled. The scheduled implementation of the single European market could also be jeopardised by the fact that there is still no Community-wide solution for the problems created by immigrants and asylum seekers. Although postponing somewhat the implementation of the single European market would not seriously endanger the goal of EMU, it would impair its credibility and, consequently, increase the tendency of political bodies to put off the unpleasant adjustment measures necessary for the final phase of EMU.

The Maastricht Agreement is to be approved by all EC parliaments by the end of 1992 so that it can come into force on January 1, 1993 (Article R (2)). There are a few relevant matters which have not yet been settled; for example, the unanimous decision of the European Council on the seat of the European Monetary Institute (Article 13) and of the European Central Bank (Article 37). The ambitions of my native city in this respect are widely known. I have been surprised at the mental gymnastics of the advocates of some other cities in arguing that their city is a suitable site for the ECB. It is clear that the requisite infrastructure must be in place. The extent to which the size of a financial centre is important is another possible bone of contention. The question arises whether the size of the respective ECU market

is relevant in this respect. As soon as the ECU has become the Community currency, it and the national currencies, which will presumably continue to circulate for a transitional period, will be fully interchangeable. It is therefore irrelevant to what extent individual national segments of the common currency area are denominated in the national currency or in ECU.

Perhaps one should also consider whether the ECB, with a view to its independence, would not be in the safest hands where the greatest and, in every respect, positive experience with independence has been gained. Frankly, I find it rather strange that the seat of the ECB is being sought by countries which will be denying their own central banks independence until shortly before entry into EMU and will therefore have had no experience whatsoever of the fruitful interaction between the monetary and fiscal countervailing powers.

When I say that the success of EMU is absolutely dependent on the member states fulfilling their treaty obligations during the transitional period, I am thinking, in the first instance, of their economic and financial policy. If participation in EMU is dependent on the criteria laid down in the Maastricht Agreement, this is all the more true considering that last year only three member countries fulfilled all the convergence criteria at the same time. Most member states failed to meet the budgetary criteria - some to a considerable extent. The Community also has a fairly long way to go to achieve the price stability target which in the Maastricht Agreement was described as a priority for monetary policy. Although the average rate of EC-inflation declined to 4,7 % last year, five countries failed to fulfil the corresponding convergence criterion, some by a considerable margin.

It is likely that a number of countries in the Community will continue to face severe, and possibly even increasing, difficulties in their efforts at adjustment in the coming years. The economic climate is just as much a contributory factor to this as exaggerated wage claims and disputes over the distribution of incomes, which can trigger off new inflationary stimuli.

...

Given this scenario, the question arises as to what convergence pressure the Maastricht Agreement exerts on the economic and monetary policies of the member states. According to the principle of subsidiarity laid down in the agreement, responsibility for economic policy is to remain in the hands of the member states. Following the Council decision on convergence of 1990, however, member states are already required in stage one to submit their progress on convergence to regular multilateral surveillance based on economic policy programmes lasting several years. Starting from stage two, according to the Maastricht Agreement, national economic policies are to be coordinated along the broad lines which the Council is to lay down on a non-binding basis for the economic policies of member states and the Community. Within the context of the multilateral surveillance the Council has the right, above all, to audit the public deficits of individual states, to declare them excessive and to make recommendations to the individual member countries, likewise on a non-binding basis.

Domestic and external monetary policy remains the responsibility of national governments until the transition to EMU. The coordination of national monetary policies, the surveillance over the EMS and the other functions which are jointly undertaken by the participating central banks and which are currently the responsibility of the Committee of Central Bank Governors will be transferred to the European Monetary Institute at the beginning of stage two. The main task of this institute will be to draw up the necessary instruments and procedures for a single monetary policy in the context of the future ESCB.

This overview shows that the Maastricht Agreement does not provide for any rules during stage two which could enforce sound economic and monetary policies on member states. Some partner countries would have preferred to transfer some responsibility

...

for **monetary** policy to the Community as early as the beginning of stage two. However, this would not have smoothed the road to EMU but might possibly have hindered it. Premature institutional rules in the **monetary** field would exonerate member states from some of their responsibilities and weaken their resolve to achieve **economic** convergence on their own. Only countries which have proved during the transitional period that they can meet the economic convergence criteria by their own efforts and, in particular, that they have actually achieved a high degree of price stability over a fairly long period should participate in EMU.

IV.

