U.S.—EUROPEAN COMMUNITY RELATIONS (1986–90) : CONFRONTATION OR COOPERATION ?

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CERTIFICATE

Certified that the dissertation entitled, "U.S.-European Community Relations (1986-90): Confrontation or Cooperation?" submitted by Ms Rashmi Srivastava in partial fulfilment of nine credits out of the total requirement of twentyfour credits for the award of the degree of MASTER OF PHILOSOPHY (M.Phil) of this University, is her original work and has not been submitted for the award of any other degree of this University, or any other Institute.

We recommend that this dissertation should be placed before the examiner for final evaluation.

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PREFACE

This dissertation is an attempt to study the U.S.-EC relationship which largely involves bilateral trade between the U.S. and EC member states who are legally represented by EC institutions. But along with partners in trade, they are also powerful competitors in the external markets, the fact which has been the major cause of friction in the U.S.-EC relationship. As such, the EC was largely a by-product of U.S. support for European reconstruction based on the 1947 Marshall Plan. A massive amount of U.S. economic aid was given for the reconstruction and integration of the European economy to counter the Soviet threat.

The desire to preserve this alliance in the following years had a dampening effect on trade quarrels. The U.S. tolerated what it saw as European protectionist measures - EC's high tariff barrier, export subsidies, tariff reductions for close non-EC members, and competition with EC members in third markets - as the prosperity of Western Europe was an overriding American goal. But by the 1960s U.S. came to realise that EC could become a strong economic power and therefore, to redefine U.S.-European relations, President Kennedy announced his

"Grand design" calling on the EC to be an equal partner of the U.S.A. in managing transatlantic relations. But by the late 1960s, the European condemnation of U.S. participation in the Vietnam war and the suspicion over the detente policy caused resentment in the U.S. The situation continued to deteriorate under the Nixon, Carter and Reagan administration until 1986 when the Single European Act charted the course of the economic integration of the 12-member European Community.

The European Community returned to its initial objectives enshrined in the Rome Treaty in 1957 and set itself the goal of forming a genuine common market by 1992 - a single market in which people, goods and capital will circulate freely - thereby creating an economy unfettered by the internal barriers of the Community.

However, in the U.S., the Act aroused mixed response. Officially though the U.S. welcomed the EC's goal of a single internal market by 1992 and expressed hope that U.S. would benefit from such an attempt. But at the same time, fears were also expressed at the EC giving into the temptation of protectionism by creating external barriers while destroying the internal ones.

This work is an attempt to study the U.S. response to the Single European Act and the creation of a single internal market by 1992 and to explore the new areas of trade conflicts and the U.S. reaction to the changed situation.

The first chapter deals with the issues in the U.S.-EC relations since 1970 and studies the conflict in the relationship under the Nixon, Carter and Reagan administration till the year 1986.

The second chapter outlines the Single European Act and the various treaties and committee reports preceding it which set in the process of the European integration.

The third chapter deals with the U.S.-EC relationship since the Single European Act and gives an account of the new areas of trade and foreign policy conflict in the U.S.-EC relations.

This dissertation was prepared under the supervision of Dr. B.K. Shrivastava, Professor in American Studies Division of the School of International Studies, Jawaharlal Nehru University. I am greatly indebted to him for his constant and unfailing help, patient guidance and encouragement at all stages of the writing of this work.

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CHAPTER I

ISSUES IN U.S.-EC RELATIONS SINCE 1970

In the post Second World War era, as the differences between the Soviet Union and the allied powers increased over the post war settlement, the United States felt the imperative for the creation of a United Europe. This was also seen as a remedy to the Western Europe's catastrophic economic situation and for the prevention of the Soviet pressure on Europe's southern flank, particularly in Greece and Turkey. Out of these twin concerns, which were in fact closely linked, since economic hardship in Western Europe could have well stimulated political extremism there and serve Soviet interests, was born the American policy which took shape during 1947; a policy of fostering the economic and political unification of Western Europe. American public opinion also appeared favourable to the idea, and the United States Congress too in support of the idea debated a series of resolutions from March 1947 onwards in favour of a "United States of Europe".

Against this favourable background, the idea was formulated that America's economic aid to the people of Europe should be linked to the project of European unification. Discussing the need for an American aid programme on 1 May 1947, the American columnist Walter

Lippman wrote:

> From our point of view it would be a refreshing innovation to make our contribution not to any separate governments but to Europe --- In some such way as this the contribution, which we must inevitably make, would serve not merely to relieve suffering but as a premium and inducement to the unification of Europe.(1)

A week later, in a speech in Cleveland, Mississippi, the then Under-Secretary of State Dean Acheson stated that;

> European recovery can not be complete until the various parts of Europe's economy are working together in a harmonious whole. And the achievement of a co-ordinated European economy remains a fundamental objective of our foreign policy.(2)

During the late 1940's and early 1950's, the years of the European Recovery Programme, American influence was consistently exercised in promoting not only Europe's economic development but also institutions for European cooperation. The Organization for European Economic Cooperation (OEEC) established on 5 June 1948 was one such organisation. Over the years the several

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1 Quoted in Max Beloff, The United States and the Unity of Europe, (London: Faber and Faber, 1963), pp.14-15.

2 Ibid, p.19.

distinct efforts and phases of European Community evolution - ECSC (European Coal and Steel Community), EDC (European Defence Community), EPC (European Political Community), Euratom (European Atomic Energy Agency), and EEC (European Economic Community)-were given formal U.S. diplomatic support.

In the 1960's, the most dramatic statement of United States policy towards Europe's attempts at unification was made by President John F. Kennedy on 4 July 1962 when he proclaimed his 'grand design' for the future of American-European relations. He said:

> We do not regard a strong and united Europe as a rival but as a partner. To aid its progress has been the basic object of our foreign policy for seventeen years. We believe that a united Europe will be capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce, commodities, and currency, and developing coordinated policies in all economic, political and diplomatic areas.(3)

The phrases in the statement touched virtually on all the main aspects of European-American relations

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3 John F. Kennedy, "The Goal of an Atlantic Partnership", Department of State Bulletin, (Washington, D.C.), July 23, 1962, p. 132.

since 1945: America's encouragement of the process of European integration and the hope that a United Europe would act as a loyal partner of the U.S. and would share America's burdens more effectively. The U.S. also expected a co-ordinated approach in international relations and to tackle the problems of the world.

In the years that followed the U.S.-EC relations belied the high expectations of the United States and Kissinger's warning proved to be true in which he had warned that:

> A united Europe is likely to insist on a specifically European view of world affairs, which is another way of saying that it will challenge American hegemony in Atlantic policy. This may well be a price worth paying for European unity; but American policy has suffered from an unwillingness to recognize that there is a price to be paid.(4)

Kissinger's prophecy soon came to be true for by the mid 1960s the United States came to view the EC as a challenge to its economic and political interests.

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4 Henry Kissinger, The Troubled Partnership: A Re-appraisal of the Atlantic Alliance, (New York: McGraw Hill Book Co., 1965), p.40.

The rapid pace of Europe's recovery and Europe's return to convertibility enabled the EC to complete successfully the first phase of economic integration leading to a customs union with a common external tariff and a common market in agriculture. The United States soon learnt that its commercial as well as farm exports to Western Europe were facing cuts as a result of the EC's Common External Tariff (CET).

At the political level too, developments both within and outside the Atlantic framework caused swift changes in the pattern of EC-US relations. The failure of the Western allies to stand solidly behind the United States in its offensive in Vietnam angered the United States. It now realized that its perception of the world differed from its allies.

As a result of these changes, the decade of the seventies opened on an alliance in serious trouble. "The marriage of love and convenience had turned sour; and as is the wont, each partner found fault with every action of the other. Even gestures that were intended to appease somehow went wrong."[5]

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5 David S. Landes, (ed.), Western Europe: The Trials of Partnership, (Massachusetts: Lexington Books, 1977), p.20.

Nixon's Offensive against the EC:

Over the years, American foreign policy had pursued with passion the objective of European integration, through support of integration steps among the six of the EC, and through encouragement of enlargement of the Community to include the United Kingdom and others in Europe. President Nixon too endorsed the unification of Europe under any circumstances. In his first "State of the World" report in February 1970, he reiterated that :

> Our support for the strengthening and broadening of the EC has not diminished. We recognize that our interest will necessarily be affected by Europe's evolution, and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gains in the political vitality of the West as a whole.(6)

But as the 1970s unfolded, the U.S. became increasingly aware of a shift in global issues from military to economic. In evaluating its policies toward European Community during the Nixon administration, the U.S. faced the necessity of reassessing its political

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6 Harold B. Malmgren, "Europe, the United States, And the World Economy", in Steven Joshua Warnecke (ed.), The European Community in the 1970s, (New York: Praeger Publishers, 1972), p.129.

and economic strength. Nixon sought above all to restore the falling dollar and to rejuvenate the deteriorating state of the U.S. balance of payments deficit which amounted to nearly $10 billion in 1970. However, the economic measures that his Administration introduced under the New Economic Policy to maintain the world role of the dollar, revolutionised the trans-Atlantic relations.

Since the end of Second World War, trade among the non-communist states had been governed by the Bretton Woods Agreement. Under it, the international monetary system had been constructed in the form of a gold exchange standard based on the dollar, with the United States functioning as central banker. In practice this meant that the amount of new money placed in circulation depended mainly on the magnitude of the annual deficits in the United States' balance of payments. When the world's demand for new money exceeded the supply available, the United States ran deficits.

With the emergence of the EC, the status of the dollar was challenged, particularly by the German deutsch-mark. The situation was further stimulated by the Euro-dollar market, through which the credit pool of the dollar deposits was allowed to expand beyond the control of the U.S. Treasury. As a result, a massive hoard of dollars exported by Balance of Payments deficits were held largely in Europe which far exceeded U.S. gold reserves.

To redress the situation, on August 15, 1971, the President announced his new economic policy. On the domestic side, to reduce both unemployment and inflation, various measures were employed such as investment credits, repeal of the excise tax on automobiles, acceleration of income tax exemptions, a $ 4.7 billion cut in government spending, postponement of government pay raises, and a ninety day freeze on wages and prices.

The real thrust of the new programme, however, was in the measures to defend the dollar abroad and to rectify the balance of payments deficit. President Nixon announced a 10 per cent reduction in foreign economic assistance, a 10 per cent surcharge on all imports, and suspension of the convertibility of the dollar into gold. "Abroad this new programme was seen by many as a declaration of economic war on the other industrial democracies, and a retreat by the U.S. from its previous commitment to an open international economic system".[7]

Further, in a rapid series of international meetings, Treasury Secretary John Conally, wielding the 10 per cent surcharge, waged war against what Vice President Ted Agnew called an "unfair deal".[8] The unfairness for the U.S. was protective Common Market and Conally's tactic was to link "trade and money", arguing that unless adjustments were made in both areas to assist the U.S., unilateral "surprises" such as the 10 per cent surcharge might be the consequence.

Then, on October 15, 1971, President Nixon announced Phase II of his economic plan which recommended a rise in wages and prices within a certain percentage. This plan, according to Nixon, "was an answer to getting out of the controls before they broke down or became permanent".[9] American economy responded well to these

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7 Henry Kissinger, White House Years, (Boston: Little Brown and Company, 1979), p. 955.

8 "Reflections on the Quarter", Orbis, (Philadelphia), vol.17, no.1, Spring 1973, p.12.

9 Richard Nixon, The Memoirs of Richard Nixon, (New York: Grosset and Dunlap, 1978), p.520.

measures. In view of this, the U.S., Western Europe and Japan signed the Smithsonian Agreement of December 18, 1971. Under the agreement, the European currencies were revalued about 10 per cent on the average, and the yen about 15 per cent. To hamper the speculators, a 2.25 per cent fluctuation from parity was permitted. The U.S. dropped its surcharge but the dollar was not made convertible.

These measures were only the opening salvos of what President Nixon called the New Economic Policy. By Fall of 1971 American representatives urged the Common Market to lower barriers to American farm products imposed by the high support-price structure of the Common Agricultural Policy. A high level American Commission on International Trade and Investment Policy (the Williams Commission) had reported to President Nixon in 1971 that the implementation of the Common Agricultural Policy by the EC was the principal obstacle during the decade (the 1960s) to lowering agricultural trade barriers.

The core of this policy was a variable import levy system for most temperate-zone products. These levies were adjusted so as to offset completely any price advantage of foreign products; i.e. to bring the price of the imported product to a level slightly above the community price, irrespective of the size of the differential.[10] This automatically reduced the most efficient agricultural nations to the role of residual suppliers for products the Community did not grow in sufficient quantities to meet its needs. The U.S. government argued that in view of its high efficiency American agriculture could offer its products at considerably lower cost than European farmers. Therefore increased American farm exports would benefit European consumers and their exclusion from the Community markets was deemed arbitrary.

The Nixon administration also expressed its dissatisfaction with the free trade arrangements between the EEC and the members of the former European Free Trade Association (EFTA). Following the entry of these new members, free trade area according to the rules of GATT was negotiated between the Community and Austria, Finland, Sweden, Switzerland, Iceland and Portugal. It was agreed that most industrial tariff within this free trade area would be removed by 1977. Because of this

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10 C. Gordon Bare, "Trade Policy and Atlantic Partnership: Prospects for new negotiations", Orbis (Philadelphia), vol.17, no.4, Winter 1974, p.1284.

arrangement, American exporters feared discrimination against their exports to the six countries included in the free trade area. These exports amounted to nearly $ 1,300 million in 1970; 3.5 per cent of American exports.[11] Therefore, the Nixon administration, fearing that a larger free trade area would further affect its exports to Europe, called for a standstill on EC-EFTA talks.

The discriminatory effect on U.S. exports stemming from the EC itself and the countries with which it had preferential agreements was also found to be significant. If the EC of the six was combined with all the countries with which it had preferential agreements by the end of 1972, more than $ 11 billion (1971 figures) of U.S. exports were subject to some kind of discrimination in favour of EC suppliers and producers. These exports constituted 22.55 per cent of total U.S. exports. If to this, the three new EC member states, the EFTA countries with which free trade agreements had been concluded, and the Commonwealth countries in Africa and the Caribbean which were promised associated status on request, were added, the value of American exports subjected to

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11 Roger Morgan, "The Transatlantic Partnership", in Kenneth J. Twitchett (ed.), Europe and the World - The external relations of the common market, (London: Europa publications, 1976), p. 49.

discrimination rose to more than $ 18 billion (1971 figures). This amounted to nearly 37 per cent of total U.S. export[12] and therefore, the Nixon administration demanded concessions for alleged discrimination.

While the U.S. was seeking concessions for alleged discrimination because of the Common Agricultural Policy and the preferential agreements, the Community and member states insisted on reciprocity in lowering tariff and non tariff barriers.[13] They favoured substantial reciprocal reductions of tariffs, but not their complete elimination as was advocated by American experts. Moreover, they were silent on the reverse preferences, although the Commission recommended that in future agreements they would be excluded while in the forty preferential accords currently in effect with Mediterranean and African countries, they would be retained.[14]

Therefore, in order to provide redress to American exporters, in the spring of 1973, President Nixon submitted to Congress a proposal for new trade legislation,

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12 Werner, J. Feld, "Trade between the U.S. and the EC: Differing Expectations in a changing power relationship", Journal of International Affairs, (New York), vol.28, no.1, 1974, p. 18.

13 New York Times, 12 April 1973.

14 International Herald Tribune, 4 April 1973.

which became known as the Trade Reform Act. Whereas its predecessor the Trade Expansion Act of 1962, had emphasized the liberalisation of world trade, the new act was viewed as protectionist. Its main feature was that it gave the President the authority to raise, lower, or eliminate American tariffs plus a simplification of the authority to raise import barriers against countries which unreasonably restricted U.S. exports. It contained a general provision allowing the raising or lowering of import restrictions in order to keep the balance of payments in equilibrium and combat inflation.

Though financial conditions were relatively stable during 1972, despite a record U.S. trade deficit of $ 7.0 billion, but the U.S. Treasury was never fully satisfied with the 8 per cent devaluation of the dollar achieved in the Smithsonian Agreement. Therefore, "despite the Smithsonian Agreement, a floating dollar was inevitable".[15] So when a brief period of currency speculation occured in early February 1973, the U.S. used the occasion to devalue the dollar again, unilaterally, after which it was decided simply to let it float with demand and supply.

