

THE U.S. – EU RELATIONS 2001-2006

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DECLARATION

I declare that the dissertation entitled "THE U.S. – EU RELATIONS 2001-2006" submitted by me for the award of the degree of MASTER OF PHILOSOPHY of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this university or any other university.

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CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

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Dedicated to

Ma and Papa

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ABBREVIATIONS

CFSP	Common Foreign and Security Policy
DPRK	Democratic People's Republic of Korea
EC	European Community
ECSC	European Coal and Steel Community
EDC	European Defense Community
EEC	European Economic Community
EMU	Economic and Monetary Union
ESDI	European Security and Defense Initiatives
ESDP	European Security and Defense Policy
FTA	Free Trade Area
ICC	International Criminal Court
NATO	North Atlantic Treaty organization
OEEC	Organization for European Economic Cooperation
PfP	Partnership for Peace
WEU	West European Union

CHAPTER I

INTRODUCTION

Shakespeare in his drama 'As you like it' wrote. "All the world's a stage, and all the men and women merely players. They have their exits and their entrances." This piece of wisdom proved true for countries in international politics as well. As the Second World War drew to a close in 1945, it became increasingly clear that a new era of international politics was dawning.¹ The end of the war not only saw the exit of European countries as a power bloc in world politics and the entrance of the United States and Soviet Union as the new centre of power, it also hastened the disintegration of the great colonial empires assembled by imperialist states in previous centuries, thereby emancipating many peoples from foreign rule.²

The newly emerged international system, unlike earlier ones, featured a distribution of power consisting of many sovereign states outside the European core area. Moreover, the emerging system was dominated by the two most powerful countries, often referred as super powers.

The United States and the Soviet Union were left standing tall in 1945, and their unrivaled power meant that they mattered more than all others, with the capacity to impose their will, as the other major victors (especially Great Britain) had exhausted themselves and slid from the apex of world power hierarchy (Vaughan 1979).³

Throughout the course of the Second World War the Continent of Europe was a battleground between Nazi Germany and its ally Fascist Italy on the one hand and their opponents on the other (Urwin 1968). The war sapped the economic and military strength of the colonial powers. Of the former European powers, Germany was destroyed; Italy

¹ The newly emerged international system, unlike earlier ones, featured a distribution of power consisting of many sovereign states outside the European core area that were dominated by the two most powerful. (Kegley and Wittkopf 1999)

² In more ways than one the impact of the Second World War was traumatic—for the individual, for European politics, and for international relations. That there was a new reality was widely accepted in 1945, but its far-reaching consequences were less immediately apparent. (Urwin 1968)

³ The vanquished, Germany and Japan also fell from the ranks of the great powers. Germany was partitioned into four occupation zones, which the victorious powers later used as the basis for creating the Federal Republic of Germany (West Germany) and the German Democratic Republic (East Germany). Japan, having been devastated by atomic bombs and then occupied by the United States, was also removed from the game of great power politics. (Vaughan 1979)

developed a hollow shell; Great Britain became incapable of being the prime check board and France suffered from the military and moral collapse of 1940. None had the ability or the means to profit from or fill the vacuum which was the direct consequence of the complete and utter disintegration of German hegemony on the Continent (Urwin 1968). Thus the predictions made by the French political sociologist Alexis de Tocqueville in 1835 that the Americans and Russians would hold in their hands the destinies of half of mankind proved true. The Cold War, which followed the Second World War, was another struggle for world supremacy between two incompatible political ideologies and value systems; capitalism and communism, represented by the United States and the Soviet Union respectively.

The Cold War started in Europe, with the division of Europe into East and West corresponding to Soviet and American area of influence. This process of division was completed in 1949 with the creation of the 'two Germanys' and the establishment of rival military alliances consisted of NATO and the Warsaw Pact in 1955 (Heywood 2002: 132). The principal European allies of the United States and the Soviet Union were divided into North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Pact, respectively. Since none of the European countries were able to protect it, they began to bandwagon with either of the superpowers for their protection and defense.

The foundations of the current U.S. - European Union relations lie in post-war cooperation in economic, security, and political spheres. The present European institutional order promoted by the United States after the Second World War was designed to overcome the Westphalian system of nation-states organized on the basis of balance of power. This system had twice during the first half of the twentieth century produced global military conflicts with unprecedented and unparalleled destruction. The process started in Europe but the European states could not end it without the U.S. military intervention. While the U.S. involvement in Europe could not be sustained after the World War I as it went into isolation, the Truman administration in 1945 invested the full range of America's resources, economic, political and military, in Western Europe. The western half of the continent was all the more willing to accept America's leadership as it recognized the full scope of its own decline (Saltzman 1999).

One of the reasons for active American involvement was the threat of Soviet Union filling the vacuum created by the military and economic feebleness of the European powers. It was believed that the vacuum could lead to the dominance of communism in Europe and threat on capitalism.

America's new role of policing the Continent was signaled by the Truman Doctrine and the Greek- Turkish Aid program. To quote President Harry S. Truman,

"I believe it must be the policy of the United States to support free people, who are resisting attempted subjugation by armed minorities or by outside pressure." He further declared, "Wherever aggression direct or indirect threatens peace, the security of the United States of America is involved" (Kegley and Wittkopf 1999: 91).

The United States, thus, very much known for its isolationist policy during inter- war years changed its policy as far as Western Europe was concerned. It swung from its traditional isolationism to something approaching interventionism; namely, intervention in favor of a European federation or of some measure at least of European integration.

The encouragement of European integration constituted a central and consistent component of President Truman's policy, and received even greater emphasis under his successor Dwight D. Eisenhower. In the post- war era, many in Europe and the United States presumed rapid European integration to be a key precondition of stabilization and reconstruction in the post war Europe (Deighton 1995: 159).

The economic version of the Truman Doctrine was Marshall Plan. George F. Kennan, the famous American diplomat, had alerted the State Department that "a few program based on economic, not military aid, will be more effective than the Truman Doctrine in securing Europe against infiltration and conquest" (Drew 1996).

The Secretary of State, George S. Marshall (1947) agreed with Kennan and said, "The United States should do whatever it is able to do to assist in the return of normal economic health in the world without which there can be no political stability and no assured peace" (Miscamble 1993).

The U.S. aid to Europe proved “a lifeline to sinking man”, as Ernest Bevin put it. It meant to achieve a revival of a working economy so as to permit the emergence of political and social conditions in which free institutions could exist. However, one clear implication of the American assistance was closer economic integration of separate economies of Europe, as one of the conditions of getting aid was integration of Europe.

It was believed by some scholars that glue which bound the transatlantic nations was strategic dependence of the European countries on the United States to meet the perceived geo-political threat from the Soviet Union. This was the reason why even disagreements among the Europeans did not drive them apart. The crisis which apparently threatened Western solidarity never actually materialized. As the Cold War unfolded, the U.S. saw to it that the West European countries cooperate more among themselves politically and economically to ensure keeping the Soviet threat at bay. Washington’s influence was felt in most of the regional efforts at social and economic cooperation in Europe. Significantly, the U.S. did not resist the establishment of a few cooperative efforts, which at least on the surface, appeared to be an effort to maintain sub regional autonomy. But for West’s support, guidance and soft approach, it would have been difficult for the European integration process to take off the ground.

By the time the Cold War ended, Europe had emerged as an economic powerhouse; it had a common currency, political confidence, and a cooperative regional dynamics. On the other hand, the United States found itself after the Cold War as the world’s only superpower. It was willing to accept a relationship with other countries only from a leadership position. The new Europe saw less reason why it should continue to play second fiddle to the United States. Consequently, instead of pulling further together, the fall of the Iron Curtain had revealed widening cracks in the transatlantic alliance. The U.S. - EU disagreement over how to deal with Iraq was a manifestation of this new reality. It also sends signal of Europe’s desire for a more equal transatlantic partnership.

But some scholars have a different opinion. They point out that the United States and the European Union relations consisted of many peaks and valleys, and even during the Cold War tensions it was so. Transatlantic differences over Vietnam War and

stationing of the U.S. ballistic missiles in Europe were good examples. NATO's role in Balkan conflict in the 1990s provided an example of the U.S. - EU tension in the context of the post- Cold War position. It showed that these frictions merely represented disagreements among friends and the relationship continued as 'business as usual' (Archick 2005).