During the transition to EMU each member state will have to answer the most crucial question of all: that is, how it is to pursue economic convergence towards monetary stability as the basic prerequisite of a lasting EMU. This will be reflected in the degree of price stability, interest rate level and budgetary position for which the Maastricht Agreement has set adequately stringent criteria for member states, which leave little room for interpretation. Compared to these criteria reflecting the degree of internal stability, the criterion for external stability allows more scope for interpretation. The requirement that the normal fluctuation margins within the EMS should be respected for at least two years without severe tensions and, in particular, without a member state devaluing its currency's bilateral central rate against any other member state's currency "on its own initiative" for the same period is more of a Community criterion than the first three criteria pertaining to the performance of an individual country. In view of the schedule set by the Maastricht Agreement a country supposed to devalue its currency might, from 1994 or 1996, be inclined to avoid a devaluation of its central rate as it would otherwise disqualify itself from EMU membership. As realignments within the EMS require consensus, EMS partners are to a large extent jointly responsible for ensuring that the exchange rate relationships within the EMS actually reflect a country's degree of convergence.

...

There has been no "genuine" realignment within the EMS since 1987. It cannot be denied, however, that since then there have been inflation differentials which have only partly been offset. I do not wish to say here - indeed, I cannot say - whether a need for an exchange rate adjustment could actually be established from this. We will all have our own perception of market trends. I would simply like to advocate that exchange rates within the EMS in the medium term reflect as far as possible the price and cost differentials between the participating countries. The EMS was originally conceived as a system biased towards the ECU and thus geared to an average inflation rate. It was not until it was by contrast launched as a parity-grid system that it was able to develop in line with the proven formula that sustained stability of exchange rates can only be achieved on the basis of internal price stability. The success of the EMS has contributed substantially to the fact that EMU, in which exchange rates finally will be irrevocably fixed and the national currencies will be replaced by a Community currency could be reconsidered as a feasible objective. We should take care not to jeopardise the EMS by according external monetary stability the same importance as internal stability. That would be tantamount to condemning EMU to failure from the start.

V.

All of this leads to the appeal, not least in view of the coming British EC presidency to set the points for the transitional period in such a way that

1. all member states, if possible, fulfil the criteria for participation in EMU by their own efforts.

2. Where individual member states fail to meet these criteria, they must be given a further transitional period both in their own interest and in the interest of a workable and stable EMU.

...

3. The qualification of an EC country for EMU membership must be evident from its economic fundamentals as reflected by market judgements.

4. Policy decisions should be led by these market signals. The task of policymakers is to set the correct benchmarks so that the various European economies can qualify themselves for EMU participation in the opinion of the markets during the transitional period.

Only an EMU which promises to meet its high standards and above all, in which monetary stability prevails can also expect to be acceptable to the citizens of Europe.

The Role Of The Presidency In European Union

Garret FitzGerald

The Presidency of the Council of Ministers of the European Community - soon to become the European Union - is viewed somewhat differently by different member States. For the smaller member States it represents a challenge to their organisational capacity and diplomatic skill - but above all it provides an opportunity to make a positive contribution to the development of the Community. And for the smaller and economically weaker peripheral States, such as Ireland and Portugal, which are particular beneficiaries of Community membership, such an opportunity is particularly welcome. Incidentally these States rarely feel it prudent to push any interests of their own during their Presidencies.

In the diplomacy of the larger States the Presidency often plays a somewhat less crucial role, for they have many other fish to fry world-wide. Such States sometimes put less effort than smaller States into their Presidencies; to give but one example it was notable that France allowed the conclusion of each of the first three Lome Agreements to drift into the succeeding Irish Presidencies, to which the kudos of concluding these negotiations consequently accrued. Moreover a larger State may sometimes be a

little less inhibited about pursuing some of its own interests during its Presidency.

But, that said, it must also be noted that constructive new initiatives for the further development of Europe can more effectively be launched by larger States, which have the weight to do so with a reasonable prospect of success; indeed if during its Presidency either France or Germany takes such an initiative after having secured in advance the backing of the other, such an initiative is almost certain of success unless it threatens a major interest of one or more of its partners.

Of course the development of the Community does not take place in neat six-month packages; many initiatives and important developments take years to mature, and it is often a matter of chance as to which country's Presidency ends up with the task of completing a particular process. Despite its initial futile vote against the holding of the Luxembourg Conference to agree a Single European Act, the United Kingdom subsequently became committed to the completion of the Single Market envisaged by that Act - as distinct from the genuine single market endowed with a single currency that has more recently been agreed at Maastricht.

There is thus an obvious appropriateness in the fact that it falls to Britain to bring this penultimate stage of the Single Market to completion during the second six months of this year.

The Community can, I believe, be assured that this aspect of the its development will be tackled with energy and skill during the months ahead.

With, however, one qualification. While Britain has been enthusiastic about the removal of frontier controls on the movement of goods, it still seems resistant to the removal of frontier controls on the movement of the Community's citizens within its territory. It would be singularly unfortunate if during its own Presidency this outstanding issue were not resolved without the Commission having to take action against Britain through the European Court to enforce this part of the Luxembourg Treaty.

The British Presidency provides an opportunity to review the United Kingdom's approach to the immigration issue, which seems to involve as much of a psychological hang-up as it does an actual concrete problem. Let me dwell on this issue for a moment - for it is, I believe, important for Britain not to lose the positive benefits of bringing the Luxembourg Treaty's Single Market into full effect during its Presidency.