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15 Henry A. Kissinger, n.7, p. 962.

Though devaluation was a familiar resort of various countries but for the U.S. to have recourse to these unilateral breaches of commercial continuity constituted a revolution. For a generation the Western alliance had rested on the tactit assumption that the U.S. was strong and Europe weak; that the U.S. would sacrifice its interests if necessary to further the prosperity of Europe. But now the steps taken by the Nixon administration made this assumption null and void and the United States decided to defend its own commercial interests as European Community had done till then. Benjamin Cohen, has described this reversal as a "bargain come unstuck ".[16]

In the meantime, at the political level, U.S. had tried to set its own house in order by getting out of Southeast Asia and that of building bridges to erstwhile adversaries - of rapproachment with China and reinforced detente with the Soviet Union. For the Europeans these efforts at disengagement were welcome in principle as they had long condemned or deplored U.S. role in Vietnam but worrisome in practice as they complained about the negotiations conducted over their heads,of deals that would surely affect them concluded

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16 Benjamin Cohen, "The Revolution in Atlantic Economic Relations: A Bargain Comes Unstuck", in Hanrieder (ed.), The United States and Western Europe, (Cambridge, Mass: Winthrop, 1974), p. 106.

without their say so. They expressed concern that President Nixon's superpower diplomacy meant that they might be bypassed in decision-making on issues of global importance and left to accommodate themselves to the altered situation.

It is in this context of unhappiness and concern that Nixon and Kissinger tried to reassure the allies and establish the basis for a "new " Atlantic partnership. Kissinger in his speech on 23 April 1973, recognised the importance of revitalizing the alliance, not through common fears but through common interests and aspirations. This approach was foreshadowed by President Nixon's pronouncements that 1973 would be the "Year of Europe" and by his plans to exchange visits with European leaders.

Ralf Dahrendorf, a member of the EEC Commission had already acknowledged the need for improved relations when he said:

> Whether there is going to be a 'decade of Europe' or not, there will be - or so it seems - an increasing interest in the U.S. in developing relations with Europe and notably with the European Community. In developing this dialogue, the U.S. will no longer be prepared to deal with sectors of policy making separately, for there is an apparent impatience in the U.S. with respect to the complete or near complete separation of American-European relations in the fields of trade, monetary affairs, defence, and general policies. These policies are indeed connected.(17)

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17 Ralf Dahrendorf, "The foreign policy of the EEC", The World Today (London), vol.29, no.2, February 1973, p.54.

Kissinger, in his speech, stated that President Nixon's approach in his talks with the West European leaders "will be to deal with Atlantic problems comprehensively. The political, militarly and economic issues in Atlantic relations are linked by reality, not by our choice nor for the tactical purpose of trading one off against the other".[18] In this respect he argued that trade and monetary talks could not be left simply to technicians : "It is the responsibility of national leaders to insure that economic negotiations serve larger political purposes. They must recognize that economic rivalry, if carried on without restraint, will in the end damage other relationships".[19] Kissinger complained that the "prospect of a closed trading system embracing the EC and a growing number of other nations in Europe, the Mediterranean, and Africa appears to be at the expense of the United States and other nations, which are excluded". He, therefore, warned that an "unbridled economic competition can sap the impulse for common defense" and demanded an "equitable sharing"[20] of military burdens by the allies.

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18 Henry A. Kissinger, "The Year of Europe", Department of State Bulletin (Washington, D.C.), May 14, 1973, p. 594.

19 Ibid, p. 596.

20 Ibid, pp. 595-597.

From the start, the Year of Europe initiative evoked unenthusiastic response in Europe. Some of the initial comments were rather extreme: Washington aimed to restore American hegemony over Europe, it sought to divide the West Europeans by taking actions which underscored their lack of unity, it prepared to negotiate with its presumed allies as if they were adversaries. The concern over a Soviet-American condominium pre-empting European interest ran deep and was strengthened by the Brezhnev-Nixon meeting in June at Camp David when the Agreement on the Prevention of Nuclear War was signed.

Its reception at home was nevertheless a mixed one. A columnist described it as "a message to Europe that can be compared historically only to the famous Marshall Plan speech--almost 26 years ago",[21] while another dismissed it as "baloney".[22]

A more balanced response saw value in taking steps to clear the trans-Atlantic atmosphere; but doubted the need for a new Atlantic Charter. Although Europeans acknowledged the common framework of the problems, many were concerned

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21 James Reston, International Herald Tribune, 25 April 1973.

22 Joseph Kraft, International Herald Tribune, 27 April 1973.

about the deliberate linkage of the economic issues with defence, fearing that the U.S. would seek concessions in the trade and monetary fields in exchange for the maintenance of her security role in Europe. This was seen as a not so subtle demand for 'protection money'.[23] As the French foreign minister described it, "we protect you, so you pay us" is unacceptable, since the Alliance is for mutual protection".[24]

The British Foreign Secretary, Sir Alec Douglas Home, though supported the basic Atlantic relationship but spoke of two major objections. Firstly, a "charter" appeared premature to him and secondly, he questioned the feasibility of linking monetary, trade and defence issues in a single set of negotiations. Chancellor Willy Brandt too, argued that in any case the growth of the EEC had not harmed American economic interests, as Kissinger seemed to imply. "Contrary to the legend", the Chancellor asserted, "the Common Market had promoted rather than impaired trans-Atlantic trade".[25]

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23 Andrew J. Pierre, "What happened to the Year of Europe", The World Today (London), vol.30, no.3, March 1974, p. 112.

24 New York Times, June 6, 1973.

25 "Reflection on the Quarter ", Orbis, Spring 1973, n.8, p.9.

Much hue and cry was also raised on Kissinger's reference to Europe's 'regionalism'. Kissinger had emphasized in his speech that, 'in economic relations, the EC has increasingly stressed its regional personality as against the U.S. responsibility for a wider international trade and monetary system, adding that in diplomacy "the U.S. has global interests and responsibilities: Our European allies have regional interests', and that European unity is---not an end in itself but a means to the strengthening of the West".[26]

However, the intention of Kissinger's call for a new 'Atlantic Charter' was to resuscitate U.S.-European security and trade relations. It reaffirmed the American commitment to European security. They also summoned the European allies to join U.S. in defining a new basis of co-operative economic relations. "We need", Nixon said, "a new affirmation to our common goals, to give political direction to our economic negotiations and promote cooperative solutions".[27]

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26 Henry Kissinger, n.18, pp. 594-595.

27 "U.S. Foreign Policy for the 1970's: Shaping a Durable Peace", a report to the Congress by Richard M. Nixon, May 3, 1973, Department of State Bulletin (Washington D.C.), June 4, 1973, p. 763.

Though the intention might have been good, but the overture was received with a mixture of indifference, resentment, and hostility. The reference to the "regional security interests' of the Europeans in juxta position to America's "vital interests outside of Europe" was singled out as particularly offensive.

Thus, Kissinger's speech failed to attract the Europeans and the EEC declaration, agreed upon by the Foreign Ministers of the Nine at Copenhagen in September 1973, was a relatively bland statement of generalities which omitted reference to defence problems. It was clearly disappointing to Kissinger who described it as 'lacking in substance'.[28]

That the Europeans wanted to play an independent role unhindered by the global interests of the U.S. was soon demonstrated in the Year of Europe, when the Arab oil crisis broke. The EC depended heavily on Arab oil as it obtained about 63 per cent of its oil requirements from the Arabs. It, therefore, adopted a pro-Arab stance and refused to contribute to U.S. diplomatic and material assistance to Israel. Subsequently, in March 1974, they initiated the Euro-Arab dialogue to establish close

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28 New York Times, 24 September, 1973.

economic, cultural, and technical ties between the EC and the Arab League.

On the other hand, the factors which shaped American policy were, however, different. With the U.S. only marginally dependent on Middle East oil (it obtained only 17 per cent of its oil requirements from the Arab countries) and seeing the war in the broader context of a potentially explosive Soviet-American confrontation, Washington's interests and priorities diverged from those of Europe. Therefore, the pro-Arab stance of the EC upset the United States.

The Year of Europe thus proved disastrous to EC-U.S. relations. Kissinger himself admitted at the end of 1973 that, "we were rash to have called this the Year of Europe".[29]

Thus, the Middle East crisis found relations between Europe and America at their lowest ebb. It lead to trans-Atlantic recrimination and bickerings which raised new questions about the long term durability of the Alliance. It also occured so quickly and in such unexpected circumstances that there was little time

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29 Quoted in Roger Morgan, "Can Europe Have a Foreign Policy?", The World Today (London), vol.30, no.2, February 1974, p. 43.

available for discussion. In any event, the U.S. took one road and the EC another.

Carter's Trilateral Approach to the EC:

Carter's approach to European Unity was the antithesis of Nixon's.[30] The post-Kissinger era gave immediate emphasis to economic issues, viewed in the context of relations among the developed nations. The cornerstone of the Carter administration's new foreign policy towards Europe was subsumed under the label "Trilateralism", prescribing primarily the relationship between the U.S. and the principal democratic, industrialized market-economy countries. The term was generated by the Trilateral Commission, an organization of influential private citizens from these countries and whose membership included Zbigniew Brzezinski and Richard Cooper, the Assistant Secretary of State for Economic Affairs.

Among the objectives outlined by the Trilateral Commission were the formation of joint policy-making institutions among the allied nations of Western Europe, Japan and North America; a need for the allied industrial

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30 P. Venkateshwar Rao, "The European Community and Euro-American Relations", International Studies, (New Delhi), vol.25,no.2, April-June 1988, p.171.

countries to act as a unit in coordinating economic and political relations with the Third World and the Communist bloc nations; and a restructuring of international economic institutions through the reform of the IMF by making the latter a federal reserve bank for the world economy.

Thus, the essence of Trilateralism was that it called upon the above trio of the advanced capitalist world to evolve a joint strategy to tackle the problems common to them - inflation, unemployment, trade relations, rivalry for markets and investments, North-South dialogue and defence against the Soviet Union. Zbigniew Brzezinski, who served as the first Executive Director of the Trilateral Commission and later became the National Security Adviser to President Carter explained that the need for a trilateral approach was because:

> The Atlantic concept was a creative response to the problems of the cold war era. Today, the Atlantic framework is too narrow to encompass the multitude of challenges - and opportunities that confront the international community. It is a recognition of this reality to propose that without closer American-European-Japanese cooperation the major problems of today cannot be effectively tackled, and that the active promotion of such trilateral co-operation must now become the central principle of U.S. policy.(31)

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31 Zbigniew Brzezinski, "U.S. Foreign Policy: The Search for Focus", Foreign Affairs (New York), vol.51, no.4, July 1973, p. 723.(emphasis is in original).

Close co-operation between the trio of the world's industrial centres would, according to Brzezinski, finally move towards a "community of the developed nations".[32] Trilateralism was thus intended as a reaction to the former Treasury Secretary John Connally-dominated economic policy of the Nixon administration, a policy based upon the assumption that Western Europe and Japan had prospered at American expense and that the dynamism of their economies had come because of US. leadership.

Even before the election in 1976 some European diplomats were saying a Carter victory would be the EC's best hope. As a candidate, Carter had raised hopes of improved ties with the EC stating, "I believe that we should deal with Brussels on economic issues to the extent that the Europeans themselves make Brussels the focus of their decisions".[33] In the first week of the Carter administration, Vice President Walter Mondale paid a visit to the EC's headquarters. He expressed the new administration's desire to improve consultations between the EC Commission and the U.S. government. Mondale made it clear that his, "choice of Brussels as a first stopping point was not accidental but was a symbol of the high importance

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32 Ibid, p. 724.

33 Christian Science Monitor, November 10, 1976.

the new American administration attached to close cooperation with the institutions of the European Community".[34]

In April, the new President of the Commission, Roy Jenkins, was second only to the British Prime Minister as a major European figure to meet the new U.S. President. At these meetings President Carter gave support for the Commission President to be present in his own right at the scheduled economic summit in London. Carter himself visited the EC Commission during his European tour in January 1978. During his meeting with the Commission President, he emphasized that, his administration was more committed to backing European integration than those of his predecessors. As Brzezinski records, it assumed that "the Europeans had been pointlessly insulted by Henry Kissinger's patronizing proclamation of a 'Year of Europe'."[35] President Carter also suggested that he and Jenkins should meet every six months in the future.

Carter administration's commitment to promote European integration was soon tested when in July 1978, the EC council decided to establish within six months a European Currency Unit (ECU) which meant a gradual linking of Commmunity currencies, beginning in 1979, to "float"

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34 Bulletin of the European Communities (Luxembourg), vol.10, n.2, February 1977, p.12.

35 Zbigniew Brzezinksi, Power and Principle: Memoirs of the National Security Adviser,1977-1981, (London: Weidenfeld and Nicolson,1983), p.289.

against the U.S. dollar and a $ 50 billion reserve. In response, the Carter administration indicated that it will monitor the European currency system to determine that it does not threaten international exchange rules or undermine the International Monetary Fund. The U.S., through Under-Secretary Richard Cooper, indicated that it would oppose exchange market intervention of a kind that promoted European exchange rates stability but had an adverse side effect on the dollar market.

To continue the U.S.-EC dialogue, several economic summits were held between 1975 and 1978 where discussion focused on currencies, trade, economic growth, energy and relations with the developing countries. At the Bonn Summit in July 1978, President Carter promised to cut energy imports and improve the U.S. balance of payments in order to reduce inflation and stabilise the dollar.[36]

But as the 1970s drew to a close, both sides took recourse to protectionism. The U.S. economy had continued to grow faster than those of other economies. The result was an inflation rate of over 8 per cent averaged over the first two years of the Carter administration and an annual U.S. trade deficit approaching $ 30 billion.

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36 International Herald Tribune, 18 July, 1978.

Further, U.S. trade surplus with the EC had declined from \$ 7.6 b. in 1976 to \$ 4.4 billion in 1977. In referring to the period since 1975, Fernard Spaak, head of the Washington delegation of the Commission of the EC's, indicated that :

> With few exceptions trade deficits piled up, partly as a result of the ever increasing cost of imported oil. The response to all that has been a flurry of requests and demands for protection, both in the United States and Europe, that surpasses anything since the Depression of the 1980s.(37)

But trade liberalization, not restrictions, had been the agenda since the conclusion of the Kennedy Round in 1967. Therefore, as a part of the Smithsonian Agreement on exchange rates in December 1971, they agreed to embark on a broad based trade negotiations, which was approved in Tokyo. The Tokyo Declaration underscored the economic competition between the U.S. and the EC and its reconciliation came to be basic to the Carter administration. During the decisive stage of the negotiations,

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37 Harold S. Johnson, "EC-U.S. Relations in the post Kissinger Era", in Leon Hurwitz (ed.), Contemporary Perspectives on European Integration (London: Aldwych Press, 1980), p.264.

there was close consultation between the EC and the U.S., with U.S. negotiators meeting EC officials every ten days to agree on a series of working hypotheses.[38] A time-table for the trade negotiations was agreed to by the U.S. and the EC in July 1977, with January 15, 1978, designated as the ultimate date for putting all the trade issues on the table in Geneva.

In spite of this progress in talks, steel and agriculture sector remained the perennial cause of conflict. Due to an unprecedented fall in demand for steel in 1975, major U.S. steel producers began closing plants in 1977, and backed by a 150-strong steel caucus in Congress, pressed for protection when imports again exceeded 15 per cent of the market. The U.S. steel corporation backed up this pressure by initiating 19 anti-dumping actions against European and Japanese producers.[39]

In response the Carter administration devised a comprehensive programme for the steel industry, the central instrument of which was the Trigger Price Mechanism (TPM). In the TPM the administration gave itself powers to accelerate anti-dumping procedures. Its main purpose,

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38 <u>The Economist</u> (London), 14 January 1978. p.44.

39 Stephen Woolcock, "U.S.-European Trade Relations", <u>International Affairs</u> (London), vol.58, Autumn 82, p. 614.

however, was to help the steel producers by raising the price of imports while at the same time retaining executive control over U.S. trade policy.On the one hand, the steel caucus threatened to block the Tokyo Round at the time unless something was done to help the steel industry. On the other hand, to allow the anti-dumping actions to proceed would have damaged trade relations with Europe. The Carter administration, therefore, devised the TPM which kept US. trade policy temporarily out of the courts and Congress and in the hands of the administration.