The tension in their relation at the beginning of the twenty-first century was said to have erupted because of differences of views over issues related to Iraq and North Korea, ratification of the Kyoto Protocol, unilateral abrogation of the ABM Treaty, the U.S. position on the International Criminal Court, and various trade disputes ranging from bananas to steel. But the differences had reduced the U.S. and the EU to conduct negotiations and seek consensus. There was no major conflict between the two.

A common set of challenges — from counter terrorism and WMD proliferation to ensure the stability of the global financial markets — had led to a realization that the partnership was imperative.

The relationship between the United States and European Union had traveled a long way since the Second World War. It moved from high dependency of the Europeans on the United States to a state of complex interdependence, in which elements of partnership and rivalry undoubtedly were inescapably intertwined. The United States and the European Union were, without any doubt, one another's most important partners. The reasons for this mutual dependency or interdependency were both obvious and complex. The factors creating divergences between the two were not permanent and could be solved. The two were each other's largest overseas trading partner.

The question of market size was also there as the United States and the European Union were the largest and second biggest markets in the world and rank in the same order in terms of their international trade. Neither could afford to ignore each other. The United States and the EU also shared the largest trade and investment relationship in the world; annual two-way flows of goods, services, and foreign direct investment exceeded \$1.1 trillion, while the total stock of two-way direct investment was over \$1.3 trillion at the end of the year 2006.

They also embraced the security dimension. All but two of the European members of the NATO (Turkey and Norway) were members of the European Union.

This dissertation work is an attempt to examine and understand the complex ties between the United States and the European Union.

The **first chapter** gives the broad outlines of United States and Europe relationship during and after the Cold War.

The **second chapter** focuses on the instrumental role played by the United States in bringing about European Integration. It gives a detailed account of process, purpose and success of European integration.

The **third chapter** examines the interdependence of the United States and the European Union in economic and trade terms. It gives the account of trade transaction between them, which shows the thickness of their relations, and further it also mentions the conflicting trade issues which contain only 1-2% of the total trade, though hyped as major division by some scholars seeking to prove the imminent division between the United States and the European Union.

The **fourth chapter** describes the political and security relations and of convergence and divergence between the two.

The **final chapter** concludes that tensions have been part of the U.S. - EU relations and it has strengthened the relationship rather than weaken it. The strength of United States and European Union relationship can be seen in the response to the incident like 9/11. The EU stood strongly by the United States.

RESEARCH METHODOLOGY

The method adopted for this dissertation is primarily empirical and descriptive in nature given the contemporary nature of the topic. Qualitative analysis has been adopted and primary sources such as CRS reports, United States government publications, European Union Mission reports and publications, and reports and surveys of other international agencies be examined to understand the U.S. - EU relationship. It also

includes speeches of leaders and Congressional Hearings. Apart from this the statistical method is used and pie charts and bar graphs have also been used. The secondary sources are also used to assist the primary ones. It includes books of various publication houses, articles from various journals and Internet sources.

SURVEY OF THE LITERATURE

* US ROLE IN EUROPEAN INTEGRATION

The formulation of Marshall Plan accelerated the transformation of United States foreign policy and a political transformation of Western Europe at the same time. It set the course of active involvement of United States in Europe and beginning of the process of European integration as well, is well mentioned in the book *Forging the Alliance, 1945-1950* by **Don Cook, Secker and Warburg**.

Geir Lundestad in his book *Empire by Integration: the United States and European Integration, 1945-1997* has given a brief out sketch of American role in European integration. He has mentioned the motives of the United States for promoting the integration in Europe and the attitudes of various American Presidents towards the integration process.

Desmond Dinan in his book, *Ever closer Union—An Introduction to European Integration* has mentioned the reasons as to why United States has supported and promoted the integration of Europe. According to him, United States saw the European Commission as an essential element of the post - World War II peace settlement and as an important contributor to the security of Western Europe during the Cold War and later on it sees the EU as indispensable for the security and stability of post Cold War Europe.

Likewise **John McCormick** in his book, *Understanding the EU—A Concise Introduction* has mentioned that the United States was originally supportive of the idea of European integration, seeing it as a way of improving European security in the face of the Soviet threat and as a means of assisting the rebuilding of West Germany.

Richard Hass in his review article on **Paul Kennedy's** "*Rise and Fall of Great Powers: Economic change and Military conflict from 1500-2000*", has mentioned that United States has catalyzed the integration of Europe as it felt—

- An integrated Europe would share the alliance defense budget and thereby the military expense of the Cold War;
- It will engage in significant trade—as a capitalist economy US needs to trade;
- Because of the firm belief in the United States that only economically strong Western Europe can provide political stability—that means can keep Communism out.

* **ECONOMIC RELATIONS**

The interdependence of the U.S. and EU in economic terms is given by **Matthew Baldwin, John Peterson and Bruce Stokes** in the article *Trade and Economic Relations* wherein they said that the EU and the U.S. are each other's main trading partners. When the world's two largest economies account for a combined total of 57% of world GDP, there is much to gain from more trade and investment and less barriers between them. The EU and the U.S. are responsible together for about two fifths of world trade. Trade flows across the Atlantic are running at around \$1.7 billion a day. The two economies are interdependent to a high degree. Close to a quarter of all EU-US trade consists of transactions within firms based on their investments on either side of the Atlantic. The transatlantic relationship defines the shape of the global economy as a whole as either the EU or the US is also the largest trade and investment partner for almost all other countries.

A. **Kirsanov** in his book, *The USA and Western Europe: Economic Relations After World War II* has mentioned the condition after the World War II and has emphasized mainly on the economic consequences of the War on both US and Europe and has shown various stages of integration of Europe up to European Economic Commission (EEC) and the role played by the United States in various stages of economic integration.

The conflict in economic arena between the United States and the EU is given by **Jean Jacques and Servan Schreiber** in their book, *The American Challenge*. They believe it is American industries in Europe which are going on a bumpy ride due to

integration and they are breaking down the political and psychological framework of European societies. According to them the challenge is to build barricades to hold back the invader (United States).

Jim Cloos, Director in the Council of the EU with responsibility for transatlantic relations, Latin America, the UN, human rights and counter-terrorism in his article, *Cannot end a 2.5 trillion dollar relationship*, has said that the transatlantic relationship is of a far too wide ranging importance to be destroyed by squabbles such as the run-up to the Iraq war, because you cannot end a relationship which is built on 2.5 trillion dollars in terms of investment and trade, even if you wanted to. The USA needs the EU and vice versa. The EU-US relationship is developing extremely fast. Iraq was of course a crisis - both internally and in the transatlantic relations.

Rockwell Schnabel, the U.S. Ambassador to the European Union in his remarks to the American Hellenic Chamber of Commerce Athens, Rome on October 15, 2002, released by the U.S. Mission to the European Union, said that the transatlantic partnership is different from any other partnership in history. Together the U.S. and the EU represent 50% of the global economy. Trade and investment flow between them is about \$1.4 trillion annually. The relationship between the U.S. and the EU is huge. And it is hugely important, not just economically, which has been true for some time, but increasingly so, politically as well. In explaining the changing relationship between the US with the EU, he focused in particular on the following points:

- The changing nature of the EU;
- Managing our political differences;
- The global reach of EU regulation;
- Working with our global partner.

* **POLITICAL AND SECURITY RELATIONS**

Robert J. Lieber in his book, *The American Era: Power and strategy for the 21st Century*, has pointed out the reasons of conflict and solidarity in US-Europe relationship. He said that US strategy of active intervention to satisfy its geopolitical interests, its use of “hard power”, and unilateralism has been the major cause of the rift in the US-Europe relationship. Yet they share a lot in common like faith in democracy and its export, the market system, security which brings both the countries together. And whether it led to finally parting of the ways depends on if Europe would achieve a breakthrough in terms of capability.