The objection against free movement on the grounds of terrorism, seems to me difficult to sustain. The only sustained terrorist problem that Britain faces is that emanating, unhappily, from the IRA. But this has not prevented Ireland and Britain from continuing as a common travel area without passport controls - as

the two islands have always been in the past. Moreover the existence of this Anglo-Irish common travel area - which, incidentally, British people are inclined to overlook - demonstrates that immigration is in fact a matter that can conveniently and successfully be dealt with jointly by several States sharing their sovereignty; it is not, as I recently heard one British politician rather oddly assert, inherently and essentially a matter that must involve the exercise of its national sovereignty by each State independently.

Finally, so far as the substance of the issue is concerned, it is countries like France and Germany and Italy that are in the front-line to-day in immigration matters - not Britain; there can surely be little danger that Britain will become the primary target of immigrants from the South or the East of ourb Community. Given the much greater problem facing these front-line countries, it should not be impossible for relatively sheltered Britain to find a measure of agreement with its partners on an immigration policy that will meet the fears of those in Britain who are particularly sensitive to this problem - and the British Presidency affords an ideal opportunity for the initiation of discussions with its partners towards this end.

The issue of immigration from the east of our continent leads naturally to two other issues involving that part of the world: aid and enlargement.

The burden of aiding the economic adaptation and recovery of the Soviet Union and central and eastern Europe has fallen principally on Western Europe; the United States has been willing to make only a modest contribition, and Japan - perhaps understandably in view of its geographical and psychological distance from Europe and its outstanding territorial dispute with Russia - even less. And within Europe, Germany has had to carry a quite disproportionate share of this burden - not only because it has taken full responsibility for the rapid integration of East Germany into the Federal German economy, but also in relation to aid to the CIS and the States of central and eastern Europe.

Objectively there is a strong case for a more equitable sharing of this aid burden - in the interests not only of Germany but also of Germany's relations with its Community partners and moreover in the interests of shortening the period during which the rest of Europe is being forced to postpone its own recovery because of the negative impact of high German interest rates. A British Presidency initiative, even if relatively modest, along these lines would be a wise and statesmanlike step which could yield positive results for Britain and for Europe in more ways than one.

Next, Enlargement. To be frank about it, any British Presidendcy initiative designed to speed up the enlargement of the Community beyond the EFTA applicants - on whose membership there is

general agreement about the need to take rapid action - or to suggest an extension of this enlargement process beyond limits that seem reasonable to envisage at this stage, (e.g. by extension of membership to CIS Republics or to Balkan States, - in which I do not include Slovenia), will be seen by all its partners as a transparent attempt to block the "deepening" of the Community along the lines envisaged in the Maastricht Treaty, to which the rest of us are committed. Britain could only damage itself by pursuing such a devious anmd negative course - especially at a time when its partners are interpreting positively some of the, often subtle, modifications that are taking place in the British official stance towards the Community - including the Queen's recent Strasbourg speech.

To be blunt about it: Britain's partners are prepared - some observers might think too charitably! - to discount much of this country's past negativism towards the Community as having reflected a personal stance of the preceding Prime Minister. Moreover they recognise that internal political considerations dictate a very gradual modification of this negative approach, and they are prepared to be patient about the timetable of any shift towards a more communautaire British attitude. However it is one thing to accept that a change in Britain's European policy in a positive direction must be gradual - it would be a quite different matter if Britain's partners were faced with what appeared to them to be a new, opportunist form of negativism involving an attempt to weaken the Community by enlarging it

prematurely or with undue and dangerous haste.

Moving on to another issue, if the Delors II package - involving a proposal to double the Structural Funds, within which the Maastricht Treaty has added a Cohesion Fund -. is not resolved during the next six weeks, it will also fall to be settled in the British Presidency. The British Government has hitherto adopted a negative attitude towards this proposal - very negative indeed at the last Council meeting, I understand. In the Chair they would find it difficult to sustain such a negative approach without damaging their Presidency. It remains to be seen whether this prospect will encourage Britain during the period immediately ahead to modify its negative stance, and whether if it does so Germany will follow suit, thus clearing this matter from the agenda before the start of Britain's Presidency..

One of Britain's problems, of course, is that the British rebate is linked to the Delors II Structural Fund proposals which gives its partners considerable potential leverage in these negotiations - or, rather, to be more precise, gives both Britain and its partners matching leverage, which could, of course, provide a basis for a deal, albeit one that might be easier for Britain to engineer if it were not in the Chair.

Other areas that may offer opportunities for British action include industrial policy and social policy.

So far as industrial policy is concerned there is some expectation that the effect of the change of Prime Minister may in this instance be reinforced by the appointment of an interventionist Secretary of State in the form of Michael Heseltine; the British Presidency will be the occasion for this expectation to be tested.

