

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(93) 538 def.

Brussel, 6 april 1993

COMMUNICATION FROM THE COMMISSION

RELATIONS BETWEEN THE EUROPEAN COMMUNITIES
AND THE UNITED STATES

RESUME

The General Affairs Council of 8 March 1993 decided that part of their informal meeting (Gymnich formula) at the Hindsgavl Castle in Denmark on 24/25 April will deal with relations between the European Community and the United States. Ministers decided that the debate would be prepared on the basis of a Commission paper and other contributions.

The purpose of this paper is primarily to respond to this demand and at the same time help focus thinking on the near-term political priorities for the Community in its relations with the United States of America.

EC-US relations are characterized by an increasing level of interdependence. The EC and the US are each other's largest single trading partner. They are at the forefront of international crisis management, and thus need to pool their resources and find common responses to the current political crises of the day, as well as rising to the challenge of revitalising the world economy.

It is against this background that the transatlantic relationship deserves particular attention. The new administration has brought about a substantial political change, thus providing the occasion for a reassessment of this relationship and consideration of ways to further foster its development.

The attached paper examines the current state of EC-US relations, focussing on new opportunities for transatlantic cooperation. Having analyzed the key factors shaping the relationship, it examines the "architecture" of EC-US relations and indicates means for improvement. In part II, immediate political priorities are identified.

EC - US RELATIONS

INTRODUCTION

1. The US and the EC have the most important inter-dependent relationship in the world. Both sides have major, concrete, overlapping interests in each other. Both share fundamental political principles and both have an interest in promoting these principles in the world. Given the depth of EC-US economic and political interdependence and the order of magnitude of global political, economic, trade and environmental problems which neither side can solve on their own anymore, both must work together in order to develop common strategies and actions.

In the post-war period, the EC-US relationship was primarily influenced by security and military aspects, in which the US clearly had a dominant position. With the end of the Cold War, transatlantic relations are undergoing important changes including new burden sharing arrangements which used to be mainly concentrated on the military side, but now also cover financial, trade, economic and other areas. Their long history of cultural heritage and interdependence, their common role for managing security and their close economic and trade relations remain, however, the cornerstones of EC-US relations.

It is, however, critical that the Community considers EC-US relations not only in the bilateral framework but also within the broader geopolitical context in which 80% of the world's population have virtually no economic power nor political voice and where Japan shoulders only a limited share of global responsibility in relation to the level of its economic and financial strength.

2. The overall objectives of EC-US Relations are defined in the "*Transatlantic Declaration*" of November 1990. It forms the basis for the development of a working partnership between the EC and the US, delineates the *common goals and principles* shared by the EC and the US and establishes procedures for consultation and regular interaction between the two sides. A similar structural relationship exists with Canada.

The key factors determining EC-US relations are analysed in Part I below. On the basis of the analysis proposals for policy coordination and joint action are made in Part II.

1. STATE OF PLAY AND ANALYSIS

CHANGES IN EUROPE AND THE US

3. New challenges are arising at a time when *important internal political changes are taking place in the EC and the US.*

In the *Community*, moves towards the creation of the European Union, together with the development of a Common Foreign and Security Policy (CFSP), Economic and Monetary Union, the setting up of the EEA, the coming enlargements and the closer economic and political links with the countries of Central and Eastern Europe will lead to important changes in the economic and political landscape. The Community's geographical proximity to these countries exposes the Community to the potential risks resulting from geopolitical changes. It is certain that the US will keep an eye on the ongoing evolution in the Community in the expectation that the Community will develop a new economic and political stature over the coming years.

In terms of trade the overall liberalising effects of the creation of the *single market* in the Community is of great importance also for the US.

4. In the *US*, substantial political change is under way. Not only is Mr Clinton the first Democratic President for many years and has the advantage of working with a Democratic majority in Congress, but he is also dedicated to *change and renewal*. It is becoming more and more apparent that the dynamic, youthful and open minded new team in Washington is more oriented towards concrete results and actions, rather than in principles per se.

Furthermore, the new Administration looks upon foreign policy in close conjunction with its economic policy and appears more ready to question traditional concepts. The range and complexity of domestic problems - crime, drugs, health care, education - has also increased and forced Washington to pay *more attention to the domestic agenda*. Other elements which need to be taken into account are the NAFTA agreement and the growth of non-European America and the shift of the economic and political centre of gravity from the North and East to the South and West as well as a tendency to pay more political attention to the subfederal level.