America Sovereign Defender or Cowboy Nation edited by **Vladimir Shlapentokh and Joshua Woods and Eric Shiraev, Barry Buzan** in the book, *The United States and the Great Powers: World Politics in the 21st Century*; **Warren I. Cohen** in his book, *America's failing empire: US foreign relations since the Cold War*; **Ivo H. Daalder and James M. Lindsay** in their book, *America Unbound*; **Betty Glad and Chris J. Dolan's**, *Striking First: The Preventive War Doctrine and the Reshaping of United States Foreign Policy*; and **Robert Jervis** in his book *American Foreign Policy in a New Era*, shows how the flood of sympathy which ran through Europe after 9/11 soon dried up after US attack on Iraq evident in the form of protest and demonstrations all over Europe and the World subsequently and how the Bush administration has manipulated the events in order to go for war with Iraq, despite the opposition of many European countries who asked for some patience and further inspection through United Nations. They further have mentioned the division of Europe which United States has caused with its invasion on Iraq. They mentions how for more than 50 years, the ties between the US and Europe have been sinews of security, democracy and prosperity in the transatlantic region but the events of the spring of 2003 signaled the end of a 50 year era. The Bush administration was in trouble because of its failure to find the weapons of mass destruction, the threat from which it had used to justify going to war. In the US charges that the Bush administration had “cherry picked” intelligence to suit its preferred course of action were widespread.

Robert Kagan in his book, *Of Paradise and Power: America and Europe in the New World Order*, believes that on all important question of power—the efficacy of power, the morality of power, and the desirability of power— American and European perspectives are diverging. That is why on major strategic and international questions today, Americans are from Mars and Europeans are from Venus. US perceive foreign “threats” such as “the proliferation of weapons of mass destruction, terrorism, and ‘rogue states’”. But Europeans look at “challenges” such as “ethnic conflict, migration, organized crime, poverty and environmental degradation.” Europeans focus on issues — “challenges”—where European strengths come into play, but not on those “threats” where European weakness makes solutions elusive. Americans are quicker to acknowledge the existence of threats, even to perceive them where others may not see any, because they can conceive of doing something to meet those threats.

Jean Bethke Elshtain in her book *Just War Against Terror, The Burden of American Power in a Violent World* has given the reason as to why US should go for first strike. She defines what just war is and whether war on terror is just or not.

In *Resolving the Transatlantic Crisis*, **Bradley L. Bowman** argues that international terrorism and the proliferation of weapons of mass destruction represent a threat that can only be defeated through a strong and unified transatlantic relationship. Consequently, continued tensions between the United States and much of Europe jeopardize the successful outcome of the war on terrorism and WMD. If the United States and Europe are to end the current transatlantic rift and unite in common purpose to promote a more secure and prosperous world, four steps must be taken. First, the U.S. and Europe must first understand and reconcile their different historical experiences and lessons regarding war and the use of force. Secondly, the United States and Europe must recognize their shared strategic interests; thirdly, the United States and Europe must avoid promoting counterproductive and largely inaccurate stereotypes regarding European use of force and American unilateralism. Finally, the United States must base its foreign policy on an appreciation of the power of ideas, the costs of war, and the limits of military power.

Sven Bode in the article, *Long-term greenhouse gas emission reductions—what's possible, what's necessary?* argued that climate is changing and there is increasing evidence that this is due to human activity. One way to react is to reduce greenhouse gas emissions into the atmosphere. Although this approach generally does not cause much objection, disagreements do occur when concrete emission targets are to be set.

* **INTERDEPENDENCE**

David Held and Mathian Koenig Archibugi in their book, *American Power in the 21st century*, has said that if we use the “3 I’s”—identity, interdependence, institutions—as indicators for the state of the transatlantic security community, we get a rather precise picture of its community, we get a rather precise picture of its current situation. While the collective identification with each other seems to have declined slightly in 2002 and 2003, the basis of common values and shared principles is still intact.

On the question of what kind of contribution Europe will make **John Lamberton Harper** in his book *American Vision of Europe* has taken the visions of Roosevelt, Kennan and Acheson on Europe. They are—

- Roosevelt’s partial internationalism, aiming at the retirement of Europe from world politics while avoiding American entanglement;
- Kennan’s partial isolationism, aspiring to restore Europe’s centrality and autonomy through temporary American engagement; and
- Acheson’s accommodating interventionism, establishing the United States as a permanent power in Europe at the behest of European and American interests.

Further the US today can be seen doing see-saving between two possible ideas—to try to continue circumscribing the autonomy of the European powers and maintaining the degree of tutelage over European affairs to which it has grown accustomed; on the other, to foster greater European initiative and self-reliance, come what may.

Fotios Mostakis and Rudra Chaudhari in the article, *Transatlantic Alliance Revisited: does America still need old Europe?* has pointed out the reasons as to why the US can't go alone and has shown the utility of Europe for the US. The advantages are—

- NATO's formal and institutional framework continues to benefit America;
- Eastern Europe's emerging markets and the European Union's growing economy is an irreplaceable asset which partly sustains American hegemony;
- It will demonstrate that despite playing the part of a hyper-power on a unilateralist overdrive, the US requires a "reservoir of international legitimacy and consent," that Europe and not a coalition of the willing, could provide.

Robin Nibleit, in his article *Europe Inside Out*, *The Washington Quarterly*, has shown that the future role of EU in world politics would be more constructive and cooperative, not because of it being an US ally, but because EU has played a diplomatic role in world politics through multilateral consultations, institutions and agreements that are the prerequisites for world peace. He has also pointed out a new phase of integration among the European countries caused by the threat of terrorism and internal security. He further believes that this integration will make EU more cohesive internally and assertive in the world politics and thus EU will be able to check the US influence inside Europe and in the process will emerge as an alternative player in the world politics.

Samir Amin in his article, *US Hegemony: Need to Reshape European Politics* in *Economic and Political Weekly* (22-28 May 1999) has pointed out that the US's strategic hegemony is today the principal enemy of social progress, democracy and peace and this can be checked by multipolar globalization which would allow acceptable social development for the different regions of the world, and thereby the democratization of societies and the reduction of motives for conflict. Thus the only option which would have had some meaning for EU would be to inscribe its constitution within the perspective of a multipolar world.

In the book **Multilateralism and U.S. Foreign Policy: Ambivalent Engagement** by *Stewart Patrick and Shepard Forman*, has shown why the US is compelled to have a

partner. As without partners hegemony deteriorates into domination. And the closest and most reliable partners for global US diplomacy for the past fifty years have been the Western European democracies. The foundations for these intimate connections were laid after World War II, when the US through the Marshall Plan spurred the economic recovery of Western Europe, and through the Atlantic alliance guaranteed its security against Soviet expansion. This was however an unequal partnership, based on US security leadership and European acceptance of that leadership. Sustaining transatlantic partnership in the 21st century, as the Cold War fades into the distance, will require the US to accept a more balanced partnership, including shared leadership and responsibilities. This adjustment will not be easy for Washington, but it is essential to preserve an unprecedented security community.

Timothy M. Savage in *One Hand Clapping: Systemic Change and U.S. Policy Toward Europe After the Cold War* argued that U.S. policy towards Europe remains a prisoner of the Cold War. Washington needs to revise fundamentally its perspective and approach to Europe to take into account basic changes in the international system, to address enduring and evolving U.S. national interests, and to redefine America's leadership role in the world. Systemic changes coinciding with the end of the Cold War include: -- the end of polarity, of ideological conflict and of globalism; the decreasing salience of geopolitics and of military alliances; -- the emergence of regionalization; and -- the increasing importance of geo-economics. U.S. interests in Europe have been dramatically transformed. Disjunctures in capabilities, in probability and in intentions undermine the proposition that Washington really needs to worry about the emergence of a hegemon on the Eurasian land mass. While U.S. security equities in Europe are now relatively low, owing to the success of Washington's postwar policies, America's economic stakes there have never been higher -- in part for the same reasons. Overarching U.S. goals now can best be served by the expansion and integration of the EU, giving it primacy over NATO as the framework for America's partnership with Europe. The times call for adoption of a "limited-liability" security strategy, in which Washington gradually relinquishes its traditional leadership role in defending Europe. This might be accomplished by a deft switch in NATO and WEU structures and functions: the WEU coopting collective security and defense functions for Europe and the

EU, respectively; NATO, less tightly net, concentrating on extra-regional missions. This would also help the U.S. engage the EU in addressing problems beyond Europe.