There is also some hope that during its Presidency Britain's negative attitude towards the Community's social policy may begin to be modified; its recent flexibility on the 40-hour week proposal has been interpreted as a positive sign in this connection.

Finally there is the paper that the Delors Cabinet are preparing on the future instititional arrangements for an enlarged Europe. It is important that on this issue Britain should not be tempted to shoot from the hip. Realistically, changes do have to be made in the present instititutional structure as the Community both approaches its final shape so far as its competences and relationship with its member States are concerned and also faces into an enlargement process that even as early as 1995/96 is likely to overstrain the structure that six countries felt to be appropriate to their limited needs forty years ago.

None of the member States - my own included - will like the changes that this new situation will make necessary. But rather than automatically attacking whatever the Delors Commission may eventually propose, we should all be prepared to examine its ideas on their merits, without preconceptions, and without sloganeering.

The small countries will have to face a modification of their role in the Commission - if that body is not become totally unwieldy as within the next decade or so the Community's membership moves beyond the sixteen or seventeen States to which the accession of the EFTA countries will bring the total. The larger countries must face the corollary of this: the need to build into the institutional structure some new element of State representation akin to that which exists in - dare I say it! - federations.

And with the transfer of the ultimate decisions about macro-economic, including fiscal, policy, as well as monetary policy, to an Ecofin/European Central Bank structure, the democratic deficit we have inherited from the formative decades of the Community simply has to be filled. The ludicrous idea that national parliaments can control supra-national executive decision-making undertaken on a majority voting basis is too threadbare to carry any conviction at this stage. The time has surely come when Britain's deeply-felt commitment to democratic procedures requires it to start demanding rather than rejecting

the exercise by the European Parliament of democratic control over decisions of this kind which Westminster in conjunction with the parliaments and electorates of its partners has decided to transfer to the European executive level.

Clearly a problem for Britain in this post-Thatcher period is the wide range of areas over which it is now expected by its partners to start modifying past negative attitudes; with the best will in the world there must be a limit to the number of U-turns, however modest each may be individually, that it can be expected to execute in six short Presidential months. For their part Europe's partners should not expect too many British policy shifts in too short a time - while for its part Britain must endeavour to do at least one or two unexpectedly positive things while avoiding raising fresh hackles on any of the many issues upon which it has unhappily allowed itself to become exposed.

Finally the British Presidency will also to have to cope with a daunting range of political issues - the continuing Yugoslav crisis in which Peter Carrington has as EC representative has had to face such intense frustrations, the Middle East peace talks in the period after the Israeli elections, and the ongoing political and economic problems of the CIS, to name but three. And in this political area it will also have the task of preparing to put in place after the ratification of the Maastricht Treaty the arangements for the development of the Common Foreign and Security Policy.

PAPER GIVEN BY Julian Priestley

ENTITLED Implementation of Maastricht Treaty - Efficiency & Democracy

INTRODUCTORY COMMENTS

The amendments of the Treaty agreed at Maastricht will not come into effect until, at the earliest, the end of the British Presidency. But the Presidency will be significantly affected by the on-going debate on Maastricht and, particularly, its institutional provisions. Over the next few months, of course, the ratification debates will be proceeding in the Member States.

The European Parliament adopted its opinion (the Martin report) two days before the British elections. It gave the green light to Maastricht inviting national Parliaments to ratify the Treaty and calling on them to address the shortcomings on Maastricht, particularly as regards the democratic deficit.

In particular, it called for a new Treaty revision to be prepared before the Intergovernmental Conference scheduled in 1996 in order to :

- adjust the number of members of the European Parliament to take into account German unification, (which the Maastricht summit agreed should be addressed this year)
- prepare for enlargement with "significant improvement for decision-taking procedures, notably as regards Parliament's right of co-decision and the functioning of Council" and
- remedy the democratic deficit.

In the same resolution, Parliament indicated that it would not give its assent to future enlargement unless the democratic deficit were eliminated.

It will be interesting to see in those Member States where the ratification procedures permit their Parliaments to set out conditions and make general political points if these questions are taken on board. It would certainly seem likely that Germany will only ratify the Treaty if there is a serious perspective that the conditions laid down by the European Parliament will be met. Ratification problems are also faced in a number of other Member States for different reasons:

* in **Spain**, the Spanish government will expect to see money up-front for the cohesion fund agreed at Maastricht and fleshed out in the Delors package;

* in **France**, it is, at the moment, not certain whether the necessary 3/5ths majority of the two Chambers will be achieved or whether a referendum will have to be organised, which could easily turn on national issues;

* in **Denmark** the indications are that for the referendum on June 2nd there is currently a slight advantage for the "no" side for a complex series of reasons which underline Denmark's reticence about the future development of the Community;

* in **Ireland**, the referendum on Maastricht might hinge on the right of Irish citizens to travel abroad for abortions. Currently opinion pools indicate a very large majority in favour of ratification.