Turning to political changes, it is possible to identify increased congressional influence on legislative and financial matters directly impinging on foreign affairs. The new Congress is more diversified, more interested in local/domestic issues and seems, at this stage less oriented towards transatlantic relations. It remains to be seen what the consequences will be and how this could affect US attitudes in the longer term.

5. On the other side new opportunities for EC/US cooperation will certainly emerge from the new policies and the business oriented, non dogmatic approach chosen by the Clinton Administration. The objectives of stimulating the economy and reducing the budget deficit require renewed efforts for coordination of macroeconomic and monetary policies between the EC, the US and other major world trading partners. President Clinton has announced new initiatives linked to the major themes of improving social conditions and strengthening industrial competitiveness, environment, energy and transportation policy.

There seems to be a growing parallelism between the US Administrations' priorities and policies, and those of the Community. This parallelism, provided it is confirmed by subsequent political decisions, offers many opportunities for further development of the ongoing dialogue between the Community and the US Administration.

KEY FACTORS SHAPING EC-US RELATIONS

6. With the *disappearance of the bipolar world, new challenges* to the world's security have emerged. The Community and its Member States, together with the United States, are bound to remain in the forefront of regional crisis management, especially in the framework of the UN, and in contributing to stability and constructive change in Central and Eastern Europe, the former Soviet Union and ex-Yugoslavia. Furthermore there is an obvious need for the two largest donors of development aid to organise more effective cooperation. At the same time both partners continue to share a common interest in the management of other political issues: China, the Middle East, Somalia and the promotion of democracy and human rights in the world.

These changes go to the heart of the architecture and functioning of the UN, NATO, CSCE and WEU and make it necessary that both partners deepen their cooperation and define concrete actions:

- to organize and improve cooperative security mechanisms, conflict prevention and resolution;
- to build the two-pillar Atlantic Alliance;
- to organize the division of responsibilities between NATO and WEU.
- to maintain the US military presence in Europe;

7. Furthermore, burden sharing will be one of the elements shaping EC-US foreign policy relations. This tendency will be reinforced by the pressures on public budgets on both sides of the Atlantic. The figures below clearly demonstrate that burden sharing has not only military facets, but indicate that global burdensharing is much more equal than is commonly perceived.

TABLE : EC-US BURDEN SHARING

Billion ECU (1990-1991 Figures)	EC AND MEMBER STATES	US
Military contributions to NATO defence (In 1990, USD billion)	174	305
Assistance to CIS (total until 1 March 1993, ECU billion)	53	8
Central/East Europe (total until 1 July 1992, ECU billion)	21	4
Official development assistance to LDC's (In 1991, USD billion)	25	11
(EC imports from CEECs) (in 1991, ECU billion)	(16)	(1)
(EC imports from CIS) (in 1991, ECU billion)	(18)	(1)

Whilst the last two lines of this table are not specifically covered by traditional burden sharing concepts, they indicate nevertheless other areas where the Community is contributing to multilateral development of the new Central and Eastern European democracies.

Beyond the common interests and responsibilities in the area of foreign policy, the strength of their *economic interdependence* plays a key role in the relationship between both partners.

8. *The European Community and the US are each other's largest single trading partner.* US exports of goods and services and transfer payments to the Community amounted to \$ 191 billion in 1991 or over one quarter of total US exports making the Community the largest export market for the US. Community exports to the US amounted to \$ 178 billion in 1991 or 25 % of total US imports. Cumulative US direct investment in the EC was \$ 189 billion in 1991, almost half of total US direct investment abroad and making the Community the most important foreign investment market for US companies. EC investment in the US (\$ 232 billion) amounted to more than half of total foreign investment in the US market, making the Community the largest foreign investor in the US. The importance of economic and trade relations in all likelihood will increase through further enlargement of the Community.

It is important to note that the *vast majority of EC-US bilateral trade flows are largely trouble free* and that the recent growth of transatlantic trade and investment has also been spurred on by the implementation of the Community's Single Market, which has opened up new trade opportunities for third countries. *Notwithstanding, EC-US relations are still adversely affected by some profound divergences of view and a number of serious bilateral trade conflicts in areas such as steel, telecommunications and Government Procurement.*

9. In view of the delicate shape of the world economy, not only the EC and the US but also Japan have *the common responsibility and the economic strength to stimulate world trade, to revitalize global economic growth, including employment and to reduce exchange rate instability.* There is therefore a clear need for a dialogue to avoid incompatible responses to the deterioration of global economic prospects. In addition to the bilateral dialogue, G-7 cooperation should be strengthened, with a view to stimulating economic growth and with particular emphasis on efforts to achieve a *greater degree of monetary stability.* In this context the question *arises about* how to reform the G-7 and its functioning. Both partners should also seek cooperation with Japan in order to ensure that it plays a role in the world economy and international trade relations commensurate with its economic and financial strength.