In 1979-80, there was another dip in steel demand, followed in April 1980 by another set of anti-dumping petitions from the U.S. steel industry. After some delay President Carter again headed off definitive rulings, with a revamped TPM which now institutionalised the 15 per cent target for import penetration.

In Agriculture though, the U.S. abandoned its demand for greater liberalisation of the Common Agricultural Policy (CAP) but obtained certain specific concessions from the EC amounting well over a billion dollars in U.S. exports. The target for the U.S. negotiators in the Tokyo Round was the widespread use of export subsidies and other non-tariff barriers. The twin aims were to secure existing agreements on access, particularly that relating to soybeans and to ensure that the output trends of the farm sector under the CAP did not threaten U.S. markets elsewhere.[40] The head of the U.S. delegation to the Tokyo Round, however, admitted that, "we did not get all that we wanted in agriculture, nor all we deserve, but we have confounded the skeptics and achieved more than in any of the previous six rounds of multilateral trade negotiations".[41]

At the political level, Carter's policy of detente and the SALT II agreement with the Soviet Union was welcomed by the EC. But during the latter half of the Carter Presidency the EC and the U.S. differed rather seriously in their approach to global developments.

On the Middle East, the Europeans were sceptical of the Camp David Agreement. The EC called in 1980 for the creation of a separate Palestinian home-land and participation in peace negotiations and international guarantees of mutually recognized borders. The United States, therefore, failed to persuade the member states of the EC to

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40 Nicholas Butler, "Ploughshares war between Europe and America", Foreign Affairs (New York), Fall 83, vol.62, n.1, p. 110.

41 Alonzo L. McDonald, "U.S. Agriculture's Stake in the MTN", Department of State Bulletin (Washington D.C.), vol.79, no.2029, August 1979, p.41.

vote against the UN resolution for the creation of a Palestinian state passed in July 1980 by the General Assembly. These states only abstained from voting.

The hostage crisis in Iran further exacerbated the US-EC relations. The U.S. expected more forceful sanctions against the Khomeini regime but the EC only agreed to apply limited economic sanctions against Iran if the hostages were not free by May 1980.

On Soviet invasion of Afghanistan in late 1979, too, the USA was disturbed by the EC's reluctance to impose more forceful and comprehensive sanctions against the USSR. The US imposed a partial grains embargo and called for a boycott of the Moscow Olympics. The EC responded less speedily with milder sanctions and disregarded the call for an EC-wide boycott of the Olympics.

But, in spite of these vital differences, both Carter and his National Security Adviser Brzezinski expressed their happiness at the crucial Venice Summit in 1980, where they were able to carry the allies with them in strongly condemning the Soviet action in Afghanistan. Brzezinski records that, "the Venice meeting was more productive on Afghanistan than we had anticipated ---none of the Western leaders objected to our efforts to have the meeting issue a strongly worded statement dealing with the Soviet aggression..."[42] But the Summit, to quote the Economist, "succeeded mainly in not making a bad situation any worse -- (and) did not discuss new economic sanctions against Russia".[43]

Along with these developments, the year 1979 was a historic landmark in the history of European integration. Direct elections were held to the European Parliament for the first time in June 1979. In the same year, the Nine of the EC agreed on its "third enlargement" by admitting Greece to join their fold in 1981. European Monetary System (EMS) was created. The United States extended official support to all the above landmarks in European unity.

As 1970s came to a close, the Carter regime came under increasing public criticism at home and abroad. It adopted a tougher policy towards the Soviet Union, thus indicating the beginnings of a new cold war. The EC, however, re-emphasized the need for greater independence in foreign policy and to play its own role in world affairs. During his State visit to West Germany in July 1980 both the French President and the German Chancellor agreed on

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42 Zbigniew Brzezinski, n.35, p. 461.

43 The Economist (London), 28 June 1980. p.13.

the need for a "strong and independent Europe--to put an end to Europe's self-effacement in the world and to restore to Europe its power and its influence in the world".[44] These words clearly indicated that the EC planned to have its own independent view of global developments irrespective of the U.S. interests and this attitude again caused a strain in the EC-US relations.

Thus, the Carter administration's initial focus on an awareness of an interdependency among the U.S. and EC did not lead to an improvement in the strained relations. Though much hopes were raised in the beginning but as the 1970's drew to a close, the relations were still at a crossroad.

U.S.-EC Relations Under The Reagan Administration:

When the Reagan administration came to power, there had been a marked deterioration in transatlantic relations owing to serious trade disputes and differences over opinion on Soviet invasion of Afghanistan and concern over U.S. military buildup. Moreover, the anti-Soviet crusade of President Reagan and his monetary and protectionist responses to the recession that pushed up the dollar interest rates forced EC-U.S. relations into an era of bitter political and economic conflict.

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44 New York Times, 8 July 1980.

In the event of any crisis, Europeans had bitterly complained that NATO's nuclear strategy would place West Europe completely under the decision-making power of the U.S. They agreed that the long range American nuclear arsenal was adequate for the protection of Europe. For that reason, they protested against President Ronald Reagan's massive pursuit of military superiority after January 1981, which they thoughtwas unnecessarily destabilizing and dangerous. Reagan's "star war" proposal further compounded the situation. The reaction of the various countries of Europe, with the exception of Britain, to the "star war" programme was "almost unanimously hostile".[45]

Throughout the autumn of 1981, massive demonstrations in Europe condemned the deployment of U.S. nuclear arms to offset the Soviet SS-20s. Despite huge demonstrations in Hamburg, Bonn, London and Paris in March 1982, the NATO defence ministers reaffirmed the plan to deploy the U.S. Cruise and Pershing II missiles in Europe, beginning in 1983, with the proviso that Washington commence arms talks with Moscow.

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45 Christoph Bertram, "Strategic Defense and the Western Alliance", Daedalus (Cambridge, Mass.), vol.114, no.3, Summer 1985, p. 290.

But the Reagan administration's tough anti-Soviet stance further strained the U.S.-EC relations because for West Europe, detente remained essential to its well-being. Chancellor Schmidt made that clear in an interview with the Economist (London) in October 1979 that, "One of the necessities for the alliance as well as for Germans is to get along with the eastern powers. We do not want to get back into the cold war".[46]

The Reagan position on Central America and the third world revolution and changes were also challenged by the EC. The material and political support by the Reagan Administration for the anti-communist El Salvadorean Government against leftist guerrillas was strongly opposed by some EC member states who pointed out to the oppressive nature of the regime. However, the U.S. saw the war as an East-West confrontation and was upset by the hostility and ambivalence among the European allies for its efforts to bolster the pro-Western Government.

President Reagan's crusade against the Sandinista government of Nicaragua also received no support in Europe. The EC looked askance at the President's effort to wrest $ 100 million in military aid from Congress for the anti-

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46 The Economist (London), 6 October 1979, p.54.

Sandinista rebels. At the Bonn economic summit of May, 1985, the EC rejected President Reagan's plea for support of his trade embargo against Nicaragua. British Foreign Minister Sir Geoffrey Howe warned that an embargo would push the Sandinista government more completely into the Soviet-Cuban camp while German Foreign Minister Hans-Dietrich Genscher reminded the President that Europeans did not believe in trade sanctions to achieve political ends. So bitter was the Spanish reaction to American policy in Nicaragua that the President faced massive anti-American demonstrations when he visited Madrid after the Bonn summit. Several days later, the EEC under the plodding of Claude Cheysson, former French foreign minister, doubled its aid to Central America, including Nicaragua, in deliberate defiance of the American embargo.[47]

But ultimately, the Reagan administration's dissatisfaction with the EC centred on its economic policies. When the Reagan administration assumed office in 1981, economic recovery from the recession of the 1970s and the restoration of U.S. competitiveness in the global economy were high on its list of priorities. As a candidate, Ronald Reagan had criticised the Carter administration for

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47 Norman A. Graebner, "The U.S. and West Europe, An Age of Ambivalence", Current History (Philadelphia), vol.85, no.514, November 1986, p. 355.

failing to comprehend the implications of the U.S. functioning within an interdependent global economy and for failing to extricate the U.S. from the clutches of recession.

From the very beginning, the major economic policy statements of the Reagan administration spokesmen acknowledged that economic interdependence with the West European nations necessitates consultation, cooperation, co-ordination and compromise. For example, at a 19 July, 1981 press briefing preceding the economic summit in Ottawa, the Secretary of State, Alexander Haig Jr., explained that:

> These summit meetings express a basic and inescapable reality -- that the participating nations, with the most advanced economies in the world, are increasingly interrelated ----. Developments in policies in one area effect policies and developments in another. This requires close and continuous consultation.(48)

Earlier, while specifically discussing economic relations with Western Europe and Canada before the Sub-Committee on Europe and the Middle East of the House Foreign Affairs Committee, the assistant Secretary of State for European Affairs, Lawerence S. Eagleburger stated that:

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48 Alexander Haig, 'Press briefing', Department of State Bulletin, vol.81, August 1981, p.1.

> The Reagan Administration appreciates the fact that we can not succeed in our economic objectives if we act alone, nor can we succeed if we act at cross purposes with the economic interests of the other industrial democracies. It is for these reasons that the Administration places special emphasis on close consultation and cooperation with the Canadians and West Europeans.(49)

However, in spite of the administration's effort to stress the importance of multilateral cooperation in an interdependent world, the U.S.-EC relations remained strained. Throughout the 1980's, Europe had lagged behind the U.S. and East Asia in job creation and technological progress. Unemployment reached 18 million by 1984[50] and threatened to rise even higher. Helmut Schmidt, West German Chancellor, attributed the structural economic problems facing both Europe and the U.S. to America's fiscal disarray, caused by inadequate taxes, a grossly inflated military budget, and huge federal deficits that required massive borrowing from abroad.

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49 Lawerence S. Eagleburger, 'U.S. policy toward Western Europe and Canada', Department of State Bulletin, vol.81, August 1981, p.67.

50 Norman A. Graebner, n.47, p.388.

However, Administration spokesmen denied the connection between the two. In 1983, Arthur Burns, the ambassador to the Federal Republic of Germany, responded to European charges by pointing out that to blame high United States interest rates alone for the economic difficulties in European countries was to overlook the fact that high U.S. rates could not be responsible for high interest rates in France and lower ones in Japan. Because the Europeans' interest difficulties were of their own making, the Reagan administration felt that it was up to them to solve the problems, although it did agree to consult about the matter.[51]

At the first economic summit attended by President Reagan, in Ottawa in July 1981, the EC expressed anger about high U.S. interest rates. Criticism was again directed against the U.S. high interest rates at the Versailles summit in June 1982. But President Reagan and other administration officials again responded that the U.S. was committed to lowering its budget deficit but that many of the Europeans economic problems were of their own making.

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51 Arthur F. Burns, "Economic health of the Western Alliance", Department of State Bulletin, vol. 83, February 1983, pp. 35-40.

Shortly before the Bonn economic summit of May, 1985, Secretary Shultz prescribed his own recovery programme for Europe. He warned that the protectionist trade barriers would hamper business in general and emphasized that the dollar could not be cheapened or stabilised by government interventions in the world currency markets. He also called for joint action by Europe, Japan and the U.S. to sustain economic growth as the surest guarantee against protectionism and depression and urged Europe and Japan to spend in their countries rather than relying on exports to the U.S. to sustain their economies. However, the EC leaders argued that trade barriers would only be eliminated if the trading nations engaged in negotiations aimed specifically at monetary reform.

At Bonn, therefore, President Reagan promised to encourage economic growth by reducing the American budget deficit but at the same time pressed West Germany and Britain especially to accept larger deficits of their own to fuel economic growth as the U.S. had done in previous years. As these ideas were opposed by the EC, the Reagan administration in late 1984, closed the American market to European steel pipes which resulted in a full scale trade conflict.

By December 1981 the U.S. steel companies had filed a large number of anti-dumping and countervailing duty suits with the International Trade Commission and the Department of Commerce against the European steel companies for unfairly dumping subsidized steel exports into United States markets, a charge which Department of Commerce officials confirmed. The British Steel Corporation subsidy in 1981 amounted to 40 per cent of the average price charged for steel in the U.S., French, Belgian, and Italian subsidies averaged 20 to 30 per cent, 21 to 22 per cent, and 13 per cent respectively. The U.S. steel industry wanted the Department of Commerce either to impose import restrictions or preferably new additional levies. But the U.S. government to avert a trade war and to avoid the probable EC retaliation preferred voluntary export restraint by the European steel makers. However, no further progress was made on this dispute as the EC ministers continued to maintain that their steel companies were not at fault and submitted that the disputes should be settled by the GATT Council.

Then in preliminary rulings in July and August 1982, the International Trade Commission agreed that EC steel imports had caused material injury to domestic industry and the Department of Commerce too ruled that companies in Six European companies had dumped steel products on U.S. markets by selling them at from 4 to 41 per cent below production costs and thus the department was required by law to impose duties equal to the dumping margin. The Department of Commerce therefore imposed countervailing and anti-dumping duties on these EC producers where they were required to pay tariffs of up to 40 per cent to make up the difference between their production costs, plus a profit margin, and their sales prices in the U.S.

The threat of punishing import duties by the U.S. led to a package agreement, effective 1 November 1982 through 2 December 1985, in which the EC agreed to cut its exports of 10 carbon and basic steel products to the United States by almost 9 per cent. Arthur Burns described the agreement as a practical choice between protectionism and free trade, forestalling Congressional enactment of more drastic protectionist measures.[52]

This agreement, however, did not last long. In March of 1983, the U.S. International Trade Commission (ITC) ruled that U.S. producers of speciality steel were being hurt by increasing imports from Europe and recommended

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52 Arthur F. Burns, n.51, p. 38.

three years of quotas on stainless steel imports. The speciality steel included stainless steel and other steels that had alloy contents higher than did carbon steel, the primary product of the steel industry. Required by law to respond to the injury ruling, on 5 July President Reagan mandated four years of protectionist measures to shield United States producers of speciality steel. In the statement announcing the sanctions, President Reagan asserted that his decision was "consistent with our national economic interest and is necessitated by the pervasive nature of (overseas) unfair trading practices in speciality steel".[53] Though the action was criticised, administration's spokesmen maintained that the only way to provide an open trade system was for the administration to enforce the trade laws or otherwise Congress would legislate a protectionist course. Alongside the U.S. trade representative, Clayton Yeutter was also authorised by the President to enter into bilateral negotiations with states which chose to resolve the steel disputes diplomatically through orderly marketing agreements rather than be bound by the new tariffs and quotas.[54]

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53 Facts on File (New York), vol.43, no.2226, July 15, 1983, p. 526.

54 New York Times, 3 June 1983.

These measures were, however, resented by the European Community and in response the European Commission lodged a formal protest with the U.S. against the steel restrictions and began an examination of United States actions to see if they violated the GATT. After consultation, the EC decided to file a grievance with GATT, seeking $ 570 million in compensation for injuries sustained.[55]

Before this matter could be resolved, a complaint was filed by the Gilmore Steel Corporation with the ITC against the underpriced imports of carbon steel plate from West Germany and Belgium. The Bethelem Steel Corporation, the second largest steel maker in the U.S. too asked the U.S. government to limit steel imports. The petition was filed under Section 201 of the 1974 trade act which allowed an entire industry to win trade protection if U.S. authorities found that the industry had been seriously injured by imports.

In response, the EC warned U.S. that the EC-US agreement in 1982 allowed the EC to abrogate the pact if new steel trade actions were filed in the U.S. The EC also

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55 New York Times, 7 July 1983.

initiated the retaliatory measure by which they agreed to reduce over four year period the quantities of U.S. made burglar alarms, hunting rifles, sports equipment, plastics, and chemicals which could be imported into the EC from goods valued at approximately $ 78 million to $ 58 million per year. However, a compromise was reached with U.S. accepting curbs on well over $ 50 million worth of goods but the U.S. companies being permitted to export about 20 per cent more of the restricted goods than the EC had proposed. The EC also agreed to hold talks with the U.S. if the new tariff and quotas appeared to be forcing some American products out of the European market completely.[56]

But this compromise was shortlived for the ITC identified discrimination in five categories of steel amounting to 70 per cent of the U.S. market and recommended a five year import quotas. The Congress too put pressure to deal with the steel issues. So President Reagan on 18 September 1984, proposed the scheme of 'voluntary' reductions to be negotiated with steel exporting countries to limit imports to 18.5 per cent of the domestic market over the next five years.