Gatto, M., A. Caizzi, L. Rizzi, and G. A. De Leo. in the article *The Kyoto Protocol is cost-effective* has argued that despite recent advances, there is a high degree of uncertainty concerning the climate change that would result from increasing atmospheric greenhouse gas concentrations. Also, opponents of the Kyoto Protocol raised the key objection that reducing emissions would impose an unacceptable economic burden on businesses and consumers. Based on an analysis of alternative scenarios for electricity generation in Italy, we show that if the costs in terms of damage to human health, material goods, agriculture, and the environment caused by greenhouse gas emissions are included in the balance, the economic argument against Kyoto is untenable. Most importantly, the argument holds true even if we exclude global external costs (those due to global warming), and account for local external costs only (such as those due to acidic precipitation and lung diseases resulting from air pollution).

CHAPTER II

***** AMERICAN ATTITUDE TOWARDS THE FORMATION OF THE EU *****

Since the birth of the American republic over two and a quarter centuries ago, the relationship between the U.S. and Europe had been intertwined like Siamese twins whose separation was almost impossible. The United States and Europe were, undoubtedly, each others important partners and they shared a symbiotic relationship. Throughout most of the twentieth century, the political fate of Europe had been closely tied to, and even hinged upon, the politico-military involvement of the U.S. in European affairs. Between 1917 and 1918 and again between 1941 and 1945, the United States intervened in the two most destructive wars at a time when the European states needed it most in order to prevent Germany from dominating the continent and thus to protect and preserve the independence, territorial integrity, and socio-political-economic freedom of the European peoples.

U.S. ROLE IN THE INTEGRATION OF EUROPE

The 'European idea', i.e., the idea of one Europe regardless of historical, cultural and linguistic differences of nation states, was prevalent long before 1945. In the sixteenth century before the Reformation Movement, the Papacy was invested with supranational authority over much of Europe due to common allegiance paid to Rome. Even when the nation state system came into being, philosophers like Rousseau, Saint-Simon and Mazzini supported the cause of European unity. However, such ideas proved to be entirely utopian till the second half of the twentieth century. With the end of Second World War, Europe had undergone a process of integration, aimed at, what is called, the creation of a 'United States of Europe' (Heywood 2006:146).

The Second World War brought radical changes in Europe. Its economy was doomed: it became politically unstable and militarily feeble; completely demoralized and had no certain future. With all the strategic designs and imperialist aspirations aside the European states turned to put their house in order first. The old leaders again came up with their ideas and suggestions as to what type of Europe should emerge from the ruins of the Second World War as they did at the end of the First World War in 1918. But unlike the situation in 1918, it was not simply a matter of picking up the threads of pre-war life. The major problem was as to what extent there should be change, political,

economic, and social and most importantly how to go for the change with no money in the pockets (Urwin 1968).¹ So Europe at the end of the war lacked both will and resources to go for transformation and at that time the United States came as a messiah to help European nations to stand from the ashes of war.

AMERICAN MOTIVES FOR EUROPEAN INTEGRATION

The United States changed its foreign policy attitude in 1945 particularly towards Western Europe. It shed its attitude of isolationism and went for active intervention, particularly in European affairs. The main ideas which motivated the United States to approve and support the West European unification were as follows:

First was the American desire to protect Europe from Communism and build up its strength to contain the Soviets;²

Second was the need for economic reconstruction in war-ravaged Europe. Economic cooperation in the form of aid was granted and it was believed that the subsequent creation of large markets would prevent any return to protectionism and economic nationalism;

Third the integration was thought to be essential to maintain peace in Europe by permanently resolving the bitter Franco-German rivalry by reconciling Germany's recovery with France's security;³

Fourth it was recognized that the 'German problem' - the instability caused due to emergence of a haughty and ambitious power, could be solved only by the integration of Germany with the wider Europe;

¹ Of the former European powers, Germany had been destroyed, Italy had been revealed as having a hollow shell, and Great Britain was incapable of being the prime mover of a balance of power check board, while France was still suffering from the military and moral collapse of 1940. None had the ability or the means to profit from or fill the vacuum which was the direct consequence of the complete and utter disintegration of German hegemony on the continent. (Urwin 1968)

² The "double containment" of the Soviet Union and of Germany represented the answer to immediate American security concerns while the other motives represented longer- term interest. (Lundestag 1998)

³ The Franco- German rivalry stemmed from the creation of a united Germany in 1871 after the Franco-Prussian War (1870- 1871), and led to wars in 1914 and 1939. (Heywood 2002)

Fifth the U.S. wanted to apply the principle of customs union in Western Europe taken from its own federal experience for fast economic growth based on scale, specialization, competition and higher productivity;

Finally it was thought that regional integration could be a mean to break Europe's economic nationalism. It would not only accelerate the closing of the dollar gap, but also make further American aid unnecessary (Milward, Lynch, Ranieri, Romero and Sorensen 1994).

CONTAINMENT OF SOVIET UNION

The year 1945 marked the closing of another important chapter of world history. Though officially the world was at peace, Europe which had borne the brunt of two shattering world wars in a generation was completely devastated. Its income from foreign investments had been largely wiped out; its industrial machinery and capital equipment severely damaged; its markets shrunk by the emergence of newly industrialized countries; and its age-old trade with Eastern Europe sharply reduced by Soviet policy (Holt and Pegg 1956: 457).

These developments though increased Europe's need for raw materials and industrial equipment from the outside world had at the same time reduced its capacity to pay for them. Its slender export trade was completely inadequate to pay for the imports and with its dollar resources running low, it was being compelled to cut down vital imports from the Americans.

Washington became convinced that Europe's weakness was a source of satisfaction and hope to the Soviet Union as a weak Europe would not be able to contain it (Holt and Pegg 1956: 458). Thus, for four and a half decades following the Second World War (between 1945 and 1991) the U.S. foreign policies revolved around the issues of protection of European independence and socio-political freedom against the threat of Soviet domination over the Continent. The Americans, thus, found themselves in a British style responsibility to prevent the domination of Europe by a single preponderant power. The American hopes and even pressure, for a United States of Europe, became

more prominent early in 1947 as hopes of an East-West agreement over Germany receded (Bilgrami 1977; Vaughan 1979: 15, 65).⁴

Beginning with the Truman administration, but more frequently in the Eisenhower administration, it was argued that European integration could do more than simply contain the Soviet threat. It could even help to liberate Eastern Europe by attracting the satellites states of Soviet Union.⁵ It was believed that an economically vibrant and politically stable Western Europe would create a snowballing effect on the countries of Eastern Europe and the hope and prospect of a bright and happy future would bring them into "one Europe" fold and thus would end the Soviet control on them. Thus an integrated Western Europe would work as a magnet to attract the rest of the European nations to "one Europe" fold.

ECONOMIC RECONSTRUCTION

Both Turkey and Greece were liberated by Anglo-American troops from German control in 1944. They had a population composed largely of poor peasants, and after the liberation, the communist guerillas in these two countries threatened to overthrow their governments. The government of Greece received military support from the British government. The American alarm of Russian expansion in Europe greatly increased when Britain declared on February 24, 1947 that she could no longer give the much-needed financial and military aid to the Greek and Turkish government which was in danger of being overthrown by the communist guerillas. America did not have any doubt about the great increase in power which domination over Greece and Turkey would give to Russia.

Thus on March 12, 1947, with Greece and Turkey under pressure from Moscow, President Truman asked Congress to appropriate \$400,000,000 for economic and military aid to Greece and Turkey. Congress acted favorably and the program of aid, called, the

⁴ On 18 April 1947, an appeal for a union to end the threat of a third World War, signed by 81 prominent American and addressed to the citizens of the United States in New York Times. It proclaimed that "a united Europe would be a pillar of peace and a source of world wide prosperity", and added, "it is up to us to assist the European peoples on this path towards union peace and prosperity which our national interest demand they take. (Vaughan 1979)

⁵ Eisenhower himself expressed the hope that "A solid power mass in Western Europe would ultimately attract to it all the Soviet satellites and the threat to peace would disappear."