Other national parliaments, particularly the **Belgian** and **Italian** ones will focus on the institutional issues and certain inadequacies in the Maastricht text, although ratification is to be expected.

Were one of the Member States for one reason or another to fail to ratify, the British Presidency would have the task of supervising efforts to pick up the pieces, in what would undoubtedly be one of the most important crises in the Community's history.

-oOo-

We understand that the first priority of the British Presidency is the early enlargement of the Community to include the applicant EFTA States. It is hoped that the European Council in Edinburgh will pave the way for the opening of enlargement negotiations, particularly for the EFTA countries. The two issues of Community decision-making and the number of seats in the European Parliament will have to be addressed. It is unlikely that the European Council would unconditionally agree to open negotiations with Austria, Sweden, Finland and probably Norway.

The Heads of Government at Maastricht set deadlines for the end of this year to examine the question of the number of seats in the European Parliament and the representation of Member States in the Commission. These are complex issues which affect the efficiency of Community decision-making and where at the moment there is no consensus between the Member States. So those who may have thought that Maastricht neatly settled the institutional problems of the Community for five years are likely to be disappointed.

-oOo-

Throughout the discussions leading up to the Maastricht Treaty, the European Parliament was clear as to what it sought to overcome the democratic deficit and to improve efficiency. The priority of the Socialist Group right from 1989 as accepted by the European Parliament can be summarised as follows:

- to extend the scope for majority voting in Council to all items other than Treaty revision and major international agreements.
- to increase the Commission's accountability through the election of the President of the Commission by Parliament, and through the submitting of the Commission as a College to a vote of confidence with the coincidence of the Commission's term-of-office with Parliaments.
- to put in place co-decision procedures on a strictly equal footing between Parliament and Council for all items legislature which Council adoptes by a qualified majority. Hence to all items other than "constitutional" issues such as Treaty changes and accession of new Member States.

These clear aims consistently repeated by Parliament over two years, accepted to a large extent by national Parliaments at the Conference of Parliaments in Rome in November 1990, are a basis on which the outcome of Maastricht can be examined.

Before, however, we look at these interinstitutional points, we should recall that one of the most important distinctive features of Maastricht was the development of the "pillar" structure with certain key competences for the Union outside the normal legal framework of the EC Treaty. The European

Parliament is given only a minor role in the scrutiny of the common foreign and security policy. Its supervisory function on the judicial and internal policy cooperation are practically non-existent.

For those matters which are subject to the EC Treaties, qualified majority voting has been extended, but not entirely to the extent sought by the European Parliament. From now on, qualified majority voting will apply to some aspects of environmental policy, development questions, consumer protection, educational measures, public health, transeuropean networks and some minor matters. No extension of majority voting is made for social policy except for some but by no means all areas among the 11 Member States signatories to the social protocol. Unanimity will be required for the main outlines of Community foreign policy, cooperation in judicial international questions and other areas of environmental policy; it will be possible for Council to agree unanimously to use qualified majority voting for certain matters in these areas.

Parliament was more successful in its attempt to increase its role for the appointment of the Commission. From now it will be consulted - as Parliament, not just its Enlarged Bureau - on the nominee to be appointed as President of the Commission and will also be able to give a vote of confidence on the college as a whole. From 1995, the Commission's term of office will be 5 years not 4 and will then be appointed, in the months following each European Parliament elections.

On co-decision, the outcome is clearly unsatisfactory from Parliament's point of view. The new procedures is based on the existing cooperation procedure with the addition of a conciliation procedure to reconcile differences. Both Parliament and Council would have to approve the outcome of conciliation. If conciliation fails, however, Council may adopt a text unilaterally which will become law unless rejected within six weeks by the European Parliament acting by a majority of its members.

Similarly, the assent procedure, which currently requires Parliament acting by a majority of its members, would be extended beyond the scope of international

agreements and without special majority requirements.

The old cooperation procedure applies to a further 15 new areas and the formal consultation of Parliament is introduced to some 24 new areas. I am distributing separately a list of the parliamentary procedures prepared for members of my Group.

It is here that we find the nub of Parliament's dissatisfaction. The new procedures are applied to different policies on an almost random basis. Co-decision - right of Parliament for a final say - is extended to a number of important issues, but in a minority of cases. Community law can still be made without parliamentary agreement, either through cooperation procedures or the ordinary consultation process. It is to be feared that Maastricht will provide a lawyers' beanfeast as the choice of legal bases proposed by the Commission becomes ever more important.

Even the new co-decision procedure is unsatisfactory from Parliament's point of view. The onus to block Community legislation would fall exclusively on the Parliament if conciliation fails to reach agreement, and the entire process of legislation would be blocked. Parliament cannot selectively delete items from the Community law by use of last word.

Procedures for adopting Community legislation would be lengthened and the European citizens will be ever more perplexed at their complexity.