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56 <u>New York Times</u>, 29 February 1984.

Then, in early October, Congress passed the 1984 Trade and Tariff Act which limited steel imports to between 17 and 20.2 per cent of the domestic market, depending on the product. Hence, on 28 December 1984, EC ministers bowed to U.S. pressure and signed a voluntary restraint agreement reducing their share of steel pipe and tube exports to U.S. markets from the 1984 limit of 14 per cent to 7.6 per cent over the next two years.

Along with steel, agriculture proved to be the issue least amenable to solution: it "dwarfs all other controversies with the EC".[57] The Reagan administration revived a series of U.S. complaints against the Common Agricultural Policy (CAP) of the EC. The U.S. raised objections against the export subsidies policy of the EC by which it dumps surplus produce on to the world market and causes glut in the market thereby putting U.S. exports at a comparative disadvantage. The U.S. also expressed its reservations on the high import levies that shield the EC from world market forces and made U.S. exports to it more costly.

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57 Business Week, 26 April 1982, p. 34.

Finally, in an attempt to force the EC to allow more U.S. citrus fruits into the community, the U.S. government threatened to raise pasta tariffs by upto 40 per cent in retaliation. The U.S. action would have affected $ 36 million of EC pasta exports - $ 35 million dollars - worth from Italy. The choice of pasta as the product for retaliation was not random.[58] The U.S. decided to hit back at the EC over a product it had had trouble in the past.

In 1983, a GATT panel upheld a U.S. complaint that EC pasta exports were unfairly subsidised. The crux of the U.S. complaint was that European farmers were generally less efficient than U.S. food producers and that they were only able to compete in export markets against the U.S. because of extensive subsidies provided by the EC. The U.S. complained that the EC farmers over produced because EC subsidies guaranteed that the farmers would receive above market prices for their products. However, the GATT panel report was not endorsed by the GATT council leading U.S. Special Trade Representative William Brock to comment on the effectiveness of the GATT dispute settlement process.

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58 George N. Yannopoulos, "U.S.-Trade Interests and EC Enlargement", Journal of World Trade Law (Switzerland), vol.21, August 1987, p. 54.

Then, in January of 1983, the U.S. signed an exclusive contract with Egypt for the sale of one million tons of wheat flour during that year. Egypt had formerly purchased most of its wheat flour from France, leading the foreign minister, Claude Cheysson, to call this grain deal 'American aggression'.[59] Even, the U.S. Secretary of State, George Shultz admitted that the act was retaliatory and ran counter to the basic principles of the Reagan administration but he defended this action before the Senate Foreign Relations Committee by saying:

> Temporary, trade-distorting measures such as the wheat flour transaction can be justified on the ground that 'when all the world is mad', 'tis folly to be sane'. But temporary measures tend to become permanent, and retaliation has an inherent tendency to escalate. Constructive negotiations - in which we meet unreason with reason - present the only lasting solution to protectionist problems such as export subsidies. We will, therefore, work within the General Agreement on Tariffs and Trade (GATT) to remove barriers to the export of U.S. services and agricultural products. In addition, we will work on a bilateral basis -- to roll back trade barriers.(60)

In late June 1983, Egypt agreed to buy at the world market price 18,000 metric tons of butter and 6,000 metric tons of cheese from U.S. surplus stock. To make the

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59 New York Times, 9 February 1983.

60 George Shultz, "Restoring prosperity to the world economy", Department of State Bulletin, Vol.83 (Washington D.C.), March 1983, p.67.

$ 39.6 million deal more attractive to Egypt, the U.S. agreed to accept payment for the products in Egyptian pounds. This deal further added fuel to the ongoing agricultural dispute but the U.S. claimed that the new deal fell within the category of food aid and did not represent unfair intrusion into a traditional EC market. The EC initiated a study of the deal with the idea of referring it to the GATT; some officials began drawing up plans for retaliatory action such as dumping EC surpluses on sensitive American markets if the European Commission should decided to 'go to war' on the issue.[61] In spite of the negative response of the EC, U.S. defended its trade subsidies and the U.S. Agriculture Secretary John Block called the current U.S. trade strategy as "fighting fire with fire".[62]

To discuss the Community's planned restrictions on U.S. exports, negotiations began in the GATT in April 1984. Five months later, President Reagan announced a programme of federal loan guarantees and temporary interest subsidies for U.S. farmers. Then in 1985, the administration announced the first sale of commodities under the new export

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61 Times, 29 July 1983.

62 Facts on File (New York), vol.43, no.2230, August 12, 1983, p. 601.

subsidy programme. The transaction involved up to one million metric tons of wheat for Algeria, a traditional French market. The Secretary of Agriculture explained that the sale fulfilled two administration objectives of selling more wheat and to target markets where unfair trading practices had victimized American farmers.

In the closing months of 1985, the U.S. government increased duties on Italian pasta in retaliation for a continuing dispute over the citrus trade and threatened to raise barriers against as much as $ 11 billion in imports from the EC to retaliate for the negative effects of the incorporation of Spain and Portugual's markets into the Community's quota and tariff system. Thus, no real solution was found to the agricultural dispute and the matter was left pending for further multilateral trade negotiations.

Along with the perennial sources of tension like steel and agriculture, major conflict also resulted over EC's policies on East-West trade and in particular over the increased supply of Soviet natural gas to Western Europe by construction of the Urengoi gas pipeline. On June 18, 1982, President Reagan decided to extend the U.S. embargo on energy equipment and technology first introduced on December 29, 1981, as a response to Soviet-instigated imposition of martial law in Poland. This decision constituted an attempt to employ U.S. legislation, in the form of the 1979 Export Administration Act, in a final bid to stop or delay the pipeline. While the earlier December embargo only applied to the re-exportation of components produced in the U.S., the June decision sought to extend its pipeline - parts embargo of the U.S.S.R. to foreign subsidiaries of U.S. companies and to foreign companies granted licenses to produce pipeline equipment with U.S. technology. This angered the Europeans involved in the project who claimed that the prohibition on licenses was illegal under international law.

At a very early stage, the Carter administration had expressed reservations about the proposed project and the Reagan Administration had continued to do so throughout 1980s. Under the latter, American opposition intensified. At the Western economic summit in Ottawa in July 1981, President Reagan justified this opposition on the grounds that increased imports of Soviet natural gas risked making the EC subject to political pressure from Moscow because it would make part of Europe dependent on the U.S.S.R. for natural gas and would also earn the

U.S.S.R. the hard currency revenues it needs to expand its military strength. The U.S. claimed that by denying the Soviets the needed bank credits, equipment and technology for the pipeline, they would be forced to divert their own resources away from defence.

However, the EC refused to endorse the U.S. policy of holding the Soviet Union responsible for the imposition of martial law in Poland and declined to go along with the U.S. in applying economic sanctions against Poland and the Soviet Union. The EC Foreign Ministers took the above decision at a meeting in January 1982. The decision was reiterated at the NATO meeting in the same month.[63] However, after the declaration of martial law in Poland, on December 29, 1981, President Reagan announced a number of economic sanctions against the Soviet Union. Of these the one with the most immediate effect was the embargo on the re-export of the U.S. parts for the pipelines.

In the Spring of 1982, the U.S. State Department initiated talks with the EC on a number of East-West trade issues. Central to these talks was the cost and volume of Western credit to the Soviet Union. The U.S. strongly opposed EC member governments' subsidized export

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63 Bulletin of the European Communities (Luxembourg), vol.15, n.1, January 1982, p. 18.

credits and loans to the Soviet bloc as they enhanced Soviet military and industrial power. The U.S., therefore, pressed for an increase in minimum interest rates and other measures to reduce the degree of subsidy in export credit financing. Despite early French reservations, the EC countries agreed to the reclassification of the Soviet Union as a relatively rich country for the purposes of the OECD export credit agreements.[64]

An agreement on restricting the volume of credit was, however, more problematic and no consensus was reached. The gap between U.S. and EC position remained very wide and U.S. was disappointed by the EC's reluctance to accept the important strategic implications of East-West economic relations. As any implicit trade-off between credit and the pipeline was denied, President Reagan decided to extend the embargo.

Since 1970, from the Nixon to the Reagan administration the difficulties in transatlantic relations reflected deep-seated differences. The U.S. and the EC's viewpoints diverged on many issues of global politics and

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64 Stephen Woolcock, n.39, p. 613.

economicsthereby indicating a lack of consensus in the trans-Atlantic relationship. At the core of U.S.-EC differences were their divergent perceptions of the global developments especially those involving the Soviet Union. While the U.S. emphasized the strategic implications and pursued policies of economic diplomacy or sanctions, Europe, in turn, tended to avoid the use of economic links for political objectives.

Thus, the U.S. support for the process of European integration and its hope that an integrated Europe would strengthen the Atlantic Community was belied by the prolonged clash over trade matters. In fact, the gradual integration of Europe resulted in a more strained U.S.-EC relations.

C H A P T E R II

SINGLE EUROPEAN ACT

In the mid-1980s, the twelve nation economic grouping of the European Community embarked on a historic attempt to complete the formation of a single internal and truly integrated market. The plan outlined at the 1985 Milan Summit of the European Council committed the twelve members (West Germany, France, United Kingdom, Italy, Netherlands, Belgium, Luxembourg, Denmark, Greece, Ireland, Spain, Portugal) to eliminate by December 31, 1992, all the hurdles that denied the existence of a true Common Market. And in 1987, the Single European Act (SEA) was approved by each national legislature of the member states and a five year drive was launched to make the twelve in one.

However, the goals that EC has set for itself in 1992 are nothing new. They are stated in the preamble to the 1958 Treaty of Rome, which established the community and which laid down:

> To lay the foundation of an ever closer union among the peoples of Europe (and) --- to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe.(1)

The Treaty of Rome established

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1 Editorial Research Reports (Washington D.C.), January 13, 1989, p.20.

the European Communities from the European Coal and Steel Community, the European Atomic Energy Community (Euratom) and the European Economic Community (EEC). As envisioned by Jean Monnet, the French statesman who inspired the European Community, the treaty's fundamental aim was to transform Europe's diverse and often warring nations into a federation of states, a "United States of Europe", built on the U.S. model.

Thus, the EC was primarily designed to bring about economic integration which was to be merely a step toward political integration. As such, the early days of EC development proved reasonably successful in terms of reducing tariffs and establishing sectoral arrangements, such as the Common Agricultural Policy.[2] But even economic integration proved to be harder than expected, as member states resisted ceding sovereignty to the community's administrative structure in Brussels.

Although the EC managed to dismantle tariffs among the member states but Governments introduced taxes and technical standards specifying how products

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2 Richard Schwartz, "U.S. Interest in Europe's 1992 Process: An Analytic Survey", The Washington Quarterly, (Cambridge, Mass.) vol.12, n.3, Summer 1989, p.205.

should be made to favour their own products. Further, "buy national" government procurement policies were pursued to protect their industries from competing foreign firms, including those within the EC. With the oil price-rises and recessions of the 1970s, economic growth slowed, unemployment rose, and the optimism so evident in the economic boom of the 1950s and 1960s gave way to pervasive talk of "Eurosclerosis".

In the 1970s therefore, the issue of reforming the EC was intensified and an awareness grew of the inadequacy of the Rome Treaty for further progress towards Common Market. Besides, it was feared that the inability to bring about the necessary changes would not only lead to economic and technological stagnation but also affect the Community's influence in the world. A number of other factors too contributed towards the reform debate:

> First, the institutional stagnation, resulting particularly from the unanimity requirement for the Council decision, required modifications of particular EC institutions and creation of new ones.
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> Second, further progress towards Common Market required common economic and monetary policies.
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> Third, the need for common regional and social policies was felt to minimize the economic disparities within the Community.

> Fourth, the change-over of the EC financing from its own resources naturally called for an expansion of the powers of the European Parliament, especially in budgetary matters.
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> Finally, common foreign trade and economic weightage of the European community called for a common foreign policy.(3)

This awareness of a need for change led to some reforms like budgetary powers for the European Parliament; the beginning of the European Political Cooperation (EPC); establishment of structural funds; and direct elections to the European Parliament.

But in spite of this progress, the EC budget, the priorities for EC expenditure and the uneven burden on member states contributing to its revenue, were a bitter cause of strife during the late 1970s. The CAP- which accounted for more than 70 per cent of EC spending was widely discredited as enormous surpluses of some commodities like wine, milk and olive oil were built up. EC farm prices rose well above world levels and the Community found itself involved in ever greater commitments to subsidize the production and storage of

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3 Werner Weidenfeld, "Single European Act", Aussen Politik (Hamburg), vol.37, no.4, Fourth Quarter, 1986, pp. 378-79.

unwanted food. The internal wrangling over the EC budget and the reform of the CAP was further embittered by a protracted campaign by the United Kingdom to be compensated for part of its net contributions to the EC budget, the second largest of any member state.[4] Due to these reasons, the cause of European union languished during most of the 1970s.

At the end of 1975, however, the then Belgian Prime Minister, Leo Tindemans, was invited to prepare a report on future steps to European economic and political union. The report by Tindemans on the prospects for European union was commissioned by the European Council held in Rome in 1974 and it was presented to the Brussels European Council in 1976. Its recommendations on monetary union closely followed an earlier report, the Werner report of 1969 and a more pessimistic view of the prospects for European union in the Marjolin report published in March 1975. Tindemans proposed a series of measures including greater foreign policy cooperation, increased regional and social development, policies to promote the rights of European citizens and a strengthening

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4 John Palmer, 1992 and Beyond, (Luxembourg: Commission of the European Communities, 1989) p.13.

of the decision-making competance of the EC institutions.[5]

However, the report while widely praised was allowed to languish on the shelf; its provisions largely ignored.

But as the 1980s unfolded, a series of inter-related events led to the major breakthrough of the Milan Summit. The first stimulant was the EC Commission's recognition that Europe's trade competitiveness and technological productivity were insufficient for survival in global trade. The rapid pace of technological advance, particularly in the area of high technology (computers, telecommunications, aerospace, energy and biotechnology) had suddenly within a decade, left West Europe considerably behind the two world leaders in these field, the U.S. and Japan.[6] Etienne Davignon, the EC Commissioner with responsibility for industrial and technology policy, saw the link between the need to strengthen the research and technological basis of West European industry and the need to expand West Europe's future trade with new and larger markets.

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5 For details see <u>European Union Report by Leo Tindemans to the European Council</u>, supplement 1/76 (Luxembourg, 1976).

6 Pierre-Henri Laurent, "The EC: Twelve Becoming One", <u>Current History</u> (Philadelphia), vol.87, no.532, November 1988, p. 357.

It was further realised that the arrested political development of the EC was matched by an economic evolution which left it far short of the original goal of a barrier-free internal market. In many ways, as customs duties disappeared a variety of other-often less visible-barriers to cross frontier trade began to appear. The EC economies thus remained impeded to a large degree by having not one but many different national markets.

During this period, certain efforts were made to establish an European Union. "Genscher-Colombo initiative" of 1981 was one such contribution towards establishing a union by means of a series of structural changes. These included development of a common European foreign policy, harmonisation of social and economic policies, and closer cooperation in cultural and legal fields. However, this proposal emerged in 1983 not in the form of a Treaty, but in the form of a "Solemn Declaration".

The "Solemn Declaration on European Union" was issued at the Stuttgart meeting of the European Council in June 1983. It ranged widely over the objectives of common action, institutional matters and policies with a section on foreign policy.[7] But the Declaration fell

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7 Bulletin of the European Communities (Luxembourg), vol.16, no.6, 1983, pp. 24-29.

short of the expectation of removing obstacles to the establishment of a European Union. The Declaration consisted, for the most part, either of statements of current practices or mere expressions of hope for the future. Furthermore, it was full of reservations and interpretations of the member states. For instance, while it emphasized adopting all possible means of facilitating the Council decision-making process, it included the "possibility of abstaining from voting where unanimity is required".[8]

In spite of these setbacks, it was largely due to the efforts of a relatively small number of European leaders - including the late Italian Commissioner and Communist Member of the European Parliament, Altiero Spinelli, that the idea of European Union was kept alive. Spinelli took the leading role in launching the 'crocodile club' of the Members of the European Parliament who were committed to the goal of a full fledged federal united States of Europe.

