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**"EUROPEAN INTEGRATION AND THE EUROPEAN UNION'
Issues, Directions, and Challenges**

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EUROPEAN INTEGRATION AND THE EUROPEAN UNION

Issues, Directions, and Challenges

Most of its citizens know that they belong to the European Union. Many of them have a vague idea of what type of political entity it is. But few could tell you exactly how it works, exactly what it does, exactly how its decisions, which now deeply affect their lives, are arrived at. The difficulties of understanding are compounded by the fact that the "constitution" of the European Union, as currently in the process of ratification after the latest changes made in Amsterdam in 1997, is the result of a series of major adaptations of the original Treaty, signed in Rome on 25 March 1957.

So I should begin, I think, by saying a little about this strange animal and by explaining what we mean by European Integration, before trying to explain what its consequences are for its citizens, and, more importantly, for Americans, and particularly American businesses.

It is important to remember that the European Community, as it was originally called, was born out of the rubble and the chaos of war. I hardly need to remind Americans that we needed you to cross the Atlantic twice in this century to offer the lives of your young people and the contents of your treasury to defend the values we hold in common against terrible threat. My own view is that the primary source of that threat was a particularly virulent strain of Nationalism with which Europe had been infected for hundreds of years. What the founding fathers of the EU set out to do was to construct a political system which would intertwine the lives of Europeans so closely that new wars between them would simply become unthinkable. The first and most important fact I would like you to remember today is that that has been

accomplished. Within the European Union the old enmities are dead and gone forever.

The primary instrument chosen to bring the peoples of Europe together was economic integration. For all intents and purposes Europe has now a single market within which business can operate. It is not perfect, any more than the US market is perfect- a lawyer qualified in Florida cannot represent a client in a Texas court, a Florida bank cannot simply open a branch or set up ATMs in South Carolina. But for most purposes, if you satisfy the conditions for selling your product - whether it be a good or a service - in one of our Member States, you will be able to do business throughout the European Union. And that is my second main message for you this today. In order to explain how the EU functions I would like to look now at some of the characteristics of your own Union, of which Americans are so justly proud. What gives it its unique character, what helps it to transform the values which underlie it into the daily practice of its citizens ?

First there is its federal constitution, with its balance between powers held at State and local level and those held centrally. Federal law is the same everywhere and overrides State law. And it is watched over by a central Supreme Court of appointed but independent judges.

Second , decisions on law and policy are taken by democratic means, at whatever the level. And legislative action requires the interaction of an Administration and two legislative bodies, of different constitution and with different roles. Power is shared. Tyranny is impossible.

Third, this is a market economy, with the Interstate Commerce Clause ensuring that a company can do business throughout the 50 States, although you know better than I that local rules also

remain. And the federal commercial law governing the way you operate ensures that you can defend your constitutional rights also in the business domain, up to and including the protection of the Supreme Court.

Fourth, you have a single currency, the mighty dollar, with which you can pay throughout the land, and in much of the rest of the world as well.

Fifth you have the armed forces, which came to our help in the past, stood shoulder to shoulder with us during the long, dark days of the Cold War, and remain in Europe within the NATO alliance, which is still a major force for peace in the world. And these armed forces make the United States in practice the only remaining global superpower.

And finally you have those visible elements of pride and sovereignty which bind Americans together - the flag and the anthem.

I would now like to look at the European situation with respect to these exact same elements of your system of governance.

First, the Treaty of Union provides us with the equivalent of a constitution. In particular, it sets out the criteria for the distribution of powers between the central authority and the Member States, based on what we call the Principle of Subsidiarity. Some, indeed many powers are assigned to the central authority explicitly. For others subsidiarity is defined as follows:

“... the Community shall take action only if and so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States.”

You will notice the resemblance to the Tenth Amendment of the US constitution':

“The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

Also similarly to the US situation, EU law prevails over national law, and this principle is both fully accepted by all Member States and enforced by the European Court of Justice, a body as powerful and as independent in our system as the Supreme Court is in the US.

Second, let me look at how our legislative decisions are taken. It is the European Commission, the permanent administration for which I work, which provides the first draft. The Council of Ministers, in which the representatives of Member State governments sit, and the European Parliament, composed of directly elected representatives of the people, then consider it and amend it and both must agree to the final version.

This is very similar to the process which I observe every day in Washington and is the model for most economic legislation , although there are some exceptions.

It is also very different from the mythical situation in which an all-powerful, unelected bureaucracy hands down edicts to a grumbling populace. In our system, too, there is no room for tyranny!