Truman Doctrine, was hailed in Europe and marked a virtual revolution in the American policy.⁶ This Doctrine put an end to the dilemma of the U.S. whether to go again in isolation or to come forward and assume active role in world politics. It was now crystal clear that the U.S. would shred her isolationist image and thus would be an active player in international politics.

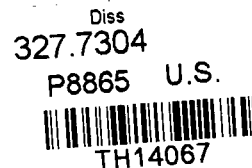
On May 8, 1947, before the American Congress gave final approval to the Greek-Turkish Aid Bill, Dean Acheson, then Under Secretary of State said that Europe would need further loans in order to live and expand her export trade as without which there could be no lasting peace or prosperity. On June 5, 1947, Secretary Marshall, in an address at Harvard University declared that the needs of Europe were greater than the resources presently available and thus an increasing amount of American aid was required in order for Europe to return to the normal economic health.

Marshall thus proposed the continuation of large-scale aid, not however as piecemeal relief, but with a definite and clear-cut view to European recovery and stability. In order that the resources of Europe as a whole would be mobilized and utilized to the fullest extent, he urged the countries to act together and elaborated a common program of economic recovery (Holt and Pegg 1956: 458-459).⁷ The Organization for European Economic Cooperation (OEEC) was set up to coordinate the Marshall Plan.

The leaders in both the United States and Western Europe were keen to secure long term peace, prosperity and stability in Europe by creating favorable atmosphere for economic growth and recovery. In March 1947 Senators J. William Fullbright and Elbert D. Thomas and Congressman Hale Boggs introduced a very simple nineteen-word resolution in Congress. The resolution read "That the Congress favors the creation of a United States of Europe, within the framework of the United Nations (Lundestag 1998)."

⁶ The Truman Doctrine was a proclamation by U.S. president Harry S. Truman on March 12, 1947. It stated that the U.S. would support Greece and Turkey with economic and military aid to prevent their falling into the Soviet sphere. In Truman's words, it became "the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures."

⁷ Walter Lippman argued that American aid to Europe should be linked to, if not made conditional on, European unification. (Vaughan 1979)



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The resolution though never voted on by the Congress, represented an early example of American inspired ideas being applied to the new situation presented in Europe.

The Marshall Aid Plan for European integration was, therefore, meshed with the American plan for West European recovery. It was seen as the key to the economic and political growth of Western Europe, which would establish a favorable balance of power in the continent.⁸ Thus the Congress stated in the introduction of the Economic Cooperation Act, 1948, its objective to encourage European countries to achieve economic cooperation for lasting peace and prosperity.⁹

Subsequently, the United States dedicated significant American resources in rebuilding Europe's shattered economy and throughout the remainder of the twentieth century sought to promote European economic prosperity.

The importance of the American model of an integrated Europe was to build a more rational and efficient Europe. The economic side was obvious. As NATO commanding general Dwight D. Eisenhower stated in July 1951, "Europe could not solve its problems as long as it was divided by patchwork territorial fences."¹⁰

GERMAN PROBLEM

Together with the threat of the Soviet Union was the threat of resurgence of German power in Europe. The two World Wars, no doubt was in some way or the other, the result of ambitions of Germany and it was felt that Germany might start another world war as the post-war equations were again not in favor of it. Thus one of the major tasks of the U.S. was to control Germany. The problem became all the more intense with the division of Germany into east and west due to cold war politics and Soviet Union

⁸ In historian Michael Hogan's slightly exaggerated words, "the Marshall Plan aimed to remake Europe in an American mode." (Lundestag 1998)

⁹ "Mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers, and believing that similar advantages can accrue to the countries of Europe, it is declared to be the policy of the United States to encourage these countries through a joint organization to exert sustained common efforts...which will speedily achieve that economic cooperation in Europe which is essential for lasting peace and prosperity." (Lundestag 1998)

¹⁰ "Once united, the farms and factories of France and Belgium, the foundries of Germany, the rich farmlands of Holland and Denmark, the skilled labor of Italy, will produce miracles for the common good." (Lundestag 1998)

taking charge of East Germany. The American foreign policy expert came to the conclusion that only an integrated Europe could build up strong resistance against the rise of any power disturbing the equilibrium, as then only they could work as an insulator and barrier to the revisionist states.

PEACE IN EUROPE

United States felt that apart from the international impact which the integration would create, it would also bring about a change in the character of the European states. On the political side, integration would not only do away with early twentieth century militant nationalism, but would also make it easier for the United States to deal with Western Europe. The first thought was succinctly expressed by Dulles when he said that the Americans believed firmly that the division of Europe was the cause of wars in the past and thus the Europeans had an obligation to tie themselves together. The second thought was expressed in former U.S. President J. F. Kennedy's rhetorical question: "I'm the president of the United States, but who's the president of Europe."

Thus, it was felt that it would be much easier for both the Europe and the United States, to negotiate the new transatlantic agreements and understandings if the constant quarreling of the Europeans on trivial grounds could be avoided.

Kennedy's National Security Adviser, McGeorge Bundy argued, "on the moral grounds the relationship based on dependency rather than equal mutual reliance, is not good for free men, as in a civilized society whenever there is an uneven alliance or one power is very much stronger than its allies then there is an unhealthy tendency to seek special and unique connections at the centre" (Mustafa Aydin and Kostas Ifantis 2006). Thus, it would be better if Western Europe would become one great power.¹¹

¹¹ Kennan's original "dumbbell" concept of the United States on one side was in part resurrected by the Kennedy administration, "meaning that an economic and political alliance is stronger if it has been agreed to by partners of equal weight on both sides (of the Atlantic)."

RELIEVE FROM AMERICAN AID

The U.S. policymakers considered it important to ensure the industrial recovery of war torn Europe. This alone could enable the American trading and commercial activity to prosper. However, the American economic assistance programme for Europe was an expensive affair. Washington hoped that European economic integration would relieve this massive economic burden and enable Europe to economically grow faster in a relatively stable environment.

However, successful as it had been, the Marshall Plan had none the less left the dollar gap still wide open, and its ending in 1952 saw a growing American concern for the commitment to long-term financial aid. The American congressmen and diplomats argued that only a larger and integrated market could assure Europe's survival in the economic competition with the U.S. and the USSR in the world market (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 159).

AMERICAN INITIATIVES

The U.S. echoed the two ideas of an economically united and stronger Europe along with an Atlantic idea which accepted the need for the U.S. commitment to Europe's defence. The U.S. made no intentions of military recovery of individual states in order to meet any threat and rather asked the new allies to share the collective burden of their security running side by side with collective economic recovery. However, neither of these ideas was accepted immediately, as each of them caused some concern. President Franklin D. Roosevelt did not confirm the thought of a united Europe. With the war coming to an end, he was instead planning to withdraw U.S. troops from Europe at the earliest possible time and thus wanted to return to the policy of isolationism as followed by his predecessors. After Roosevelt's death in April 1945, and with the coming of Truman to power, the Cold War tension started between the U.S. and the USSR which led to transatlantic consensus around two propositions: an extended territorial US commitment was absolutely essential, and unity among the European states was wished the utmost. These two propositions were hinged together in a way making them complimentary to each other.

America's major fear was that of another conflict which could be started either by the expansionist design of the Soviet Union or by the revenge instinct of Germany. Thus, in order to keep Russia out of Europe and Germany down so that it would not be able to raise its head again as it did in 1939, it was required that America should made an entry into the European politics. The meetings of American and Soviet troops in the European continent, at the Elbe, in Czechoslovakia, and elsewhere, showed that the future of Europe would lie in the hands of these two powers. Peace in Europe seemed to be painfully balanced between the Red Army on the Elbe, and the American possession of the Atom Bomb. In between this polarization, the traditional rivalries among the western European nations were although not vaporized at once, rendered obsolete (Urwin 1968).