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8 Ibid, p. 26.

Such efforts led to the creation on 9 July 1981 of the Committee on Institutional Affairs, which worked systematically for three years on drawing up a Draft Treaty on European Union.[9] The European Parliament adopted this Draft Treaty by 237 votes to 31 with 43 abstentions on 14 February 1984.[10]

Draft Treaty:

The Draft Treaty established a number of important guiding principles for the organization of the Union and a clear framework and set of procedures for its development.[11] It sought to promote 'an ever closer union' of European peoples committed to upholding pluralist democracy, respect for human rights and the rule of law.

The fundamental principle adopted by the Parliament was that the Union should safeguard diversity by only undertaking those talks which individual member states acting separately can not successfully accomplish[12] and

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9 For details, see Juliet Lodge, "European Union and the First Elected European Parliament; The Spinelli Initiative", Journal of Common Market Studies (London), vol.22, no.4, June 1984, pp. 377-402.

10 See Bulletin of the European Communities (Luxembourg) vol.17, n.2, 1984, p.7.

11 For details, see Ibid, pp. 8-28.

12 Roy Pryce, "Relaunching the EC", Government and Opposition(London), vol.19, n.4, 1984, p. 493.

stressed the importance of inter-governmental cooperation in these areas of common action. It further identified those areas of common action where power would be shared between the member states and the Union and those where the latter would have exclusive competance. Proposals were also made for maintaining veto in a modified form during a transitional period of ten years during which vital interests could be evoked.

Further, to provide an effective, efficient and democratic decision-making, Parliament was granted co-decisional powers with the Council. In areas of common action decisions were to be taken by both the Council and the European Parliament by various forms of majority vote and in a stipulated time limit. The role of the Commission was also strengthened but it was made responsible to the Parliament. Thus, the Draft Treaty introduced a greater degree of accountability into Community institutions.

Two committees were also set up at the Fontainebleau meeting of the European Council, held in June 1984, to make concrete proposals. One was the "Ad hoc committee on Institutional Affairs" known also as "Dooge Committee", to investigate institutional reform and related matters. The other one was the 'Adonnino Committee" to examine ways of establishing "People's Europe".

The Dooge Committee Report:

The Dooge Committee's report to the Brussels European Council of March 1985 accepted many proposals outlined in the Draft Treaty and reiterated the Draft Treaty's intention to base the new union under the Community's patrimony.[13] The Committee report acknowledged that the Community was in a state of crisis and suffered from serious deficiencies. In addition, differences between the member states had obscured the considerable economic and financial advantages which would have accrued from the Common Market and from economic and monetary union. Further, it was also reported that the Community faced important challenges both in the field of increasing industrial and technological competition from outside. Therefore, in order to recover from this sorry state of affairs, the Dooge Committee proposed the establishment of a political entity based on clearly defined priority objectives coupled with the means of achieving them.

Thus, the Committee gave priority to the creation of a homogenous internal economic area and also to the promotion of the common values of civilization and the search for external identity that would not only include

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13 For details, see Bulletin of the European Communities (Luxembourg), vol.18, no.3, 1985, pp. 102-110.

external policy but also the field of defence and security.

But in the area of decision-making process unlike the Draft Treaty, which proposed basic changes, the Dooge Committee report suggested mere "changes in practice and certain adjustments to the existing rules". Restricting resort to majority voting, it proposed that the European Parliament be granted "effective participation in legislative power" but left the definition of this to a subsequent discussion.

The Dooge Committee also proposed an intergovernmental conference to undertake projects relating to the European Union. This was strongly opposed by Britain, which was for the retention of all national control over the Community policies.[14]

In view of these difficulties, the new Commission which took office under the Presidency of the former French Minister for Finance, Jacques Delors, in January 1985, understood that a radically new approach was necessary if momentum was to be put back into the process of European integration.

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14 For details, see Juliet Lodge, "European Union: A Qualitative Leap Forward?", World Today (London), vol.41, n.11, November 1985, pp. 204-207.

The argument was advanced that the differences in the ability and readiness of different EC countries to integrate, both economically and politically, made it inevitable that some would move faster than others down the road to full European union. But even in those Member States there was the strongest tradition in favour of European Union, governments were reluctant during these years to move ahead as rapidly as they had been in the early years of the community.[15] For all these reasons the Community tended to move only at the pace of the slowest member of its caravan.

The Commission under the Presidency of Jacques Delors, therefore, made the task of removing the physical, financial, political, technical and other barriers which enshrined the continued economic fragmentation of the Community - its overriding political goal.

Thus, the European Commission White Paper of June 1985 emphasised that:

> Unifying this market (of 320 million) presupposes that Member States will agree on the abolition of barriers of all kinds, harmonisation of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary flanking measures to encourage European firms

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15 John Palmer, n.4, p.14.

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> to work together. It is a goal that is well within our reach provided we draw the lessons from the setbacks and delays of the past. The Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable.(16)

But, it soon became apparent that meaningful progress towards a genuine internal market would only be possible as a result of a reform of the Community's decision-making institution. The Delors Commission therefore proposed the Single European Act, a series of amendments to the Treaty of Rome, to permit, among other things, more rapid decision-making.

In the view of the Commission the Single European Act would make possible a more effective decision-making process at Community level, it would set out the priority of completing the frontier and barrier-free European internal market; and by the same token would set a broad range of social and human objectives for the Community in the years ahead.

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16 Completing the Internal Market - White Paper From the Commission to the European Council (Luxembourg; Commission of the European Communities, 1985), p.4.

These proposals of the Delors Commission were considered at the European Council meeting in Luxembourg from 2 to 4 December 1985 and an agreement was reached on reforming the Community for better functioning. The most important feature of the summit was that concrete steps envisaged were not set out in a final communique, as per normal practice, but were incorporated in the legal framework of a "Single European Act" (SEA). This was finalised in the intergovernmental conference of the representatives of the member states, held in Brussels on 16-17 December, 1985. Finally, the Foreign Ministers meeting on 27 January 1987, resulted in an agreement on the text of the SEA.

Single European Act (SEA)

The SEA, signed in 1986, supplemented the European treaties and set the Community a two-fold objective: to complete the European internal market before 1 January 1993 and to revitalise the common policies. It provided the EC with the powers needed to build a coherent and efficient economic unit (provisions on the internal market, economic and social cohesion, research and monetary policy), while at the same time acknowledged the importance of the quality of life in a Community, which sought to be more than just an economic entity (provisions on the environment and social policy).

Thus, unlike the earlier partial reforms, the SEA aimed at comprehensive amendment to the Rome Treaty. It provided in effect, three guarantees for the realisation of objectives:

> First of all it provided a legal obligation to adopt measures which will progressively establish the internal market.
>
> The second guarantee provided by the act is a time frame: The measures to establish the internal market shall be adopted progressively over a period expiring on 31 December 1992.
>
> Finally, the act establishes a method: it significantly extends majority voting in the council of ministers so that the required legislation to complete the 1992 programme is not blocked by the veto powers of individual member states.(17)

In the "Introduction" to the SEA, the signatories reaffirmed their determination to implement the European Union. The European Union was sought to be achieved on the basis, firstly, of the

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17 Robert Houliston, "The EC in 1992 and Beyond", speech given to the Federation of Indo-German Societies in India," March 9, 1989, mimeographed paper in the European Commission Library, N.Delhi.

Communities operating in accordance with their own rules and, secondly, of European Cooperation among the signatory states in the sphere of foreign policy. It was also envisaged that the union would be invested with the necessary means of action.[18]

Title I of the SEA deals with common provisions. Here the Act made possible interaction between the EC and the EPC by bringing them together under one framework to progress towards European Unity. It held that the "European Council shall bring together the Heads of State or of Government of the member states and the President of the Commission of the European Communities".[19] This meant that there was a greater scope for deliberation on Community affairs and the frequent meetings proposed to be held may lead to unanimous decisions among them.

Title II of the SEA incorporated provisions amending the Rome Treaty. The following are some of the important features provided in the SEA:

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18 <u>Single European Act</u>, supplement 2/86 (Luxembourg, Commission of the European Communities, 1986), p.5.

19 Ibid, p.7.

(i) Internal Market:

It was provided that "the Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992" and such "internal market would comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured".[20] The prime objective of the proposed directives included:

- Removal of all internal border controls particularly eliminating delays at borders for custom purposes and related administrative burdens for companies and public administrations;
- Elimination of technical barriers to trade by applying the principle of mutual recognition of standards and harmonisation of technical standards with respect to health safety, consumer protection and the environment;
- Opening up government procurement to competitive bidding;
- Recognition of professional qualifications within the Community;
- Harmonisation of indirect tones (e.g. value added and excise); and
- Liberalisation of capital movement and related liberalisation of financial services.(21)

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20 Ibid, p.11.

21 For details, see Symposium on EEC-1992; Implications for India, FICCI, New Delhi, Oct. 11, 1989, Mimeographed paper in the European Commission Library. (New Delhi).

The most notable feature of the SEA was the replacement of the original Treaty requirement for decisions to be taken by unanimity with a qualified majority requirement with regard to certain measures which aimed at the establishment and the functioning of the internal market. However, exceptions to this rule were to be made for fiscal provisions including measures harmonizing indirect taxes and measures relating to the free movement of goods. Moreover, it was provided that the unanimity rule would remain for matters relating to Community wide recognition of professional qualifications and potentially retrograde steps in the liberalisation of capital movements. But if these exceptions were misused then it was permitted that the Commission or any Member State could bring other Member States to the European Court of Justice.

Further, it was provided that measures affecting health, safety, environmental protection and consumer protection were to be based on a high level of protection in deference to the countries where more stringent environment and safety standards prevailed as compared to weaker provisions of other.

(ii) Cooperation in economic and monetary policy:

Throughout the development of the EC, the member states were divided on the scope of the proposed economic and monetary union and also on the question of majority voting to this effect. A significant feature of the SEA was that it added a new chapter on monetary capacityand stipulated that further changes in economic and monetary policy required institutional changes. The SEA specified that the "Monetary Committee and the Committee of Governors of the Central Banks should also be consulted regarding institutional changes in the monetary area".[22]

Further, an article was added to the SEA stating that:

> In order to ensure the convergence of economic and monetary policy which is necessary for the further development of the Community, Member States --- shall take into account the experience acquired in cooperation in the framework of the European Monetary System (EMS) and in developing the European currency unit (ECU), and shall respect existing powers in this field.(23)

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22 Single European Act, n.18, p.13.

23 Ibid.

(iii) <u>The European Parliament</u>:

Another major aspect of the Single European Act was the new 'cooperation procedure' which allowed the European Parliament a greater input to the Community legislation process. The procedure demanded closer liaison between both the Commission and the Council with the European Parliament, through the first and second reading of proposals, as they pass from the stage of Commission initiative to Council adoption.

If the decision was rejected by the Parliament on the first reading, the Council was to act unanimously on a second reading. Amendments proposed by the Parliament were to be reexamined by the Commission within one month, after which the Council had three months either to accept the Commission's revised proposal by a qualified majority or to amend it by a unanimous decision. The position which would arise if the Parliament rejected the Council's common position at its second reading or if the Council failed to act within three months on a revised Commission proposal was left for further discussion between the three institutions but with the Council having the last say.

(iv) <u>Economic and Social Cohesion</u>:

It was feared that the completion of the internal market would make certain regions more attractive than others. As a result, resources would move to the areas of greatest economic advantage. Therefore, existing differences in levels of prosperity between regions could be exacerbated as the transition takes place.

Thus, to promote a harmonious development overall so as not to threaten the unity and the economic and social cohesion of the Community, the act aimed to reduce the disparities between the various regions and backwardness of the least favoured regions. The Community was required to support the achievement of these objectives by the action it takes through the structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund), the European Investment Bank and other existing financial instruments.[24]

(v) <u>Research and Development</u>:

The SEA incorporated the Research and technological framework into the EC Treaty for developing the "European Technological Community". It also aimed to strengthen the scientific and technological base of European industry and to encourage it to become more

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24 Ibid, p.14.

competitive at international level. In pursuing these objectives in coordination with the activities in this field of Member States, the EC was -
(i) to implement research, demonstration and technological programmes by promoting cooperation with undertaking research centres and universities;
(ii) to promote cooperation with third countries and international organizations;
(iii) to disseminate and optimize the use of the results of activities in Community research, technological development, and demonstration; and
(iv) to stimulate the training and mobility of researches in the Community.[25]

Further, the Community was required to adopt a multiannual framework programme setting out all its activities.

(vi) <u>Environment</u>:

The SEA outlined the objectives of the Community related to the environment. These included: (i) to preserve, protect and improve the quality of the environment; (ii) to contribute towards protecting human health; and (iii) to ensure the prudent and rational use of human resources.[26]

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25 Ibid, pp.14-15.

26 Ibid, p.16.

The priorities as proposed by the Act included preventive action, the rectification of environmental damage at sources and the principle that the polluter should pay.

(vii) Social Policy:

Member States were enjoined to pay particular attention to encourage improvements in the working environment, as regards the health and safety of workers, the objective being the harmonisation of conditions in this area, while maintaining the improvements. Action was to be taken by qualified majority in the Council but individual Member states were not to be prevented from introducing more stringent measures.

(viii) Political Cooperation:

Title III (Article 30) of the SEA provided for formulation and implementation of the European foreign policy. For this purpose, the member states were required to inform and consult each other on foreign policy matters of general interest before final decisions weretaken, so that due attention was given to the views of other member states and to avoid any action which impaired Community's effectiveness as a cohesive force in international relations or within international organisations.

For the purpose, SEA proposed that the Ministers for Foreign Affairs and a member of the Commission should meet at least four times a year within the framework of European Political Cooperation.

In the field of foreign policy, political dialogue with third countries and regional groupings and liaison between foreign embassies of Member States was to be stepped up. The SEA also stipulated that closer cooperation on questions of European security would contribute in an essential way to the development of a European external identity and emphasized that this cooperation would not weaken the role of NATO or the Western European Union.

Furthermore, the Act required the European Parliament to be more closely associated with discussion of foreign and security policy and to coordinate the work on political cooperation, a secretariat was established in Brussels.

The SEA moulded thus the hitherto existing political procedure of the EPC into a legal framework of the EC, supplemented by the creation of a secretariat.

It also incorporated a clause in the field of foreign policy to examine the need of revision five years after the Act comes into effect.[27]

Briefly, SEA thus represents a legally binding commitment, within a specific timeframe, and by means of a legislative method. An European internal market with a 320 million population will enable the Community to unleash new market forces and competitive strengths. This, in effect, will pave the way for high economic growth. The elimination of internal border formalities and creation of larger markets offer considerable economy of scale gains in production and distribution services. The benefits will be lower consumer prices, higher standards of living and a greater demand potential which will be brought about by market integration.

The gains accruing from the implementation of the Single Internal market were highlighted in the Cecchini Report of 1988. In 1986, Lord Cockfield, on behalf of the Commission, had invited Paolo Cecchini to organise a comprehensive enquiry into the likely economic impact of completing the programme of action

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27 Ibid, p.19.

set out in the 1985 White Paper on the internal market. The Report submitted in 1988 to the Commission, analysed the cost of "non-Europe", that is the costs of not completing the internal market and, conversely, the potential benefits (direct and indirect) of the potential market. In the report, the costs of border formalities and the associated administrative costs were estimated to be 1.8 per cent of the value of the goods traded within the Community, while those relating to technical regulations and standards were about 2 per cent of the business sector's total production cost.[28]

The total gains that could be expected from integration of the products market were found to be considerable in the branches of industry for which government procurement were huge, namely, energy, transport, defence and office equipment. The Report estimated an annual saving of ECU 20 billion which would result from free competition within this field itself. The potential benefits of a single financial market were also found to be impressive. It was

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28 <u>Europe Without Frontiers - Completing the Internal Market</u>, Periodical 2/1989, 2nd edition, (Luxembourg: Commission of the European Communities, 1989), p.12.

estimated that competitive pressures would lead to saving of up to 20 per cent on costs of financial transactions in the EEC. Additional benefits could also be derived by the European industry by exploiting potential economies of scale at the Community level. Nearly one-third of European industry could profit from cost reductions ranging between three to seven per cent depending upon the sector concerned.[29] Further savings from economies of scale was estimated to be about 2 per cent of member countries Gross Domestic Product (GDP).