10. From the European Community's point of view, strong concerns have centred around the US position that parts of their domestic legislation has primacy over international trade law. This legal concept is clearly incorporated into major US trade and other legislation such as Title VII of Section 301, etc... Most recently this approach is reflected in the intention on the US side to go further by reintroducing Super 301 legislation. This legal situation results in ambiguity towards foreign direct investments and the risk of the extraterritorial reach and application of certain US legislation is enhanced, e.g. in the field of environmental policy and politically-motivated trade embargoes (tuna/dolphin dispute).
11. From a US point of view, Community production and exports which receive some form of government assistance are the major source of concern and are at the core of many of the bilateral trade disputes.

On the other side there are, however, also examples where it has been possible to work out cooperative solutions in spite of different legal and regulatory frameworks (Airbus Agreement, Third Country Meat Directive).

In the bilateral context, growing economic interdependence although resulting in extremely positive economic and trade effects, has also revealed different approaches in some areas and led to trade disputes in others. It is therefore necessary to make sure these specific issues are contained and dealt with on their own merits, thus avoiding knock-on effects in other policy areas.

The damaging effect of *unresolved bilateral disputes* and US unilateralism means that it is of paramount importance that the US understand and accept the need to firstly *refrain from unilateral action*, secondly to *adhere to internationally agreed dispute settlement procedures* and thirdly where necessary, to *cooperate with the EC and others to strengthen them*. These points are of particular importance for the Community.

Both the EC and the US, have highly developed research capacities, which can contribute to giving new impetus to the *competitiveness of their industries*. The shift in US efforts from military to civilian R&D should further increase the range of possibilities for concerted action. This latter issue is closely related with *defence conversion* and is a matter which concerns Europe and the US alike.

12. There appears to be a growing *convergence of views in the US with the European approach* of building the competitiveness of the economy not only on market forces but also on:

- the development and training of the work force;
- the availability of an efficient infrastructure (transportation, services, information networks); and
- the integration of environmental protection into industrial strategies.

On the other hand, there is still a considerable gap between the EC and the US as far as the *social dimension* of industrial policy is concerned.

On global issues such as *energy and environment*, the policy change in the US offers a unique opportunity for cooperation, across the board: pooling of R&D resources, coordination of regulatory agendas, coordination in multilateral fora. There is already a constructive Commission/US Administration dialogue on these matters which could now receive a further boost.

ARCHITECTURE OF EC-US RELATIONS

13. During the post-war period, it has mainly been the US which has defined *the structure of transatlantic relations*. Now the EC should gear itself to really contribute to the reshaping of transatlantic relations in the context of a balanced partnership. Therefore the EC will have to *explain to the US political elite and public the rationale for its policy approach* in areas of common interest and concern.

The present architecture of EC-US relations is built upon the "Transatlantic Declaration" the implementation of which can be assessed as follows:

- (a) *Institutional framework*: among the high-level consultations provided for under the Declaration, those at Presidential level and those of a EPC/US type have taken place with the intended regularity since November 1990.
- (b) *Political dialogue*: over the last two years the dialogue has helped towards the adoption of compatible, and often identical, policy positions by the EC and the US on many major international policy issues. Given the magnitude and range of geopolitical problems this dialogue needs, however, to be further intensified and joint declarations on topics of common interest should be issued, whenever possible.

(c) **Economic and trade cooperation:** In spite of very active multilateral negotiations, wide gaps remain in the respective positions in several multilateral fora. This is in particular the case in the Uruguay Round negotiations, but holds equally true in the UNCED, OECD and the European Energy Charter. At the bilateral level a difficult breakthrough has been achieved on agriculture at Blair House, although many other trade disputes continue to overshadow EC-US relations. The overall situation in the economic and trade field underlines the need for the establishment of an early warning system, in order to detect and to resolve trade issues before they develop into political problems.

Nevertheless, a very active bilateral dialogue on issues of common interest is developing:

- there are regular formal meetings (covered by various Agreements and Administrative Arrangements) and informal contacts at working-level between Commission and US officials in almost all relevant fields;
- new agreements were signed in 1991 (Competition Policy, Securities Markets) and others are planned or are under preparation (Financial Services and Macroeconomic / Monetary Issues, Customs, Standards and Certification); a trend clearly exists towards giving the on-going sectoral dialogues a formal basis;
- work on Regulatory Convergence, as a way to increase the efficiency of cooperation, is progressing.