Just to take some practical examples; for environment alone, three different procedures will apply, co-decision for pluriannual programmes; cooperation procedure for most individual items of legislation, simple consultation of Parliament (and unanimity in Council) for fiscal matters and measures affecting land use, water supply or energy.

For research, co-decision would apply to the Framework Programme which sets the overall guidelines for Community research policy, but individual programmes such as ESPRIT, etc, would be adopted by Council after consulting Parliament (previously, the cooperation procedure applied to these specific

research programmes).

Perhaps most important of all, the new institutional provisions do not provide a incentive for the institutions to work together. Unless the conciliation procedure is made the determining factor, neither Parliament nor Council are actively encouraged to negotiate satisfactory compromises. The danger is that both sides will entrench their positions before the final shoot-out (unanimity in Council or, in order to overthrow a Council decision, Parliamentary rejection).

The unsatisfactory institutional outcome of Maastricht poses severe problems for the British presidency. Like all presidencies, Parliamentary goodwill is essential for the successful completion of the Presidency's programme. The well-known British reticence on some important elements of the Community developments (economic and monetary union, social policy etc.) present difficulties which will be compounded by this tension in interinstitutional relations which are so evident in the run-up to ratification of Maastricht.

If the British Presidency wants to achieve its objectives during its six month's stewardship of Community affairs, to ensure that the final stages of the internal market programme get approved in time before the 1 January deadline, good relations with Parliament must be established. If the British Presidency wishes to get a satisfactory outcome at the European Council on the prospects for enlargement a consensus with the other institutions is necessary, if at least a European Council decision is to seem credible.

How should the United Kingdom Presidency proceed? It should open up the dialogue with Parliament and Commission on making the new institutional procedures agreed at Maastricht work and operate efficiently.

It should consider applying certain provisions of Maastricht by anticipation, particularly as regards the incoming Commission for the two year transitional period until 1995.
It has also to recognise that there will be a price to be paid sooner or later for enlargement which is a British priority. That price is indisputably going

to be a new set of institutional arrangements; certain Treaty changes will be necessary to take account of the practical consequences of new Member States joining the Community. But over and above those largely technical changes, the British Presidency should not close the door to certain improvements both in terms of democracy and efficiency. In particular, this would require acceptance that a more balanced co-decision procedure should become the main model for approving Community legislation. It could apply to all main areas of decision-making apart from what could be described as constitutional ones (Treaty changes, enlargement, major international agreements), where the assent procedure applies, but where majority voting does not apply in Council.)

It should agree to go the whole hog with Parliament on the appointment of the Commission. It should recognise that a negative vote by Parliament on the nominee would lead to the nominee not being appointed. In any case, in my view, it would be impossible for an incoming Commission President to operate effectively without Parliamentary approval.

It should recognise that the arguments for majority voting on nearly all matters become overpowering as the Community increases from 12-16 and later on to 20, 24, or even more members.

It should seek to cooperate actively with Parliament and follow Parliament's wishes as far as possible on the question of the number of seats to be attributed to the Member States in Parliament - already for the 1994 elections and following future enlargement. They should enter into an early dialogue with Parliament on a uniform electoral system, but then Parliament has to put forward clear proposals.

An unofficial dialogue has already started between the Presidents of the Community institutions on the follow-up to Maastricht. That dialogue should be strengthened for these discussions will make it that much more possible to obtain active parliamentary support for the successful operation of the Presidency.

ANNEX

MAASTRICHT TREATY: Parliamentary Procedures

Assent Procedure

- measures facilitating right of residence and freedom of movement (Art. 8a in citizenship provisions)
- definition of tasks, objectives, organization and coordination of the structural funds (Art. 130d)
- creation of cohesion fund (Art. 130d)
- uniform procedure for European elections (Art. 138)*
- international agreements with certain institutional, budgetary or legislative implications (Art. 228(3))
- accession of new member states (Art. X of common provisions)*
- amendments to the protocol of the European System of Central Banks (Art. 106(5))
- special tasks to be entrusted to the Central Bank (Art. 108(4))

* EP assent by majority of members (i.e. absolute majority, currently 260 votes)

Co-decision procedure (Art. 189B)

. free movement of workers	(Art. 49)*
. right of establishment	(Art. 54)*
. treatment of foreign nationals	(Art. 56)*
. mutual recognition of diplomas	(Art. 57 (1))*
. provisions for the self-employed	(Art. 57 (2))*
. Internal market harmonizations	(Art. 100A)*
. internal market mutual recognitions	(Art. 100B)*
. education (incentive measures)	(Art. 126 (4)
. multiannual Framework Programme for Research & Technology	(Art. 130 i)#
. environment programmes	(130 s (3))

with unanimity in Council!