In terms of gains from the overall community level, the Report pointed out that a completely free and competitive internal market could, over a period of six years, increase the community's GDP by 4.5 to 7 per cent, reduce consumer prices by 5 to 6 per cent and create 2 to 5 million jobs. This, in turn, would contribute an increase in governmental budget revenue by 2.2 per cent of GDP. The balance of payment improvement would be one per cent of the GDP.

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29 Ibid.

Thus, the Cecchini report painted a rosy future for the member countries of the EC if they are successful in implementing the Single European Act in the specified time frame. However, for the rest of the world Single European Market represents an important economic and political challenge. Some observers feel that the creation of a "single market" that reserve "Europe for Europeans" would be a bad Europe, for the rest of the world trading partners, and for the multilateral economic system. Proponents argue that when Europe determinedly tears down barriers within the EC, it would logically not erect higher barriers to the outside world. They further argue that a barrier free internal market does not mean more protection spread over a larger area, but greater scope for development, with more openness to the outside.

For the United States too, the project "EC-92" has presented a dilemma where America is torn between the ideal of the strong, democratic Europe that it did so much to launch and the prospect of a less supportive Western partner, stronger and more self-willed in its attitude to foreign policy and defnece. But the issues that excite Americans most are those of the external economic orientation of the enterprise-will it be "Fortress Europe", a protected market, or will it be an open Europe? Clearly, the purpose of the whole effort is not merely to increase wealth by removing obstacles to production and technological progress, but also to increase Europe's power in a world in which economic and financial clout is as important as military might.[30] The current transformation is aimed at making the penetration of external markets, through trade and investment, easier for European countries, many of which depend on exports for their growth and have capital available for placement abroad. It is also aimed at minimising the penetration of the Community by forces deemed unfriendly. American entrepreneurs or officials are not the main targets, but it is difficult to devise external barriers against Japan or South Korea that do not affect U.S. investors and companies as well.[31]

Officially though, the United States has welcomed EC-92 as a natural extension of American efforts to revitalise the European economy after Second

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30 Stanely Hoffman, "European Community and 1992", Foreign Affairs (New York), vol.68, n.4, Fall 1989, p. 43.

31 Ibid.

World War. "The reinvigoration of the European economy is emphatically in our interest", Deputy Secretary of State Lawerence Eagleburger told the Senate Foreign Relations Subcommittee on European affairs, "We are cautiously optimistic that the net result in Europe of 1992 will be a more vibrant, deregulated, wealthy and open market".[32] And as long as it remains open to foreign trade, the community, with its 320 million consumers, promises to be an increasingly lucrative market for American exports.

What worries many American observers, however, is the risk that the Europeans will go beyond their announced mandate to remove existing barriers to trade within the Community and impose new barriers to protect its members' industries from competition by outsiders such as the United States. The construction of such a "Fortress Europe" would close off this country's most important overseas market and threaten to scuttle the entire movement toward freer international trade painstakingly built since the 1940s.

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32 Lawerence S. Eagleburger, "The Challenge of the European Landscape in the 1990's", Department of State Bulletin (Washington, D.C.), vol.89, n.2151, October 1989, p. 37.

EC officials have tried repeatedly to dispel such fears among Europe's trading partners chiefly the United States but their reassurances have done little to calm the fears of some observers. And as intra-European trade barriers fall, Western Europe's trading competitors can not help but worry about what the future will really be. This challenge posed by European integration was accurately summed by Roy Denman, formerly head of the European Commission delegation to the United States:

> After long hesitations, a genuinely single European market and a single European currency are knocking at the door. Not many years behind are a European political federation and a European army. All this means the need for a fundamental reassessment of the relationship between the United States and a uniting Europe.(33)

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33 _The New York Times_, October 10, 1989.

CHAPTER III

U.S.-EC RELATIONS SINCE THE SINGLE EUROPEAN ACT

The year 1992 would mark the fifth centennial of Christopher Columbus' discovery of the New World. Instead of drawing attention to the new world, the date is fast becoming shorthand for likely events in the year 1992 in the old world. The twelve nations that constitute the European Community (EC), also known as the Common Market, hope by then to have set up the world's largest trading bloc.

In the United States, this year of 1992 has generated a tremendous amount of interest in the 'man on the street' who along with government officials and business people has expressed his concern over the potential results of the integration initiative. Twenty eight per cent of Americans aged eighteen and above were found to be aware of the 1992 single European market. Nearly two-third (61 per cent) of these well-informed Americans considered that the single market would improve relations between their country and the twelve-nation community.[1] These were

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1 Target - 92 (Luxembourg: Commission of the European Communities, July 1990), n.7, p.3.

some of the findings of a Gallop poll carried out in February and March of 1990 for the European Commission.

When those aware of the single market were asked about its effects on themselves, as consumers 50 per cent described it as good (18 per cent as bad). American workers were less positive: the corresponding figures were 41 per cent and 21 per cent. As tax-payers, only 33 per cent of Americans saw the effects of the single market as good, while 29 per cent thought them bad. Again, of those aware ofthe 1992 programme, 42 per cent felt it would be easier to export to Europe and 38 per cent that itwould make companies more competitive.[2]

While strong doubts were expressed in the United States about the European nations ability to adhere to their economic integration schedule, no one questioned the direction in which Europe is headed or the assumption that the changes would have drastic market consequences.[3] The planned removal of barriers

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2 Ibid.

3 International Herald Tribune, 28 August 1988.

to the free movement of goods, capital and people throughout much of Western Europe is expected to make the continental economy more efficient. Companies and entire industries that have thrived behind protectionist barriers are likely to be wiped out by their more efficient competitors within the Community. As the costs of manufacturing, marketing and transporting their products and services fall, the emerging "Euroindustries" are expected to be more imposing competitors to U.S. companies selling to the Europeans and world markets.

But at the same time, it is being predicted that American business would find Europe to be an increasingly lucrative market. Economists have estimated that successful implementation of the 1992 programme could add 1.8 million new jobs in Europe, and over time add $ 260 billion demand for goods and services. The 1992 programme would result in a single market worth $ 4 trillion made up of 320 million consumers bound by a single set of regulations and directives.[4] This is a far different structure from the fragmented one U.S. business people have dealt with in the past.

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4 See, Robert A. Mosbacher, "U.S.-EC Cooperation Increases As the Single Market Takes Shape," Business America (Washington D.C.), vol.3, no.1, January 15, 1990, p.2.

Americans are singularly well-suited to dealing with the Common Market, remarked Arthur A. Hartman, former U.S. ambassador to the Soviet Union and France. He said that as US businessmen are well accustomed to operating in a large diverse market at home, they were well positioned to compete with the emerging European conglomerates on their own turf. Even small American firms, he felt, which have no production facilities in Europe, would be able to exploit the anticipated growth in consumer demand by targeting products for export. So there are important implications for U.S. businesses, whether they currently have a stake in the Western European market or not. But not many in the administration shared his optimism. Al Kingon, the American ambassador to the EC remarked that "there is a real risk that Europe will turn into a protectionist entity as 1992 comes more and more into being".[5]

The first formal policy statement by the U.S. government regarding the EC project too reflected an increasing apprehension inside the Reagan administration that a barrier-free Europe could be one in which the

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5 International Herald Tribune, 23 November 1988.

United States access to markets would be more severely restricted. The administration warned that such a "Fortress Europe" could close American businesses out of a lucrative market. Deputy Treasury Secretary M. Peter McPherson declared in an address before the Institute for International Economics in Washington D.C. that "The creation of a single market that reserves 'Europe for the Europeans' would be bad for Europe, for the U.S. and for the (global) economic system."[6]

President Reagan too in his state of the Union message reiterated his administration's stand when he stated:

> Our basic trade policy remains the same; we remain opposed as ever to protectionism because America's growth and future depend on trade. But we will insist on trade that is fair and free. We are always willing to be trade partners but never trade patsies.(7)

With the change in administration even, attitude towards the EC's initiative remained the same. Publicly, the administration supported the project. Rozanne

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6 <u>Facts on File</u> (New York), vol.48, no.2490, August 12, 1988, p. 585.

7 <u>Facts on File</u> (New York), vol.47, no.2410, January 30, 1987. p.47.

Ridgway, the outgoing Assistant Secretary of State for European Affairs, said at Minneapolis in March 1989 that :

> We need to make it clear both in Europe and here at home, that there is no inconsistency between defending our interests and supporting either today's objective of a European integrated market or tomorrow's goal of European unity.(8)

But many Bush Administration officials were far less welcoming, and admitted that the U.S. did not like the prospect of a tougher economic challenge by a unified entity of 320 million people. And soon after his appointment as U.S. National Security Adviser, General Brent Scowcraft listed the construction of "Fortress Europe" as one of the biggest political and economic challenges facing the Bush Administration.

In such a clouded picture of support and fear of EC initiatives, a clear framework of U.S. policy towards the project "EC-92" was provided by Eugene J. McAllister, the Assistant Secretary of State for Economic and Business Affairs, when he explained that :

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8 Times (London), 11 May 1989.

> U.S. Government believe that the single market, if successful - and by that I mean open - will be good for the U.S. But the U.S. Government is not just hoping that the single market will be open; we are working hard to do everything in our power to assure that it is.(9)

He further outlined the outlook of the U.S. Government towards 1992:

> First, the U.S. unequivocally supports European economic integration. In fact, this has been an underlying principle of U.S. foreign policy since World War II. The wisdom of this approach has been proven and is being proven. A united Europe, a purposeful Europe, is critical to addressing the Soviet threat. And economic integration - as manifested through the European Community - is one of the elements that draws Europe closer.
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> Second, in our view, 1992 is primarily a deregulatory exercise - we accept at face value the EC's statements that they are trying to build a more economically efficient community, and we do not see a more efficient EC as a threat. Rather, we see it as good for the United States and the world. The EC will become a better market for U.S. products and a competitor that helps drive U.S. enterprises to excellence. And we believe that the efficiency gains that the EC achieves will, in one form or another, be available to the rest of the world.

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9 Eugene J. McAllister, "A U.S. Perspective on EC-92", Economic Impact (Washington D.C.), vol.4, no.69, 1989, p.17.

> Third, while we are optimistic about 1992, we are also wary about 1992. The value of 1992 to the rest of the world is that it is open - a single EC market will be larger than the U.S. market: 320 million people with a GNP of $ 4,100,000 million. Our wariness is that the single market will be less than open, either as a result of discriminatory directives or regulations, the narrow application of existing trade regulations, or the failure of the Uruguay Round negotiations of the GATT to develop world-wide rules for new areas such as financial services.(10)

However, in spite of the U.S. expressing unequivocal support and enthusiasm for the EC integration, EC gave way to temptation of protectionism in its hurry to tear down its internal barriers. And as a result, several bones of contention, in addition to hardy perennials like the Common Agricultural Policy (CAP), cropped up which sowed the seeds of a deeper disagreement between the U.S. and the EC and reinforced fears of 'Fortress Europe' in the U.S.

Impact of the proposed project:"EC-92" on U.S.-EC trade Relations and the U.S. response:

Initially, in the beginning of 1986, disagreement among EC members over the fundamental aims of the single market complicated the job of American strategic planners in analysing the impact of "EC-92" on U.S.-EC

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10 Ibid.

trade. Meanwhile, discord over agricultural issues occupied the limelight and continued to be a source of strain in the U.S-EC relations.

Two major problems involving agricultural products were at the forefront for most of the year in 1986. The first resulted from the effects of the accession of Spain and Portugal, while the second was the much debated matter of the preferences granted by the Community for Mediterranean citrus fruits.[11] In the case of Portugal's accession, the U.S. asserted that the transitional arrangements for oilseeds and the share of the Community market (15.5 per cent) reserved for import of cereals ran counter to GATT rules. As regards Spain's accession, complaints were made by the U.S. regarding the application from 1st March of a variable import duty on imports into Spain of maize and soya.

In view of this discrimination, President Reagan signed a proclamation on 15 May 1986, providing for retaliatory measures against the alleged effects of the application of the Treaty of Accession on U.S.

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11 Twentieth General Report (Luxembourg, Commission of the European Communities, 1987), p. 306.

exports of certain agricultural products. The retaliatory measures required U.S. authorities to impose quantitative ceilings on imports into the U.S. of certain Community products like chocolate, confectionary, pear and apple juice, beer and white wine of a value exceeding $ 4 per gallon.[12] The quotas were set at 120 per cent of the quantities exported in 1985, except in the case of white wine, for which the quota was 140 per cent. The President also announced the suspension of certain tariff concessions on other products in response to the application in Spain of Community vairable levies on imports of feed grains.

However, the President indicated his willingness to suspend these measures and refer the matter to the GATT if the EC agreed to do the same.[13] Further, he announced that the decision on any duty increases would be deferred until July to allow time for negotiation of compensation for EC tariff action affecting U.S. exports of feedgrains to Spain. But

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12 Bulletin of the European Communities (Luxembourg) vol.19, no.5, 1986, p. 67.

13 Department of State Bulletin (Washington, D.C.), vol.86, no.2113, August 1986, p. 52.

the response of the EC was viewed as disappointing to the U.S. government as it introduced statistical surveillance of certain U.S. products and reserved the right to impose quantitative restrictions if, notwithstanding the U.S. claim,the U.S. quantitative ceilings started to have a restrictive effect on Community exports.

To avoid a trade conflict however, an interim solution was found in July under which the two parties decided to try to conclude their bilateral negotiations in GATT (under Article XXIV. 6 of the General Agreement) on the implications of enlargement by 31 December. In the meantime, the U.S. agreed not to increase the tariff on Community products and the Community undertook in return to monitor Spanish imports of maize, Sorghum and other U.S. feeding stuff and to take necessary measures to ensure that any drop below an average of 234,000 tonnes a month was offset by a quota at a reduced rate of levy.

However, the negotiations broke down and on 30 December, the U.S. President announced that he intended to impose customs duties of 200 per cent on a number of European products, accounting for around $ 400 million in Community exports by 31st December 1987.

These retaliatory tariffs were later withdrawn when trade negotiators for the two sides worked out an agreement to compensate the U.S. for higher tariffs imposed by Spain and Portugal on U.S. products.

Under the agreement, the EC decided to grant Spain and Portugal exemptions from its requirement of uniform tariffs. The exemption allowed the countries to buy 2.5 million tons of corn and sorghum at lower tariff rates. The EC was also required to drop its demand that Portugal buy at least 15 per cent of the feedgrain from other EC countries. This provision added about 400,000 tons to the potential market for grain from the U.S. or other countries.[14] The EC also agreed to lower tariffs or quotas on 26 other products that could eventually provide upto $ 100 million in new business for U.S. companies. The agreement also sought compensation for U.S. farmers and businessesfor what trade negotiators estimated would be $ 400 million in lost sales caused by the higher Iberian tariffs. The pact averted a trade war that was certain to have resulted if the U.S. had imposed the retaliatory tariffs.

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14. <u>Facts on File</u>(N.York)vol.47, no.2410, January 30, 1987, p. 45.

Further, the dispute regarding the Community preferences granted for Mediterranean citrus fruits which had overshadowed U.S.-EC relations for over 14 years ended by a balanced agreement under which the U.S. recognised the political validity of the Community's Mediterranean agreements.[15]

Another source of discontentment between the U.S. and the EC was the question of agricultural subsidies, which by the end of 1988 totaled over $ 200 billion annually.[16] The United States sought a fixed timetable to eliminate all farm support and subsidies worldwide and in July 1987 proposed the year 2000 as a possible deadline. The EC, however, resisted the U.S. proposal, and called for 'reduction' rather than the 'elimination' of farm subsidies, claiming that domestic political pressures made elimination impossible. The issue remained unresolved till 1990 with the Uruguay Round of talks having failed to resolve the differences between the U.S. and EC on the question of farm subsidies.

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15 For details see, <u>20th General Report</u>, n.11, p. 307.

16 <u>Facts on File</u> (New York), vol.48, no.2478, May 20, 1988, p. 359.

Along with the agricultural sector, another bilateral issue which added fuel to the on-going agricultural trade conflict was the projected implementation of the Council Directive of 31 December 1985 which had banned the use in the Community of hormones for fattenning purposes and hence, by extension, imports of animals or meat of animals on which hormones had been used.[17] The United States reacted sharply against it as the ban on meat would have affected about $ 150 million of U.S. meat exports to the EC annually.