14. The above analysis indicates that the possibilities which the "Transatlantic Declaration" provides for **broadening and intensifying the EC-US relations** have not yet been exhausted.

In the first place the EC must establish an **effective working relationship** at all levels with those responsible on the US side. This means getting to know and starting to work with the new Administration, expanding the fragmentary dialogue with Congress, and ensuring that Community ideas and interests are well understood throughout the new policy-making community in Washington and elsewhere. In doing so the EC can no longer afford the luxury of inconsistent and even conflicting representations to the US Administration.

The EC thus needs to gear up its efforts to really promote and explain its policies to the wider public by using in a professional manner **modern media and public relations techniques**.

15. As far as the structure of the EC/US relationship is concerned, it appears premature at this stage to launch in concrete terms the idea of further institutionalizing the EC-US relations. The US clearly welcomes "a strong and integrated Europe" and wants "Europe to be a real partner" (W. Christopher). It is now up to Europe to live up to this political challenge and to use the platform provided by the Transatlantic Declaration and the Maastricht Treaty to develop *its capacity to speak with one voice and act with authority.*

II. IMMEDIATE POLITICAL PRIORITIES

FOREIGN AND SECURITY POLICY

1. The EC should intensify its contacts with the US in order to develop joint responses and actions to the new challenges emerging in the following areas:
 - (a) *Russia*: The EC and the US with Japan should take the lead in supporting political, economic and social reform.
 - (b) *Ex-Yugoslavia*: There should be joint EC-US pressure for urgent implementation of the Vance-Owen peace plan, improved organisation of humanitarian aid, and the planning of post-war reconstruction.
 - (c) *Peace process* in the Middle East.
 - (d) *Prevention of proliferation* of arms including ABC weapons.
 - (e) *Urgent development of an action plan* to help alleviate problems related to *refugees, nuclear safety, terrorism and drugs.*
 - (f) Development of a common political approach towards *China* (human rights, trade matters, etc...).

ECONOMIC AND TRADE POLICY

2. (a) *Russia*

The EC and the US should jointly speed up their assistance while pressing for equitable burden-sharing between all OECD countries.

(b) *World economy recovery*

The revitalization of the world economy is an important element for the solution of outstanding trade, social and environmental problems. It is essential that the EC and the US work together to improve the work of the G-7 by establishing more selective agendas, by aiming at more operational conclusions, and by ensuring that G-7 decisions are promptly and effectively carried out.

Important proposals for improving prospects for our respective economies have already been made by the EC with the *Edinburgh growth initiative* and by the US with its package for economic recovery. There is a clear need to start a process of coordination of these mutually reinforcing initiatives.

(c) *Conclusion of Uruguay Round*

There must be a clear agreement to conclude the Uruguay Round by the end of 1993. Both sides should now intensify their efforts to achieve a fair and balanced multilateral structure for world trade. The EC and US should also begin work on developing the post-Uruguay Round agenda.

The recovery of the world economy and the conclusion of the Uruguay Round should become top priorities for the EC/US Summit in May and for the G-7 Economic Summit in Tokyo in July.

(d) *Management of Bilateral trade issues*

Both sides should make all possible efforts to avoid bilateral trade disputes spilling over into other policy areas. Intensified efforts should be made to find cooperative solutions for existing trade disputes, to ensure that overall market access is open, effective and broadly balanced.

In order to reduce the risk of new disputes it is suggested that regulatory convergence be improved and that an early warning system be established, which should allow the settlement of issues before they develop into fully fledged trade disputes.

ENVIRONMENTAL AND SOCIAL POLICY

3. Given the growing concern over negative environmental and social repercussions in modern economies it is important that the EC and the US:
- make greater use of their joint research capacities in order to solve these problems;
 - put greater emphasis on the development and training of the work force in order to facilitate structural change;
 - integrate compatible environmental protection and social objectives into their respective industrial strategies and work to converge their positions in the field of energy and CO2 taxation.

TRANSNATIONAL ISSUES

4. As long as there remain deep pockets of poverty in many parts of the world - causing massive human suffering, severe environmental degradation and threatening the emerging democracies, it is important the EC and the US tackle together the problem of uncontrolled population growth and environmental degradation on a global scale.

On the subject of population growth, the EC and the US should develop a joint approach for the 1994 World Population Conference.

The EC and US should equally join efforts in the field of Human rights and democratization; in particular, they should work together to make a success of the next World Conference in Vienna promoting operational conclusions aimed at strengthening respect for Human rights within the U.N. context.

As far as the environmental issue is concerned it is essential to ensure an efficient follow-up to the Rio Conference and to turn recommendations into actions.