Third, since the changes brought about under our so-called Single Market programme in the years up to 1992, it is now possible to do business throughout a market of 373 million people with a total National Product larger than that of the United States. A bank setting up a subsidiary in Belgium can open branches in all other 14 Member States, a product satisfying product standards in Germany must be accepted in Italy .

Fourth, the dollar. Well, you will all have seen from your newspapers that the EU is embarked on the great adventure of replacing a whole series of national currencies by one single currency , the EURO. From 1 January 1999, you need no longer wonder whether to keep your hard-earned export earnings overnight in French Francs or in Deutschmarks. Both will have become, with the stroke of midnight, Euros. You will still obtain national notes and coins as before, but their conversion rates will be fixed and there will be no commission to be paid on changing one for the other, any more than you have to pay to change quarters into dollar bills. And in the year 2002, these relics of national currencies will be replaced by new notes and coins denominated in Euros. In May of this year at the meeting of our highest legislative body, the European Council, the decision will be taken as to which of our currencies fulfill the strict criteria designed to ensure that the Euro can be a stable, strong currency, and thus provide the right base for sound, vigorous growth in our economy. The conversion rates for calculating the ratio between old, national currency and new Euro will also be decided and announced. At present it looks probable that as many as 11 national currencies will be merged.

The result will undoubtedly be a currency which will be attractive as a means of payment and unit of account for many international transactions, so we fully expect the Euro, over time, to become a world reserve currency alongside the dollar. And , of course, it will make life immeasurably easier for American tourists in Europe, and business much easier for American companies.

You may ask why we have taken so long to get our act together and create a single currency. It seems in some ways to be an obvious thing to do. Well, perhaps. But for the currency to be a success we have had to ensure that the right basis in terms of solid economic policies was laid for it. All the Member States concerned had to be clearly and irrevocably committed to fiscal discipline, inflation had to be squeezed out of the national economies, and long-term interest rates had to be brought down to the same low level. This has been achieved by the so-called, oft-quoted, and much misunderstood criteria laid down in the Treaty of Maastricht in 1992. Let me also remind you that although the United States came into being in 1787 it did not have a single dollar with a unique value until the establishment of the Independent Treasury System in 1840, a full 53 years later. We are not doing so badly!

My fifth element was the armed forces. This is the major area in which important functions are allocated to the central power in the United States but to the Member State level in the EU. This was by the way an innovation here compared to the Articles of Confederation under which your republic began its independence. It is also the reason why the European Union has no ambition to become a superpower. We do have a Common Foreign and Security Policy through which we develop policy positions on major foreign policy issues of the day and in this way bring our collective influence to bear. But military action remains the prerogative of the Member States. In this we differ fundamentally from the United States.

And finally I talked about the Star-spangled banner and your national anthem. Well, in Europe we do have an official flag - twelve gold stars in a circle on a blue background - which will be familiar to many of you. It flies outside our office in Washington, DC, and also, alongside the Union Jack, outside the Embassy of the United Kingdom, which currently holds the rotating

Presidency of our Council of Ministers. We also have an anthem - the choral part of Beethoven's last symphony, the text of which is Schiller's "Ode to Joy". The text celebrates the brotherhood of man rather than the triumphs of a nation state. For that reason I find it a fitting reminder of the original motivation for European integration. We may have created the world's largest market for doing business but we did it to bring peace to a war-torn continent.

On a rather personal note, I would like to share with you what this means for one family. My grandfather died in a German prisoner-of-war camp in the dreadful winter at the end of the First World War, and my grandmother was left to raise six small children on her own. My German wife and I now look with wonder at our three grown-up daughters, who all feel equally at home in England, France, Germany, and Belgium where they grew up. And I myself, when I retire to our little house in the South of France, am seriously considering running for public office, a right of citizenship which I acquired under the Treaty of Maastricht. What a change within two generations!

I hope by now you will feel you know what European integration is about. Of course, what I have explained is a gross oversimplification of a body of law and practice, which fills many shelves of library space - which is an old-fashioned, European way of saying many megabytes of computer memory.

But I wanted to bring home to you the simple fact that what we are doing in Europe - in what is certainly the greatest experiment in Governance since the drafting of the American Constitution - is to put into practice in our own way many concepts with which you are very familiar.

So let me turn for a moment to the future.

I have talked about what we call EMU, Economic and Monetary Union, essentially the creation of a single currency. That is well on track and is about to happen. Don't take my word for it, ask your New York investment banker!