United States Trade Representative Clayton K. Yeutter in December 1988 charged that the EC had consistently blocked U.S. efforts to bring the issue of the hormone ban before a scientific dispute settlement panel at the GATT and maintained that the EC decision to implement the ban constituted an unfair trade practice.[18] Therefore, to ensure that the U.S. access to the EC remained uninterrupted, President Reagan signed a proclamation imposing and temporarily suspending duties on approximately $ 100 million worth of exports

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17 21st General Report (Luxembourg: Commission of the European Communities, 1988), p. 292.

18 Facts on File, (New York), vol. 49, no.2511, January 6,1989, p.3.

from the EC to the U.S.[19] Further, the U.S. Agricultural Secretary Richard Lyng indicated that the U.S. would also consider further retaliation by invoking a section of the 1988 Omnibus trade bill, to exclude an additional $ 450 million of EC meat from the U.S. Moreover, the United States contested the EC decision, insisting that scientific evidence proved that American meat was safe and achieved an extension until the start of 1989 whereby the President suspended the earlier announced sanctions.

In the meantime, however, no compromise solution could be reached and on December 10, 1988, the EC announced the ban on the import of U.S. meat from hormone-fed cattle from January 1, 1989. The U.S. retaliated by imposing tariffs on some imports of European foods, including canned tomatoes, meat products and pet food. The issue remained unresolved and lead to bitter feelings on both sides. Due to this trade war, General Brent Scowcraft, the United States National Security Adviser predicted a period of increasingly tense relations with the Western allies

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19 Department of State Bulletin (Washington, D.C.), vol.88, no.2132, March 1988, p. 69.

in their efforts to create an internal market by 1992 and suggested that the trade war which had broken out over hormone-treated meat was only the precursor to an increasingly acrimonious relationship with the Community.[20]

His misgivings were shared by Carla A. Hills, the United States Trade Representative, who revived charges that the 12-nation EC may be laying the foundations of a protectionist "Fortress Europe" to the detriment of U.S. and other world trading interests. Hills remarked that a series of developments in Europe - involving cars, computer chips and TV broadcasting - had reawakened U.S. fears about the Community's intentions. "Although she had tried to calm Americans concern about a Fortress Europe as recently as April 1989", she said but, "she could not now give a speech telling them not to worry".[21]

Before it had seemed absurd in the U.S. that Europe efforts to create a genuine common market by

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20 Times (London), 11 May 1989.

21 International Herald Tribune, 12 September 1989.

1992 might involve freezing non-Europeans out of key sectors like banking and financial services. But the European Commission's insistence on "overall reciprocity" created a political furor in the U.S.. Thomas J. Berger, a Treasury Department Official, said of the Community's future treatment of financial services, "we find this reciprocity concept particularly troubling".[22] When former EC Commissioner Willy de Clercq was asked to define 'reciprocity' in the context of 1992, he replied 'fair play'. The U.S., on the other hand, labelled it as a 'codeword for protectionism'.

Reciprocity, in the context of EC-92, first appeared in the second banking coordination directive which called for reciprocity as a standard for foreign entry. The draft which was approved by the Council of Ministers in Dec. 1989 required non-EC countries to provide to European banks "effective market access" and "competitive opportunities comparable" to those available in the EC.[23] However, this rule was widely

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22 International Herald Tribune, 23 November, 1988.

23 Linda F. Powers, "EC-92 : A Challenge to U.S. Service Sectors?", Business America (Washington, D.C.), vol.3, no.1, January 15, 1990, p. 20.

protested in the U.S. "The Commission demands EEC-wide reciprocity. Does this mean that when a U.S. bank wants to open in London or Paris after 1992, the EEC will say no because there are few Portuguese or Greek banks in the U.S.?"[24]

This reciprocity rule, if implemented in banking services would have required foreign banks post 1992 to undergo a "reciprocity review" along with their application license - a bureaucratic and time consuming hurdle. Further the U.S. would have been at a competitive disadvantage on account of the Glass Steagall Act. According to the rules, banks whether domestic or foreign, in one U.S. state are prevented from having branches in any or the other 50 states. The crucial difference however, is that whereas foreign and domestic banks have the same powers in the U.S., under reciprocity U.S. banks established in one EC country would not have been able to branch into other countries, even though European banks could.

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24 *Times* (London), 23 April 1988.

Because of this detrimental effect on the U.S. financial and banking services, the rule was widely protested in the U.S. The U.S. Deputy Treasury Secretary M. Peter McPherson said that Brussels should grant U.S. companies doing business in the EC "national treatment" and regulate them no differently than European companies. National Treatment implied that domestic and foreign companies should receive equal treatment on domestic markets irrespective of the particular situation on the corresponding foreign markets.[25] "We allow foreign firms, including banks, access to the U.S. market", the Deputy Treasury Secretary stated and "we expect the Community to extend to U.S. firms access to newly integrated markets in Europe".[26]

Finally, as a result of the Reagan Administration's rapid and forceful reaction to this idea, the Commission revised the directive to define reciprocity as national treatment plus "effective market access".[27] EC representatives suggested that this meant that national

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25 For details see, Wilhelm Nölling, "The Impact of 1992 on European Integration and Relations with the United States", <u>Intereconomics</u> (Hamburg), vol.23, no.5, Nov./Dec. 1988, p. 259.

26 <u>Facts on File</u> (New York), vol.48, no.2490, August 12, 1988, p. 585.

27 Eugene J. McAllister, n.9, p.20.

treatment would apply not only on paper but also in terms of actual opportunity for EC banks to participate fully in the market-free of hidden or bureaucratic barriers.

Concern was also voiced by the United States about the quotas or the local content requirement of the proposed project EC-92. Many of the EC countries have national trade barriers such as quotas on automobile imports and due to this requirement France had argued that Bluebird cars made by Nissan Motor Co. in Britain did not have sufficient "local content" to qualify for admission to the French market as European products, even though Britain was also a member of the Community.

Although France later softened its stand on this issue, U.S. industry was "profoundly affected" by the French attitude which could be used to justify restrictive action against U.S. cars. On the other hand, in the U.S., Honda's production in the U.S. had a domestic content as high as Chrysler's.[28] With a 97

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28 C. Brown, "American-Japanese-European relations: a view from Washington", USA Today (New York), July 1990, p.39.

per cent American workforce of over 10,000 employees, Honda was manufacturing in the U.S. more than half the cars it was selling there.

Therefore, United States Foreign Trade Representative Carla Hills warned that the U.S. would fight any attempts by Europeans to close their markets to Japanese cars manufactured in U.S. "transplant" factories. "We would be remiss if we did not stress how strongly we feel that a Japanese nameplate car made in our country is an American car", she said.[29]

Another explosive issue which caused tension between Brussels and Washington was the EC draft directive that required Europe wide TV channels to carry over 50 per cent of European made broadcasts "where practicable"[30] as the Community's post-1992 single market comes into effect. The broadcast directive contained a quota provision that would have hindered market access by U.S. firms to the rapidly expanding EC television market and moreover, it created a quota for most EC members where none existed before.

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29 Facts on File (New York), vol.50, no.2573, March 16, 1990, p. 174.

30 For details see, Linda F. Powers, n.23, p.22.

This was regarded as a serious threat by the U.S. motion picture industry which in 1988 sold T.V. programmes worth $ 630 million in the Community. Placing that stake in jeopardy was especially perturbing since European film producers had unfettered access to the U.S. television film market. Further, with the advent of satellite transmission across EC borders and an anticipated boom in commercial television, American film producers had already geared up to expand their 40 per cent share of the market.[31]

Accusing the Community of effectively planning to "censor" T.V. broadcasts, Hills asked whether the next step would be to require that "in the local bookstore 50 per cent of the books must be written by European authors".[32] Although, some EC countries insisted that the plan was merely intended to protect their cultural heritage, Hills called it "pure and simple protectionism, for which there is no justification whatsoever". The T.V. issue, she added was

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31 Axel Krause, "The EC viewed from Moscow and Washington", European Affairs (Amsterdem), no.3, Autumn 1989, p. 49.

32 International Herald Tribune, 12 September 1989.

"creating the impression - the growing, frightening impression - that this is Fortress Europe".[33] To seek a solution to this barrier, the U.S. urged the EC to have consultations under the GATT as U.S. believed that the Directives' provisions were contrary to the GATT and the EC reluctantly agreed to it.

Along with television and automobile issues, the airline issue too assumed importance. The Community has set a target of reducing trade restrictions within its boundaries, including those on air fares and air carrier service rights by 1992 to promote growth and maturation of the market. But what was of particular concern for the U.S. was the proposal of the Commission "that it be given authority to re-negotiate agreements authorising air service between non-Community nations and all the member states".[34] This was a clear departure from the traditional practice of bilateral negotiations of air service rights between individual nations.

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33 Ibid.

34 <u>Financial Express</u> (New Delhi), 22 January 1990.

In the EC's view, the creation of a common air transport policy and the completion of the internal market would lead to a situation where the Community could be regarded as a cabotage area - the carriage of goods and passangers between two points, both of which are in the same country.[35]

If the EC was considered to be a single "aviation territory", U.S. airlines carrying traffic between France and Germany, for example, would no longer be treated as operating services between countries - an operating right which had already been negotiated for by the U.S. - but rather engaging in cabotage. Ultimately, it was thought that EC would aim to obtain cabotage rights in the U.S. (currently reserved for U.S. carriers), or demand that U.S. intra-EC rights be terminated. U.S., therefore, called for bilateral discussion with the EC whereby EC agreed to open formal negotiations with the U.S.

EC-standards-related issues, including how to gain product approvals for safety requirements through

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35 Linda F. Powers, n.23, p.21.

testing and certification also proved to be a source of concern for the U.S. Essentially, the EC Commission had mandated the harmonization of "essential requirements",[36] which were primarily health and safety requirements, for specific products or industries. Product-specific directives specified the criteria to be applied for declaring conformity to the mandatory requirements, types of testing, and the nature of the certification required in order to market the product in the EC.

EC argued in favour of the idea that one product meeting EC "essential requirements" could then be sold all over Europe. But U.S. argued that there was potential for discrimination for EC-wide standards might bar differing U.S. technologies, lack of transparency might prevent effective U.S. input or shorten the lead time for U.S. exporters to make design changes before new rules could go into effect. And further a fear was expressed that U.S. producers and testing bodies might not get equal access to an EC-wide testing and certification system.

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36 Mary H. Saunders and Don. R. Wright, "The EC Single Market in 1990: What can Business Expect?", <u>Business America</u> (Washington D.C.), vol.3, no.1, January 15, 1990, p.9.

Therefore, U.S. called for negotiations with the EC and Robert A. Mosbacher, the U.S. Secretary of Commerce, reached an agreement with EC Vice President Bangemann laying the groundwork for cooperation in standards-setting and calling for future negotiations in the area of testing and certification.[37] The agreement with the EC Commissioner specified that the process of standards-setting would be fully open so that non-EC companies could follow standards developments and comment on proposed requirements at an early stage.

Mosbacher also met with the European organisations assigned by the EC Commission to set regional product standards and urged them to give non-Europeans greater access to their standards development process. As a result, these organisations implemented changes in their policies that enabled U.S. companies and technical experts to get early drafts of standards and to make presentations to the European standards developers in appropriate situations.

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37 Robert A. Mosbacher, n.4, p.2.

Apart from these issues, the proposed project "EC-92" also had consequences for the east-west trade. The EC plan for a single internal market in 1992, coupled with economic and political reforms in the Soviet Union was considered to be a challenge to Western officials engaged in preventing sensitive technology reaching the Soviet Union.

Trade experts agreed that both developments posed fundamental questions for the future operation of the 16-nation, Paris based Coordinating Committee on Multilateral Export Controls (CoCom).[38] Because the barriers to trade within the EC would come down it would become impossible to police the sales of sensitive material within the EC and this would create an escape route for European technology to be sold to the Soviet bloc via countries such as Greece and Portugal which are lax in enforcing export controls. Therefore, U.S. compaigned vigorously to ensure that these controls are not diminished.

Allan Wendt, the State Department Official, responsible for strategic technology trade, remarked that the administration had not yet decided how to

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38 Deccan Herald, 30 October 1988.

handle the issue, but he said that the U.S. still wanted to make CoCom more effective through better enforcement and streamlining of the list of restricted products. "The U.S. has entered into that effort with determination and good faith and that will continue", he stated.[39] Though the U.S. made some progress towards eliminating obsolete industrial items from the controlled list, the effort among the European governments was less concerted and the West German Foreign Ministry acknowledged that the task was "laborious".

Response of the U.S. business firms to the proposed project "EC-92":

The target date 1992 stimulated the interest of American companies in the rediscovery of Europe. A new wave of investment flowed across the Atlantic, from high technology and snack foods to paper and autos. It was reflected in European acquisitions, plant expansions, and joint ventures. This surge got an added kick from the promise of a continentwide boom

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39 Ibid.

created by the collapse of communism in Eastern Europe. But the big attraction for such large scale investment was the prospect of new markets which would be available after the dismantling of trade barriers within the EC by 1992. "Even the dimmest - witted American companies are realizing that 1992 gets closer every day, and that it will have consequences for their business",[40] remarked Ronald M. Freeman, managing director of international investment banking for Salomon Brothers Inc. in London.

The U.S. embassy in Brussels too reported a "phenomenal increase" in inquiries about 1992 from American companies and individuals since the campaign got under way.[41] Though the U.S. business concern questioned the ability of EC to achieve its goal by 1992 but acknowledged that the symbolic impact was nearly as important as the programme itself. Said Jürgen Aumüller, President of American Express Travel Services in Europe. "It's a concept, not a date".[42]

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40 Business Week (New York), March 26, 1990, p. 20.

41 Time (London), 23 April 1988.

42 Fortune (Switzerland), no.8, April 10, 1989, p. 29.

According to these Commercial firms, a single report had replaced the stack of customs documents that were once needed to cross national borders. Remarked John Georgas, executive vice-president of Coca Cola: "Pretty soon, going from Belgium to Holland will be like going from New York to New Jersey".[43]

However, the proposed project "EC-92" presented both opportunities and challenges to the U.S. firms. Clayton Yeutter, the United States Trade Representative, complained about hints of protectionism in a letter to Willy De Clercq, Member of the Commission with special responsibility for external relations and trade policy, "We welcome your efforts at completing the internal market - but not if a single internal market - leads to increased external barriers or discrimination against U.S. firms' interest in the Community,"[44] Yeutter wrote in that letter.

The hottest battlefield with regard to protectionism was the financial sector. Though the U.S. government achieved some success in the redefinement of the rule of reciprocity but still business concerns had

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43 Ibid.

44 Business Week (New York), August 1, 1988, p.16.

their misgivings. "All the signals suggest that the European Commission will not be shy about seeking reciprocity", said Dennis Weatherstone, president of J.P. Morgan and Co.[45]

In Computers, the situation was even murkier, IBM, Digital Equipment and Hewlett Packard who already had Europe-wide networks expressed concern over EC governments move to favour European "national champion" computer makers such as BULL, ICL, Siemens, and Olivetti, which are strong mainly in their home regions. "It's very much an unresolved issue", whether the EC would restrict foreigners after 1992, said C. Michael Armstrong, who heads IBM's $ 19 billion European Operations.

But despite these protective measures, several U.S. firms responded favourably to the opportunities offered by the elimination of red tape and removal of barriers in the EC . On the whole U.S. companies view 1992 as very positive", stated Stephen L. Cooney, Jr., Director of International Investment and Finance at the National Association of Manufacturers (NAM) in Washington D.C.[46]

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45 Ibid, p. 17.

46 Editorial Research Reports (Washington, D.C.), January 13, 1989, p.22.

To get a foothold within the EC, several U.S. companies resorted to the acquisition route as a shortcut to building up its strength in Europe. General Motors acquired half of Saab-Scania's passanger car operations for $ 600 million which is a recognised high-performance product. And Ford purchased Jaguar for $ 2.5 billion so that the British luxury car could be effectively marketed on both sides of the Atlantic.

But acquisitions were only a part of the story. A study by the Conference Board showed that American companies launched 17 new manufacturing projects in West Germany, 15 in Italy, 14 in France, and 13 in the Netherlands in 1989.[47] Added to acquisitions, the new plants accounted for 62 per cent of all U.S. direct investment abroad, compared with 52 per cent in 1988.