. trans-European network guidelines	(Art. 129d in new title XII)
. incentive measures in field of public health	(new Title XV)
. incentive measures in field of culture	(new Title XVI)#
. consumer protection	(new Title XVIII)

<u>Cooperation procedure</u> (Art. 189C)

. rules prohibiting discrimination on grounds of nationality	(Art. 6, formerly Art. 7)**
. transport	(Art. 75)
. Social Fund implementing decisions	(Art. 125, formerly Arts. 126 & 127))
. other measures in field of vocational training	(Art 127(4) in new chapter on education & timing)
. Trans-European networks (interoperability & finance)	(Art. 129d)
. Regional Fund implementing decisions	(Art. 130**)
. Rules for participation of undertakings, research centres and universities in Community research & technological development (RTD programmes	(Art. 130 j)
. Rules for dissemination of results of RTD programmes	(Art. 130 j)
. Supplementary RTD programmes with only some Member States	(Art. 130 k)
. Community participation in RTD programmes of several Member States	(Art. 130 l)
. Environment (except fiscal, land use, water & energy)	(Art. 130 s (1))
. Development policy	(Art. 130 w in new Title XVII)
. Social policy (health & safety at work)	(Art. 118a)**
. Social policy pursued by 11 Member States re. working conditions, information & consultation of workers, equal treatment and integration into labour market	(Protocol of the member states minus the UK, Art. 2 (2))

unanimity in Council
** already cooperation procedure after SEA

. rules on multilateral surveillance (EMU)	(Art. 103 (5))
. definition of conditions for access to financial institutions by public authorities	(Art. 104a)
. definition of access to debt with central banks by public authorities	(Art. 104b)
. denominations and specifications of coins (EMU)	(Art. 108 (3))

<u>New Consultation procedures</u>

- arrangements for voting and candidacy rights of Union citizens in local elections	(Art. 8b)#
- arrangements for voting and candidacy rights in European elections	(Art. 8c)#
- adoption of new citizen's rights	(Art. 8f)#
- regulations for state aids	(Art. 94)
- determination of which third country nationals require visas	(Art. 100 C (1))
- uniform format for visas	(Art. 100 C (2))
- international agreements other than those requiring Parliament's assent, except Art. 113 (3) agreements	(Art. 228)
- specific supplementary actions on economic & social cohesion	(Art. 130b)#
- specific research programmes	(Art. 130 i (4))*
- specific measures supporting industrial policy	(new Title XIV)#
- nominee(s) for President of Commission	(Art. 158)#
- Presidency to "consult the EP on the main aspects and the basic choices of the common foreign and security policy"	(CFSP Art. G)#
- Presidency to "consult the EP on the principle aspects of activities in the areas of this Title" on cooperation in the spheres of Justice and Home Affairs.	(JHA provisions Art. F)#

* previously cooperation procedure!
# unanimity in Council

- revision of rules concerning excessive budgetary deficits (Art. 104c (14))#
- secondary legislation pursuant to the statute of the European System of Central Banks (Art. 106 (6))
- ECU exchange rate regime vis-à-vis third currencies (Art. 109 (1))#
- nomination of President and members of the Central Bank (Art. 109A (4))#
- nomination of President of Monetary Institute (Art. 109e (1))#
- rules concerning the consultation of the EMI by Member States (Art. 109D (6))
- other tasks of the EMI for preparation for phase 3 (Art. 109e (7))
- entry into phase 3 (whether member states meet conditions) (Art. 109i (2))
- entry into phase 3 (whether and when to proceed before 1999) (Art. 109i (3))
- entry into phase 3 (which member states to proceed in 1999) (Art. 109i (4))
- ending of a derogation for member state from EMU (Art. 109j (2))

Other provisions affecting Parliament

. Union citizens right to petition EP (Arts. 8e & 137c)

. EP to initiate legislation by requesting Commission to submit a proposal (majority of members needed) (Art. 137a)

. detailed provisions governing EP's right of enquiry to be "determined by common agreement of the EP, Council & Commission" (Art. 137b)

. EP to appoint ombudsman (Art. 137d (2))

. EP to lay down "after seeking opinion from the Commission and with the approval of Council acting by a qualified majority" the regulation and conditions governing the ombudsman's duties (Art. 137d (4))

. EP to approve Commission as a whole (Art. 158 (2))

- budgetary control powers of the EP strengthened by placing new treaty obligations on Commission to submit information and respond to discharge observations (Art. 206, replacing 206b))

- EP acts able to be challenged in European Court of Justice by Commission, Council or Member States and EP able to challenge acts by other institutions that fail to respect its prerogatives (Art. 173a)

- Council able to repeal international agreements to which EP had given its assent without obtaining agreement of Parliament (Art. 228a)

- EP & WEU Assembly encouraged to cooperate (Declaration N°29 of Annex 2 (WEU Member States), para 4)