The states of Europe were quite aware of this dual threat which they knew they could no longer balance on their own, as they had no resources and strength to tackle it. Thus the new European order given by the U.S. was welcomed with open arms by most of the European states as the best, and also the only, available option.

This provided the West European leaders with an opportunity to work out towards a political and economic union, which at that point of time seemed to be the only solution of their problem, and also the best possible way to meet their most important and essential problem, the problem of controlling a future resurgent Germany.

In 1946 Winston Churchill gave a call for the formation of a "United States of Europe" (Deighton 1995). Robert Schuman, the French foreign minister, on May 9, 1950, presented a proposal for the joint management of France's and West Germany's coal and steel industries. Known as the "Schuman Declaration", the proposal introduced the scheme as the first concrete step towards a European federation, which later culminated in the formation of the European Union.¹²

In April 1949, a year after France and Britain had extended their bilateral anti-German treaty of Dunkirk with a broader Western European Union (WEU) which

¹² Inspired by Jean Monnet, the declaration's goal was for France, West Germany, and the Benelux countries to share strategic resources in order to build a lasting peace in Europe. This led to the 1951 creation of the European Coal and Steel Community (ECSC), first of the European Communities and predecessor of the European Union.

responded more to American preferences, the U.S. joined Canada and ten European countries to sign a North Atlantic Treaty Organization (NATO). It became the main security pillar of a new Euro-Atlantic institutional order (Heywood 2002).

By the 1950s the United States and the new European Community were very much in a patron-client relationship, as the U.S. was supplying them not only aid for economic recovery but also taking care of its defence and political stability. The U.S. support and encouragement for European cooperation and unity became a major catalyst for integration. The United States was keen to see a high degree of economic cooperation among European nations so as to enable them to make the most effective use of Marshall Plan aid. While different U.S. presidents, secretaries of state and congressmen in varied degree showed enthusiasm towards European integration in the post war period, the general view from Washington was one of well-meaning benevolence.¹³

In 1952, six states — Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands — established the European Coal and Steel Community, a single market in these two industrial sectors that was controlled by an independent supranational authority.

The support and engagement of the United States in Europe proved to be a very important factor in providing the safe, secure and peaceful environment for the process of European integration. Greater economic cooperation within the OEEC, the vehicle for the launch of Marshall Plan, and the strategic Atlantic link established by NATO were seen as additionally supportive pillars. Together with economic reconstruction, the new concern for defence and the threat of the rearmament of the Federal Republic of Germany lying on the side of Soviet Union, led to the formation of European Defence Community as an important step in the further progress of European integration. Thus, the European Defence Community Treaty and the development of the ECSC were the new parallel goals of the American diplomatic efforts for integration (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 158).

¹³ Harry Truman and Dean Acheson were more skeptical, Dwight Eisenhower and John Foster Dulles more positive. (Piening 1997)

In the initial stages of European integration it was believed that the political support for integration from the American side was mainly motivated by security rather than economic reasons, because in the economic field, it was even more threatened by integration, for example in the case of agriculture. The idea of a Green Pool, i.e. the idea that integration would break national restrictions leading to an increase in European agricultural productivity, proved to be a threat to American agriculture. It was felt that integrated European agriculture would not be more liberal than national policies and thus would probably amount to a protectionist cartel discriminating against American farm exports (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 159).

It was believed that the United States instead of economic integration was more attracted by the Euratom project; a project leading to the establishment of European community for the non-military use of atomic energy.¹⁴ The United States thought that with the formation of a central European agency, the release of fissile materials and nuclear technology could be controlled by the U.S. by seeing whether it was used for peaceful purposes or not. Thus America could prevent and regulate the use of nuclear technology for military and any other purposes. It was chiefly made to keep an eye on the Federal Republic of Germany and the military and other support given to it through Soviet Union on the most sensitive of all issues. The economic side of the Euratom project was also tempting. Europe needed new energy sources for its development and nuclear energy seemed to be most promising source of energy. However, Europe was increasingly dependent on the U.S. which was naturally the main supplier of nuclear technologies. Thus the Euratom project because of its inherent strategic relevance and its vision of technological progress and subsequent industrial development became the State Department's pet project. The focus on this project made the dream of common market a positive development, even though with less security and political significance (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 159).

The discussions on the common market acquired importance after the meeting of the Foreign Ministers of the six, held in May 1956 at Venice, which made it clear that the

¹⁴ The Messina resolution of 2 June 1955, agreed by the Foreign Ministers of the six, had stated the intention of creating a common organization to be entrusted with the responsibility and the means for ensuring the peaceful development of atomic energy. (Romero 1994)

project was actually taking off.¹⁵ Thus, the hope for an integrated European economic institution seemed to be fulfilled, and the talks on the strategic and commercial aspects of integration took once more the centre stage. Along with the common market Great Britain proposed an OEEC-wide Free Trade Area. The common market received an acclamation upon the first criteria of enhancing the integration of Western Europe in accordance with the guidelines given by the State Department of the United States in July. The idea of a Free Trade Area was, however, less welcome in the United States, as it was considered that its discriminatory effects would be more than the political advantages gained with the European unity. The U.S. was ready to support the FTA project but three issues needed further clarification: first was the strength of supranational institutions like custom union in guaranteeing an irreversible dismantling of trade barriers; second was the effectiveness of provisions against export cartels and other private restrictive arrangements made by the union; and the third was the degree and extent of external protection granted to agriculture (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 168).

The first full customs union - the European Economic Community (the Common Market) - was established by the Treaty of Rome in 1957 and implemented on 1 January 1958, extending the common market to all economic sectors. In 1967, the ECSC, EEC and Euratom finally merged into and became the European Community (EC).

The Community of the six was expanded with the inclusion of the United Kingdom, Ireland, and Denmark, the EC first added new members in 1973. Greece joined in 1981, followed by Spain and Portugal in 1986. The Single European Act modified the EC in 1987 by increasing the powers of the European Parliament which envisaged the unrestricted flow of goods, services and people throughout Europe and enabling the 1992 single market program to move forward. At the beginning of 1993, the near completion of the single market brought about free movement of most goods, services, capital, and people within the EC.

¹⁵ The six consist of France, Germany, Italy, the Netherlands, Belgium and Luxembourg.

On November 1, 1993, the Treaty on European Union (Maastricht Treaty) went into effect, establishing the European Union (EU), which encompassed the EC. The European Union was thus the result of significant steps on the path toward greater political and economic integration. The European Union consisted of three pillars: an expanded and strengthened EC, a common foreign and security policy, and common internal security measures. The Treaty also contained provisions that have resulted in the creation of an Economic and Monetary Union (EMU), including a common European currency (Heywood 2002).¹⁶

For the U.S. the European integration turned out to be a mixed blessing. On the one hand European integration helped to make the overcoming of the dollar gap possible, thus accomplishing the major goal of the U.S. post-war strategy. At the same time regional interdependence strengthened the competitive role of the U.S. allies, facilitated the outflow of multinational investments (which would gradually dilute the U.S. domestic manufacturing base) and accelerated the erosion of the international role of the dollar (Milward, Lynch, Ranieri, Romero and Sorensen 1994: 181).

U.S. PERSPECTIVE ON EU ENLARGEMENT

It was only after Europe witnessed the ill-effects of the two world wars, suffered the brunt of Nazism, the shocks of genocide, the brutality of totalitarian regimes, and the partition due to Cold War, that it saw the halo of peace and prosperity for its people again. Enlargement was the transformation of that moment into a stable European political order.

The United States had welcomed EU efforts since the end of the Cold War to expand the political and economic benefits of membership to central and Eastern Europe, and supported the EU aspirations of Turkey and the western Balkan states.

¹⁶ Eleven members — Austria, Belgium, Finland, France, Ireland, Italy, Germany, Luxembourg, the Netherlands, Spain, and Portugal — adopted a single European currency, the euro, on January 1, 1999; Greece joined in 2001. The 12 participating countries have a common central bank and a common monetary policy. Banks and many businesses began using the euro as a unit of account in 1999; euro notes and coins replaced national currencies on January 1, 2002. (Archick and Morelli 2006)

The U.S. knew it very well that EU enlargement would bring challenges for the acceding states themselves, for existing EU members, and for the United States and other countries as well, but had promoted it because there was no doubt that enlargement would brought a new richness to Europe and to the transatlantic partnership.