The second major item on our current agenda is the process of bringing in the countries of Central and Eastern Europe, as well as Turkey and Cyprus, as full and fully-functioning members of the EU. This process has been underway for some time and much of the process of these countries adapting to western forms of democratic market economy has taken the form of them adopting and learning to implement the rules enshrined in our own economic legislation.

But just this month we have begun the laborious process of negotiating the exact terms on which six of these countries will join as full members. They are Poland, Hungary, the Czech Republic, Slovenia, Estonia, and Cyprus. We have also set about increasing still further the aid we give to these countries to bring them up to speed in terms of preparing their economies for the harsh winds of competition which blow within the EU.

Why do these countries wish to join? There are two reasons. First, they want to belong to the zone of peace and stability which we have created. They too wish to turn their back on the ethnic rivalries and ancient hatreds, from which they have suffered so much. And second, they see the Single Market as being their best chance for sustained growth and assured prosperity in the future. NATO will continue to ensure their military security, as it does in Western Europe. but they look to the EU for what we might call their economic and social security.

Talking of economic and social security brings me to the other great challenge which faces us . 18 million able-bodied men and women are unemployed within the EU - this is more than the

populations of 10 of our Member States. That our continent is not riven by social unrest and become the prey of scavenging hordes is due to the social safety net which characterises the European model of the social market economy. It has worked well but it is a heavy load for our economies to bear. And it is a tragic waste of productive resources.

Enormous efforts are underway in the EU to find a way to lower the costs of this system for the productive sector, and encourage entrepreneurial activity, without destroying the principle of looking after the weaker members of society, a principle of which we remain proud. One way is to encourage more investments by American entrepreneurs. You will all be very welcome in our Single Market!

Perhaps this is the place to say a word about the EU-US relationship. I will begin by referring to the New Transatlantic Agenda, which was adopted by President Clinton, Jacques Santer, President of the European Commission, and Felipe Gonzales, then Prime Minister of Spain and President-in-office of the European Council, in December 1995. This provides the framework for the ongoing consultative process between the EU and the US Government, which includes two summit meetings each year at presidential level. The NTA, as it is called, spells out the values we share and the principles which bind us together as well as committing us to work together in four major areas. Let me quote a few sentences from its preamble:

“We, the United States of America and the European Union, affirm our conviction that the ties which bind our people are as strong today as they have been for the past half century. For over fifty years, the transatlantic partnership has been the leading force for peace and prosperity for ourselves and for the world.....

Today we face new challenges at home and abroad. To meet them, we must further strengthen and adapt the partnership that has served us so well.”

The text goes on to define four areas of cooperation. These are as follows:

- (1) Promoting peace and stability, democracy and development around the world**
- (2) Responding to global challenges, such as international crime, drug-trafficking and terrorism**
- (3) Contributing to the expansion of world trade and closer economic relations**
- (4) Building bridges across the Atlantic, to ensure that future generations remain as committed as we are to developing a full and equal partnership**

These are noble words. But how is the relationship in practice? I am going to quote to you a speech made recently in Washington by Strobe Talbott, Deputy Secretary at the State Department, in which he described how these words are being translated into action:

“We need a Europe that is our partner in meeting challenges in all corners of an increasingly interdependent world....In fact, the US and the EU are already working hand-in-glove on quite a few far-flung enterprises. We have been doing so for some time. I’ll cite just a few illustrative examples. EU participation has been key to the launching of the Korean Energy Development Organisation, enabling it to address the threat of nuclear proliferation and promote regional stability on the Korean peninsula. The EU’s law-enforcement authorities are collaborating with ours against narcotraffickers in the Caribbean.

We have just launched an initiative for joint US-EU coordination with Poland and Ukraine to combat

international prostitution rings that prey on vulnerable women in those transitional societies. EU and US health experts are helping to develop an early warning network against communicable diseases; EU and US experts are establishing a network of environmental centers in Ukraine, Russia and elsewhere in the NIS. Our efforts to coordinate US and EU development assistance have paid off in the fight against infectious disease in West Africa, against poverty in South Asia and famine and malnutrition worldwide.”

I think that quote gives you a flavour of the breadth of solid, practical cooperation across the Atlantic.