American telecommunications companies too had a great business year in Western Europe in 1989, with exports of equipment totalling $ 1.1 billion,[48] and a trade surplus of $ 800 million. But the U.S. companies were not satisfied with that achievement and neither was the U.S. government. The Bush administration,

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47 Business Week (New York), March 26, 1990, p.21.

48 International Herald Tribune, April 19, 1990.

therefore, initiated a trade action against the EC in February 1989 over telecommunication barriers due to which EC dismantled some obstacles.[49] "We have made a good deal of progress in our discussions with the Community on telecommunications", USTR Carla Hills told Congress, "However, much more remains to be accomplished".[50]

In spite of these barriers, a major beneficiary of the "EC-92" project was AT and T (American Telephone and Telegraph Co.). Since 1984, it had been trying with little success to market its technology in Europe. The breakthrough came in January 1989, when Italtel, Italy's state-owned telephone equipment maker chose AT and T as its partner in a five year, $ 27 billion programme to update and overhaul the country's aging phone system.[51] This deal ensured AT & T a position in the European market alongside Alcalet, Siemens and Sweden's Ericsson.

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49 For details see, Business America (Washington D.C.), vol.3, no.6, March 26, 1990, p.13.

50 International Herald Tribune, April 19, 1990.

51 Fortune (Switzerland), no.8, April 10, 1989, p. 34.

Natural resource companies in Europe too attracted the attention of American investors. Oryx Energy Co. of Dallas spent $ 1.1 billion in 1989 for British Petroleum Co. stakes in several fields in the North Sea. For despite bad weather and high drilling costs, North Sea oil commands a premium because of its high quality and proximity to Europe.

Figuring that booming European business would do more copying, printing, and writing, International Paper nabbed Aussedat Rey, a French Company, to export to the rest of Europe. "We wanted to come in here, produce locally, and expand," said C. Wesley Smith, President of International Paper Europe.[52]

Even many small and midsize U.S. companies moved into Europe. Viatech Inc., a $ 250 million packaging company in Syosset, New York, bought Ferembal, a major French tin-can maker. Johnson Worldwide Associates Inc. in Racine, Wisconsin, with $ 240 million in sales, bought the Mitchell fishing - reel company in France as well as a maker of marine electronic gadgets in Britain.

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52 Business Week (New York), March 26, 1990, p.22.

Moreover, as interest grew in the project "EC-92", a need was felt for a clearer picture of the potential implication of the project. Therefore, to familiarise business persons with the potential effects of the 1992 programme, U.S. business management schools added EC-92 familiarization courses. But few went so far as the MIT programme for senior executives, which started a field trip to Brussels. The goal: exploring the implications of European integration. "It was one first attempt to bring our senior executives, only 50 per cent of whom are American, into direct contact with the EC-92 process, and we expect to continue the program,"[53] said Allan White, associate dean of the Massachusetts Institute of Technology School of Management in Cambridge, Massachusetts.

Further, a network of about 50 volunteer professionals, known as Team-92[54] was established in the United States to speak to regional audiences about the applications of the EC integration. Organised by the European Commission's Washington delegation, the goal was to establish a network of "outside" professionals

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53 International Herald Tribune, 15 May 1990.

54 Ibid.

to act as "reference points" in their local and regional communities.

And to assist small and mid-sized firms focus on the emerging market opportunities in Western Europe, Commerce's International Trade Administration (ITA) developed a EUROPE NOW programme.[55] EUROPE NOW highlighted the advantages of exporting to Europe. Inexperienced U.S. firms which had expressed an interest in the European market were offered intensive counse-lling assistance by experienced Europe desk officers in ITA's International Economic Policy (IEP), unit, industry officers in the Trade Development (TD) unit, and the U.S. and Foreign Commercial Service (US & FCS). This individualised marketing assistance included market research information, details on the best marketing approach in Europe for each product and recommendations on utilizing, the export promotion assistance of Commerce's U.S. & FCS.

Thus, the response of the U.S. firms reflected their belief in the EC efforts towards creating a single internal market free of physical and technical

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55 E. Marvin Belden, "Be Ready for 1992 - Export to EUROPE NOW", Business America (Washington D.C.), January 15, 1990, p.6.

barriers and in some aspects, U.S. firms reacted like Europe-1992 was already there. "1993 in Europe will show little change from 1992", remarked Robert E. Cawthorn, Chairman of Rorer Group Inc., a pharmaceutical concern for, "Europe-1992 is marketing strategy, not a sudden switchpoint".[56]

Therefore, by and large, generally, the United States welcomed the changes in the European Community. President Bush reiterated this in his speech at Boston University in May 1989. He said:

> The United States welcomes the emergence of Europe as a partner in world leadership. We are ready to develop - with the EC and its member states - new mechanisms of consultation and co-operation on political and global issues, from strengthening the forces of democracy in the third world, to managing regional tensions, to putting an end to the division of Europe.(57).

James A. Baker, Secretary of State too, reiterated U.S. support for the European integration initiatives and called for "A New Europe, A New Alanticism".[58] He proposed that the U.S. and the EC

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56 Robert E. Cawthorn, "Are U.S. Multi-Nationals Ready for the U.S. of Europe?", Vital Speeches of the Day (Mt. Pleasant S.C.), vol.25, no.21, August 15, 1989, p. 654.

57 The Economist (London), July 7, 1990, p.6.

58 James A. Baker, "A New Europe, A New Atlanticism", Vital Speeches of the Day (Mt.Pleasant, S.C.), vol.26, no.7, Jan. 15, 1990, p. 195.

should work together to achieve, whether in treaty or some other form, a significantly strengthened set of institutional and consultative links for both U.S. and EC faced a set of mutual challenges - in economics, foreign policy, the environment, science, and many other fields.

The U.S. welcomed the reunification of Germany too and expressed its belief that it would produce a stronger and more united European Community. Further, the United States acceded to the idea that the EC should coordinate food aid to Poland and serve as a policy clearing-house on Eastern Europe.[59]

But disagreements too occured between the U.S. and EC on matters of foreign policy. Above all, dissatisfaction was expressed over Europe's Byzantine way of organizing foreign policy,[60] because it was not always clear whether U.S. should deal with the officials from the Commission, the Council or an individual country. And moreover, every six months a different country assumed the presidency of the council and European Political Cooperation (EPC).

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59 New York Times, July 20, 1989.

60 The Economist (London), July 7, 1990, p.11.

Strong protests were made by the U.S. when Washington detected a trend in EC foreign policy towards discussion of political and security issues within the EEC as part of the 1992 process. The United States conveyed its protests to the EC when EC foreign ministers suggested a CSCE summit without consulting America. "It seems they only want to talk to us when they feel like it,"[61] said one official. Robert Mosbacher, the Commerce Secretary insisted that the Americans should "have a seat at the table", and warned that Washington would fight any attempt by the twelve to shelter behind collective responsibility. "We always reserve the right to go directly to the governments concerned when we have a problem", one official said.[62] Though EC mission to the U.S. engaged in an intensive propaganda exercise to brief Americans on what 1992 means but a number of senior politicians including such Democratic Senators as Lloyd Bensten (D-Texas) and Max Baucus (D-Montana), expressed scepticism about EC reassurances.

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61 Ibid.

62 Times (London), 11 May 1989.

Differences between the U.S. and the EC were also prominent on the question of financial assistance to the Soviet Union. EC President Jacques Delors, West German Chancellor Helmut Kohl, and French President Francois Mitterand favoured substantial aid to the U.S.S.R. from the EC governments. However, President Bush, while reiterating his support for Soviet economic reform, rejected the notion of U.S. "direct economic aid". "I recognise that support from the West can help the (Soviet) economy", Bush said "But there's an awful lot of reform that has to take place in the market and in the distribution system"[63] before the U.S. government would offer financial assistance.

In the end however, a compromise was reached at the G-7 meeting in Houston, Texas in July 1990, an economic communique was issued directing the IMF, the World Bank, the Organisation for Economic Cooperation and Development and the new European Bank for Reconstruction and Development to undertake in close consultation with the commission of the EC, a detailed study of the Soviet economy, to make recommendations

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63 Facts on File (New York), vol.50, no.2588, June 29, 1990, p. 489.

for its reform and to establish the criteria under which Western economic assistance could effectively support these reforms.

In addition, the economic communique noted that, "some countries are already in a position to extend large scale financial credits",[64] to Soviet Union and thus made individual nations free to devise their own aid policies towards the U.S.S.R.

With regard to U.S. sanctions against Iraq in view of Iraq's invasion of Kuwait, EC reacted favourably and joined U.S. in imposing a wide array of trade sanctions against Baghdad.[65] They included a ban on oil imports from Iraq and Kuwait; an arms embargo, the suspension of all military, technical and scientific trade with Iraq, the suspension of Iraq's preferred trade status with the EC; and a freeze on Iraqi assets.

However, these foreign policy matters took a backseat in the U.S.-EC relations with the trade conflicts occupying the forefront. The protectionist measures by the EC stiffened the attitude of the member

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64 Facts on File (New York), vol.50, no.2590, July 13, 1990, p. 512.

65 Facts on File, (New York), vol.50, no.2594, August 10, 1990, p. 582.

of Congress who pressed for more bilateral free-trade arrangements, like the U.S.-Canada free trade arrangement, as a way to help the U.S. compete with a stronger Europe. During his compaign, President-elect George Bush too supported the idea of a free-trade pact with Mexico based on the U.S.-Canadian agreement. The American International Automobile Dealers Association, worried by the EC-leanings towards protectionism, also proposed that the U.S. should enter into a free-trade agreement with Japan.

Senator Bill Bradley, D-New Jersey, expanded on this idea and proposed that the U.S. should follow the European lead and enter into an eight-nation "Pacific coalition", which would include the U.S., Canada, Mexico, Japan, Australia, South Korea, Indonesia and Thailand.

Senator Bradley was not the only member of Congress who pressed for more bilateral trade deals. Senators Robert C. Byrd, D-W. Virginia, and Max Baucus, D-Montana, called for agreements with Japan, while Representatives Sam Gibbons, D-Florida, and Philip M. Crane, R-Illinois introduced a measure that would have granted the president authority to negotiate a trade pact with

Japan. Representative Richard A. Gephardt, D-Montana, sought to neutralise the protectionist threat from Europe by entering into an economic "NATO" with the EC.

Thus, on the one hand, the United States conveyed its dissatisfaction with the EC policy of protectionism which favoured products produced in the EC while discriminating products produced in the U.S. On the other hand, the U.S. acknowledged that the future development of the EC would play a central role in shaping the new Europe and expressed faith that EC would control its protectionist urgings so that Americans would profit from access to a single European market, just as Europeans had long profited from their access to a single American market. But it also stepped up its efforts to monitor the 'EC-92' programme and to commit the EC to consultations and negotiations so that American interests were not hurt in the process of dismantling of the internal barriers of the EC.

C O N C L U S I O N

CONCLUSION

The end of the 1980s saw the U.S.-EC relationship undergoing a fundamental change while the future hinges on various unforeseen developments. The year 1992 would usher in an important world eventthat of integration of the economies of the 12-member European Community. But in the U.S., this ambitious programme evoked mixed reactions about the degree of success EC-1992 had of coming into being, succeeding or what it would mean to the U.S.

On the one hand, U.S. welcomed the effort of the European Community and expressed hope that Americans would profit from access to a Single European market, just as Europe had benefitted from their access to a single American market. On the other hand, misgivings were also expressed with EC-92 viewed as a formidable trade competitor which would sell more products in the U.S. and more aggressively challenge U.S.-exports to the third world markets. It was being predicted that if the EC succeeds in breaking down its internal barriers and open up its market then the U.S. trade with EC would prosper but if the EC succumbed to the temptation of protectionism, then it would only add fuel to the already smouldering trade differences between the U.S. and the EC.

Alongside U.S. also reiterated its unequivocal support to the process of European integration and regarded the single market exercise as a challenge which had to be met with firmness and patience as the U.S.-EC relations have continued to be strained over the years.

Under the Nixon administration, the unilateral measure of ending the Bretton Woods system which had governed the international monetary relations since 1944 aggravated the situation. Additional strain on U.S.-EC trade relations was placed by the Common Agricultural policy of the EC, its preferential agreements with the Mediterranean and the free trade arrangements with the member of the former European Trade Association. Further, Nixon's attempt to reassure the allies and establish the basis for a "new" Atlantic partnership by announcing 1973 as the "Year of Europe" also proved to be a disaster as Europe's response was unenthusiastic. This difference in the interests and priorities of the U.S. and EC were further brought into open with the middle east crisis in 1973.

Under the Carter administration, high hopes were raised of close cooperation between the U.S. and the EC. The Trilateral approach of the Carter administration called for a joint strategy between the U.S., EC and Japan to coordinate economic and political relations with the third world and the communist bloc nations and to restructure the international economic institutions. Carter administration also gave its full support to the process of European integration - the third enlargement of EC and the creation of the European Monetary System (EMS). But conflict in the steel and the agriculture sector persisted and the Carter administration had to devise the instrument of the Trigger Price Mechanism (TPM) by which the administration gave itself powers to accelerate anti-dumping procedures. Thus, as 1970s drew to a close, the U.S.-EC relations were still at a crossroad.

Under the Reagan administration there was a marked deterioration in the U.S.-EC relations. His tough anti-Soviet crusade and the aid given to the anti-Sandinista rebels aroused resentment in the EC. The EC also expressed its dissatisfaction with the U.S. high interest rates which they believed contributed to high inflation and unemployment in Europe. However, Reagan administration officials contented that the European economic problems were of their own making. Situation was further exacerbated by the conflict in steel and agriculture sectors and on the crucial issue of east-west trade which lead to retaliatory measures on both sides.

Further, after 1986, the project "EC-92" provided several additional sources of strain between the U.S. and EC relations. These related to the notion of "reciprocity", "rules of origin", quotas or local content requirement; and the standards, certification, and testing processes of the EC. If these directives were implemented then the U.S. business would have been greatly affected as the rules favoured the firms of the EC while discriminating against the U.S. firms. Therefore, strong protests were lodged with the EC and USTR Carla Hills warned the EC of not giving into the temptation of protection as it would be detrimental to the trading systems. U.S. misgivings were conveyed to the EC which resulted in EC modifying some of the directives though still several issues remained unresolved.

Further, various critical issues which were important to the U.S. were not addressed by the EC such as the harmonisation of value added taxes, a single currency and a common central bank and the free movement of labour.

In addition, trade problems were compounded by the differences in foreign policy sphere too. U.S. expressed its dissatisfaction over Europe's ambivalent way of conducting foreign policy because it was not always clear whether U.S. should deal with officials from the Commission, the Council or an individual country. Differences were also created between the U.S. and the EC over their attitude towards Soviet Union and the middle east.

Furthermore, the changing international environment too had a profound effect on the U.S.-EC relations. The present decade witnessed the erosion of the post-war division of Europe. The Iron-Curtain disappeared, most of the dictatorship and military governments crumbled giving way to democracy in most of the Eastern European countries and to top it all, the two Germanies were unified. This was partly a consequence of the thaw in relations between Washington and Moscow but the economic prosperity of the EC too served as a catalyst which set the whole process into action.

But this changed international environment had important consequences for the U.S.-EC relations. Earlier the perception of the Soviet threat justified the existence of NATO and had a dampening effect on the trade quarrels for compromises were made on potentially divisive trade and economic issues in order to preserve the alliance unity. But with the disappearance of this threat, the need for accommodation and compromises have also disappeared.

And with the "EC-92" project in progress if the trade issues are exacerbated then it would have major repercussions on the rest of the world. The U.S. and the EC are the two largest economies and the two largest exporters in the world and if they resort to protectionism then it would weaken economic cooperation and strengthen pressures for unilateral action on economic matters in trade issues. But if they succeed in creating an open trading and investment system then a prosperous world wide economic system could be created.

Thus, in the final analysis, the EC's move towards economic integration may lead to a more friendly and prosperous relationship between the U.S. and the EC or it may lead to an escalation of trade war with increasing threats of retaliation and protectionist measures. But the course of the relationship depends heavily on the choices followed by the EC to achieve its goal. On the other side, it will also depend on the U.S. which will have to make concessions to accommodate Europe's desire for increasing assertiveness in the matters of foreign policy. Thus, whether it will be cooperation or confrontation between the U.S. and the EC, that only future will tell.

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