And thus successive U.S. administrations and many members of the Congress had supported EU enlargement, believing that it served U.S. interests by spreading stability and economic benefits throughout the continent.

Starting with the six states of the European Coal and Steel Community in 1952, there are now 27 member states in the EU. There had been six enlargements, with the largest occurring on May 1, 2004, when 10 states joined, and the most recent on January 1, 2007, when Bulgaria and Romania joined.

President Bush welcomed the addition of 10 new countries into the European Union on May 3, 2004, saying that the organization's enlargement into countries with established democracies would help in creating a Europe whole, free, and at peace. The United States welcomed the European Commission's approval of the entry of Romania and Bulgaria into the European Union on January 1, 2007, and urged the EU to keep an open mind about adding other countries.

For some time before 2004, there were predictions and mutterings that the EU enlargement and the inclusion of countries previously under communist domination would represent an American 'Trojan Horse', augmenting influence that would disrupt a fragile, nascent European approach to foreign affairs (Vinocur 2002).

It was also believed that the expansion of EU with the inclusion of the east and central European states, which are economically not so strong, would result in increasing burden on the economically strong members of the EU and simultaneously on the United States. It would also expose the Union to weakness and subsequent demise of the Union due to "imperial over- reach".¹⁷ Further the political instability and economic

¹⁷ Imperial over- reach is the tendency for imperial expansion to be unsustainable as wider military responsibilities outstrip the growth of the domestic economy. (Kennedy 1989)

vulnerability in a number of central and eastern European countries might complicate the reform process in the European Union as the frequently changing governments would shift its policy positions also.

IMPLICATIONS OF EU ENLARGEMENT ON US

The EU expansion was beneficial for both the United States as well as Europe. To begin with, for Europe, it was believed that the enlargement of EU was vital for securing political stability, democracy and respect of human rights on the European continent as a whole. The EU was a historic step towards the long cherished goal, on both sides of the Atlantic, of the creation of a Europe as a whole, free, at peace and growing in prosperity, as articulated by successive US Presidents. The benefits for enlargements of EU on U.S. in areas other than economic was as follows:

- European Union was the symbol of peace, democracy and security and its expansion towards south and eastern part of Europe symbolized the extension of peace and democracy through consent as well.¹⁸ It also meant that the United States could concentrate on its project in the countries of Middle East and North Korea. Otherwise it would have been very difficult for the United States to perform in the other theatres simultaneously.
- An enlarged European Union could also assist the United States effectively in tackling the regional and global problems of mutual concern particularly, terrorism, proliferation of weapons of mass destruction, international crime, international trade and climate change.

The United States would also significantly benefit from EU enlargement in economic terms. They were:

- An enlarged European Union meant an enlarged market access for the United States. As the goods and services once imported into the EU could circulate freely throughout twenty- seven countries consisting of over 460 million consumers. Two-

¹⁸ The Democratic peace theory says that democracies don't fight each other.

way flows of goods, services, exceeded \$1.3 trillion on an annual basis, and the total stock of two-way direct investment was over \$1.5 trillion, at the end of the year 2006.

- Since throughout European Union a uniform set of trade rules and administrative and customs procedures were followed so the U.S. exporters had benefited a lot as it simplified the dealings and further low tariff in most of the cases were provided because the external tariffs in new member states had come down.
- The U.S. investors would also benefit from the fact that enhanced protection of intellectual property rights (IPR) and the single market principle of “one standard for all” on technical regulations had been extended to the new Member States.
- The introduction of uniform currency, Euro in new Member States and the joining of the Euro zone by the new members at the end of the decade would further facilitate access to a genuine single market for foreign companies, as the acceptance of common currency would benefit from lower costs of doing business in Europe.¹⁹

The former U.S. President Bill Clinton once said, “It’s the economy stupid”, which meant that economics mattered greatly to the United States, a capitalist nation and thus the EU, with 460 million citizens and consumers, would be a huge opportunity for the U.S. business.

At the beginning when the discussions on integration was started it was argued by some scholars that the U.S. could benefit only if an economically fragile and militarily handicapped Europe exist, as then only the U.S. could dominate and bring the European states to its knees. But the U.S. was in no mood to maintain that nineteenth century nation state system of Europe, as the individual European states were not been able to put up the resistance against any danger, and thus the U.S. believed that it would bring only little gain. The U.S. felt that this “divide and rule” of the old Britishers was not applicable in the twenty-first century as it gave only short-term advantages to a more powerful U.S.,

¹⁹ Only three Members States (Denmark, United Kingdom and Sweden) have opted out of adopting the Euro at this stage.

but in order to get the long term and permanent benefit it would be better to have an enlarged and unified Europe.

President Bush (2002) said in the German Bundestag,

“When Europe grows in unity, Europe and America grow in security. When you integrate your markets and share a currency in the European Union, you are creating conditions for security and common purpose. In all these steps, Americans do not see the rise of a rival, we see the end of old hostilities. We see the success of our allies, and we applaud your progress.”

A more integrated Europe as the United States believed would strike back to dangers more forcefully and would offer alternative strategies and be even tougher in defending core interests.²⁰

At the dawn of the twenty-first century, political, military, economic, and socio-cultural ties between the U.S. and Europe was central to both American and Europeans, and the course of events throughout Europe and, indeed, the remainder of the international community would be heavily, if not decisively influenced by the relationship between the United States and its European partners. A stronger Europe would ensure that this relationship of equals built on respect and a shared vision endures for the future.

²⁰ When Harold Stassen, director of the Foreign Operations Administration, argued in October 1956 that it might be best to keep Europe weak and divided, Eisenhower replied that “weakness could not cooperate, weakness could only beg.”

CHAPTER III

*****ECONOMIC RELATIONS: COOPERATION, COMPETITION AND CONFLICT *****

One of the defining features of the twenty-first century global economy is the intense economic relationship shared between the United States and the European Union. Beginning with the Marshall Plan, which provided economic aid to the countries of Western Europe for the revival and reconstruction of their war-torn economies and protect it from Soviet aggression, the U.S. - EU relationship has grown from one of dependence to interdependence.

One of the reasons why U.S. supported European integration was economic, and was based on a notion of international trade, called the gravity model, which suggests that, *ceteris paribus*, that is, countries that are larger and more proximate tend to trade more with each other (The Economic Times 2006). Even Marshall Plan, when it put the condition of integration of European countries for aid, was motivated by this reason.

The integration of Europe made the U.S. - EU relationship a symbiotic one, as it increased the trade output of the U.S. as well as accelerated European economic growth and development. Thus, the United States and the European Union which consists of only 10 percent of the world's population, accounts for approximately 40 percent of global trade and 60 percent of world's GDP

This intense economic indepthness between the U.S. and the EU does not only positively influence their political cooperation, but also affect the world trading system as a whole (Veric and Ivarsson 2006).¹

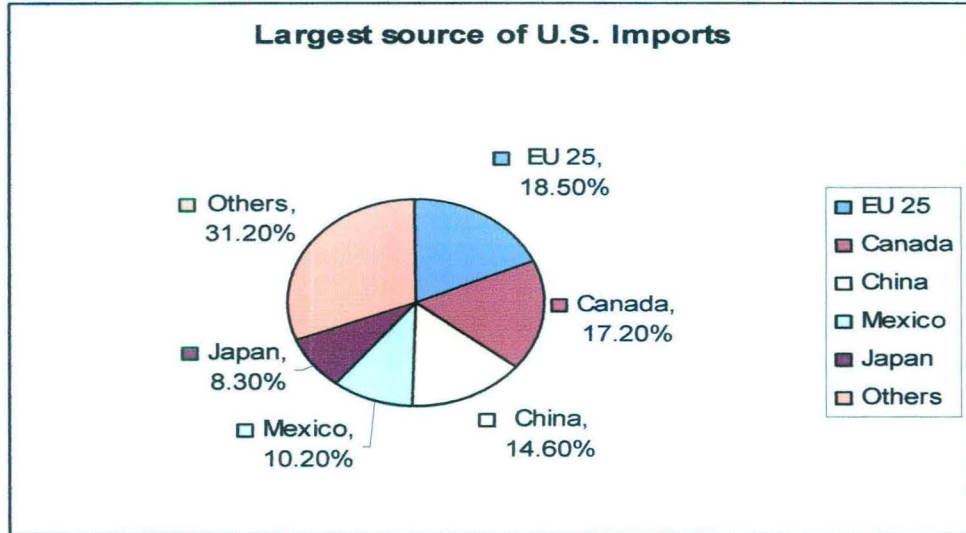
ELEMENTS OF COOPERATION

Trade and investment proved to be an important catalyst in strengthening political and economic alliance between the U.S. and the EU. The cooperation between the United States and Europe in the economic sphere depends on the levels of propensity of trade and investment between the two.²