And what about contributing to the expansion of world trade? Well, last year saw the successful completion of three major negotiating exercises in the World Trade Organisation, all three brought about by close coordination of strategy between the EU and the US. The Information Technology Agreement ensured that the current and future explosion of trade in these high-tech products will take place unhindered by customs tariffs. The agreements in liberalisation of trade in the areas of basic telecommunications and financial services freed up whole new areas of business for the future. These were impressive achievements which would not have been possible without the two of us working together in close harmony.

The fourth area of cooperation in the NTA is our bridge-building activity. This is designed to nurture new links across the Atlantic between a variety of groups in our society, alongside the expanding government-to-government links. We now have a flourishing Transatlantic Business Dialogue, through which companies interact and make their common views known in no uncertain manner to our bureaucrats. A dialogue between organised labour is off the ground, one between consumer representatives is in the making.

We have a new system of exchanges between groups of universities and are about to support the creation of a series of new programs in American universities, to teach Americans some of the simple truths and many of the complexities of the European Union.

So all is sweetness and light? Well, not quite.

We do have important differences of view in some areas, in particular in how we deal with certain problem countries around the world. I am referring here to Iran and to Cuba. For obvious reasons I will use Cuba as my example today. We wholly reject the policies of the Castro regime in Cuba, which is a relic of a discredited system which has impoverished its people and trampled on their rights and their freedoms. We share this with you. What we do not share with the US government is its assessment of how best to bring about change on that unhappy island.

We believe that the best way to deal with this sort of dictatorship is not to apply draconian economic sanctions to its economy and leave its people in poverty, but to maintain economic ties, multiply contacts, and allow our values to win the war of ideas. That was the successful strategy which we both pursued to bring down the Iron Curtain in Europe. As you know, US policy is different. Congress has determined a policy of the economic isolation of Cuba. The recent decision by the President to allow more contact for humanitarian reasons still leaves your strict economic embargo intact. We believe that friends must be able to agree to differ from time to time. We think Congress is misguided, but we accept that its views represent the will of your people. This is democracy in action and we respect that.

But we also expect the same respect to be shown towards our own, democratically determined policy, which happens to be different. That is why we object so vehemently to the Helms-Burton Act, which attempts to impose sanctions on our companies in Cuba, even though they are acting fully in accord with our laws and our policy.

We object to these sanctions because they would be contrary to the multilateral trade rules in the WTO, which the US and the EU have so painstakingly built up together as the basis for our prosperity in the global economy. How can the US expect others to stick to these rules if it is prepared to ride rough-shod over them itself?

We object to these sanctions for another, even more fundamental reason. By trying to coerce the EU into changing its democratically legitimated policy towards Cuba - and a similar situation exists vis-a-vis Iran - Congress chooses to undermine the very principles of democracy and the rule of law, which are at the basis of your constitution, our Treaty of Union and our common and remarkably successful efforts to export these principles to the rest of the world.

We also have an ongoing series of trade disputes with each other. These usually receive attention in the media accompanied by speculation about whether a transatlantic trade war is about to break out.

But you will have noticed that this has yet to happen. These disputes are the - I would say almost inevitable - by-product of the friction which arises as two different regulatory frameworks impact on what has now become a massive volume of transatlantic business activity.

In 1996 two-way trade in goods across the Atlantic amounted to \$288 billion. Trade in services added a further \$162 billion. Not only is this trade volume huge, the flows are roughly in balance, neither of us ever has a large or persistent surplus with the other. Each side is also by far the largest investor in the economy of the other. By 1996 the accumulated value of these investments - even measured only at historical, book values - amounted to \$720 billion.

EU companies have provided 59% of all the foreign investment which has created jobs in the US. 44% of all American investments overseas are in the EU. This balanced relationship illustrates a very important point.

Whatever the trade frictions may be, they do not prevent a vast volume of transatlantic business being conducted under free market conditions. And this, you will remember, was the second message I wanted to leave you with this evening. No other market around the world can offer business opportunities to American companies on anything like the scale or under such favorable conditions as the EU Single Market.

But I do not want to leave you only with this message of potential financial gain. I have learned in my short stay in this wonderful country that Americans may be practical people, but they are also idealists.

I grew up near a small village in the North of England called Falloden. Falloden's most famous son, Earl Grey of Falloden, was British Foreign Secretary at the outset of World War I.

He it was who is quoted as saying in that dark hour;

“The lamps are going out all over Europe. We shall not see them lit again in our lifetime”. And, of course he was right.

The second message I wish to leave you with now is that at this end of a turbulent century the lights of hope and of peace are on again all over Europe. Partly because of all the US has contributed, but also, in large measure because of this strange, historically new entity called the European Union.