New Annual written Reports to Parliament

. European Council's yearly report on progress achieved by the Union	(Art. D of common provisions)
. Commission report on the application of citizenship provisions of treaty	(Art. F of common provisions)*
. Report of the Central Bank on the activities of the European System of Central Banks, to be presented by President of Bank	(Art. 109a (3))
. Commission report on progress towards economic & social cohesion	(Art. 130b)*
. Commission report on research & technological development activities	(Art. 130p)
. Commission report on progress in the social field	(Protocol of 11 Member States)

* every three years

MAASTRICHT TREATY: Voting in Council

New Provisions for qualified majority voting (qmv) in Council

. education (incentive measures and recommendation)	(Art. 126 (4)
. vocational training measures	(Art. 127 (4)
. health (incentive measures & recommendations	(Art. 129)
. environment (except fiscal, land use water & energy)	(Art. 130 s)
. trans-European networks	(Art. 129d)
. development policy	(Art. 130w)
. consumer protection	(Art. 129a (2))
. approval of EP regulations governing ombudsman	(Art. 137 c)
. some aspects of social policy among the 11	(protocol N°14)

Change to qmv on 1 January 1996 :

. determination of which third country nationals require visas	(Art. 100 C (3))

Two-thirds majority

. implementation of conventions in field justice & Home Affairs	(Art. K3 thereof)

Potential change to qmv (to be decided by Council acting unanimously)

. environment (fiscal, land use planning, water resources & energy)	(Art. 130 S (2))
. implementation of joint action in field of common foreign & security policy	(CFSP Art. J3 (2))
. measures to implement joint action in field of cooperation on justice & Home Affairs	(Art. K3 2b thereof)
. matters transferred to Community competence from field of cooperation on justice & Home Affairs	(Art. K9 thereof)

MAASTRICHT TREATY : Provisions specifying that 1996 IGC to re-examine :

- the "pillar" structure of the Union Treaty	(Art. B of Common provisions)
- widening the scope of "co-decision" procedure	(Art. 189b (8))
- the defence policy provisions in view of 1998 expiry of WEU Treaty	(Art. J.4 (6) of CFSP provisions)
- other CFSP provisions	(Art. J.10 of CFSP provisions)
- classification & hierarchy of Community acts	(Declaration N°15 in Annex II Union Treaty)

cc: Mr Arthur, ECD(I)
News Dept
Mr Jones-Parry, ECD(E)

ADDRESS TO FEDERAL TRUST CONFERENCE ON PROBLEMS AND OPPORTUNITIES FOR THE UK PRESIDENCY

COMMON FOREIGN AND SECURITY POLICY; MAIN POINTS OF REMARKS BY S J GOMERSALL, HEAD OF SECURITY POLICY DEPARTMENT, FCO (MAY BE QUOTED)

1. Main objectives of UK Presidency in CFSP will be to establish working arrangements for entry into effect of CFSP in January 1993 and prepare decisions by Council on areas appropriate for Joint Action.

2. UK a strong proponent of CFSP, from conviction that it will greatly increase the influence of the Community in international affairs. A major step forward beyond EPC.

3. Important to stick to decisions at Maastricht, which were taken for good reasons; including

- the separate intergovernmental nature of CFSP

- the rule of unanimity on Joint Action

- the notion that Joint Action should be time limited and reversible

- the separation of CSFP from defence in WEU

- the provision that the common security policy should be compatible with that of the Alliance.

4. In the absence of a direct threat, there is competition between various European security institutions. CFSP not immune from this. UK will favour an approach which puts Community weight behind problem solving rather than institution building. More automaticity, more central resources would not necessarily make a more effective CFSP. Have to recognise certain limitations, and

build up from what we have. In the security/defence sphere, shared responsibility and interdependence will continue to be the rule. The working arrangements of CFSP must therefore cater for this. Keeping NATO and its integrated structure at the heart of European defence is not incompatible with building a European defence identity.

5. Experience of Twelve coordination in security matters so far very positive. Importance of maintaining open consultations with others, not only United States, but eg Scandinavians on Baltics, Japan on CIS/proliferation.

6. Suggestions for Joint Action, including security areas mentioned at Maastricht, but also Central/Eastern Europe, CIS and Middle East/Mahgreb - decision to be taken by European Council. We should have precise objectives and respect the interests of non-Community countries.

7. On defence, need to resolve ambiguity as to whether NATO is part of long term 'common defence', or whether ultimate objective is separate European defence. Question is relevant to view of Franco-German corps.

8. But need to give expression to European integration of defence field is undeniable, and Britain has both a short and long term vision for doing this. In the short term, build on Maastricht agreements. British government proposals for developing forces answerable to WEU made on 14 May.

9. Looking further ahead, defence problems raised by enlargement of European Union - admission of neutrals and Central/Eastern Europeans seeking defence guarantees, soluble so long as defence handled in WEU, not the Union. Amalgamation of Union and WEU would pose difficult questions about guarantees and means to implement them. Reality likely to be that NATO will continue to underwrite the security of the WEU.

10. UK fully commited to developing a real European defence capability. Confident that NATO will adapt to the reality of European integration.