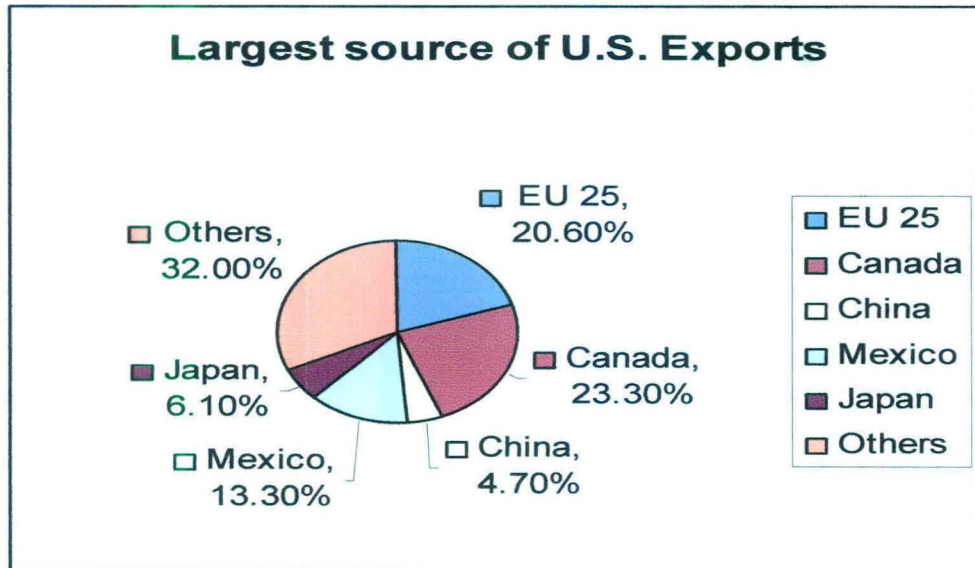
¹ The scale of the transatlantic economic relationship is so colossal—that it easily overshadows all other economic relationship in the world, thus constitutes the principal artery of the global economy. (Hancock, Robson 2003)

² Leon Brittan, the former EU Commissioner for Trade wrote: "There is a loose linkage between economic and political cooperation and partnership. If serious strains arise on one side of the relationship, there is always a risk that the other will suffer."(Veric and Ivarsson 2006)

The countries constituting the largest sources of the U.S. import and export is shown in the following Pie Charts:



Source: euinsight November 2006



Source: euinsight November 2006

From the above Pie Charts it was clear that at the end of the year 2006, the EU was the largest source of U.S. imports (comprising nearly 19 percent of total US imports) and second largest source of U.S. exports (comprising nearly 20 percent of total U.S. export), second after Canada which comprises about 23 percent of the total U.S. export.

Thus the so called threat to the American market from China was mistaken as it consisted of only about 14 percent of the total U.S. imports and nearly 5 percent of the total U.S. imports. The threat, if any, could only come from the EU constituting a large chunk of the U.S. imports and exports. The EU purchased about four times the amount of U.S. goods as China.

If we take goods and services together, the EU and the U.S. account for the largest bilateral trade relationship in the world, illustrating a high degree of interdependence of the two economies.

EU- 27 trade in goods with the U.S.

million euro

	Exports	Imports	Balance
2000	238 203	206 280	31 923
2001	245 594	203 298	42 296
2002	247 934	182 621	65 313
2003	227 281	158 125	69 157
2004	235 498	159 371	76 128
2005	252 852	163 802	89 050
2006	268 905	177 711	91 195

Source: Eurostat, April 2007

From the above chart it is clear that at the beginning of the twenty- first century the EU exported about 238 billion euro of goods, which was subsequently increased in the following years, but the year 2003 saw a decline in EU exports (the exports came down to 227 billion euro of goods in 2003). The exports however rose from 227 billion euro of goods in 2003 to 269 billion euro of goods in 2006. The import on the other hand saw subsequent decline from 2000 (from 206 billion euro of goods it came down to 158 billion euro of goods in 2003), but improved from 2004 onwards and was 178 billion in 2006. The U.S. Department of Commerce, Bureau of Economic Analysis, 2004 had reported that the U.S. imports and exports to the EU went up and down from about 219 billion dollars in 2001 to 225 and 278 in the years 2002 and 2004 subsequently. Likewise exports moved from 155 billion dollars in 2001 to 167 billion dollars in 2004.

One of the most notable feature of the U.S- EU trade relation in the twenty- first century is the continued growth in the EU- 27 surplus, from 32 billion euro in 2000 to 91 billion euro in 2006, due to increase in the surplus by both an increase in exports to the U.S. (from 238 billion euro in 2000 to 269 billion euro in 2006), and to a decrease in imports from it (from 206 billion euro to 178 billion euro). In relative terms, EU- 27 exports to the U.S. fell from 28 percent of total EU 27 exports in 2000 to 23 percent in 2006, while imports declined from 21 percent to 13 percent same period. According to the Survey of Current Business, Bureau of Economic Analysis, 2004 the U.S. trade balance with the EU in goods was in deficit of almost 63 billion dollars in 2001 to 111 billion dollars in 2004.

EU- 27 trade in goods with the U.S. by product

million euro

	Exports		Imports		Balance	
	2000	2006	2000	2006	2000	2006
Total	238 203	268 905	206 280	177 711	31 923	91 195
Primary products:						
Food & drink	9 229	11 323	6 143	5 472	3 086	5 851
Crude materials	2 342	3 632	8 105	7 793	-5 763	-4 161
Energy	11 064	17 793	2 243	4 216	8 821	13 577
Manufactured goods:						
Chemicals	35 279	54 921	26 609	34 626	8 670	20 295
Machinery & vehicles ³	115 311	112 934	116 391	79 288	-1 080	33 646
Other manufactured articles ⁴	60 802	61 366	40 654	36 449	20 148	24 918
Other	4 176	6 936	6 136	9 867	-1 960	-2 931

Source: Eurostat, April 2007

The above chart shows that among the items traded between the U.S and the EU, machinery and vehicles enjoys the primacy, followed by energy and food articles. Almost 42 percent exports to the U.S. and nearly 45 percent imports from the US were machinery and vehicles in 2006.

³ Machinery and vehicles includes power generating and industrial machinery, computers, electric and electronic parts and equipment, road vehicles and parts, ships, airplanes and railway equipment.

⁴ Other manufactured articles include leather, rubber, wood, paper, textiles, metals, building fixtures and fittings, furniture, clothes, shoes and accessories, scientific instruments, clocks, watches and cameras.

EU- 27 and Member States trade in goods with the U.S.

million euro

	Exports		Imports		Balance	
	2000	2006	2000	2006	2000	2006
EU- 27	238 203	268 905	206 280	177 711	31 923	91 195
Belgium	11 924	17 841	14 399	14 841	-2 475	3 000
Bulgaria	207	324	207	371	0	-47
Czech Republic	888	1 742	1 409	1 012	-520	731
Denmark	3 320	4 606	2 101	2 038	1 219	2 568
Germany	61 765	76 173	39 048	36 586	22 716	39 587
Estonia	46	413	101	124	-55	289
Ireland	14 141	16 854	8 904	6 706	5 237	10 148
Greece	692	726	1 170	891	-478	-165
Spain	6 052	7 247	7 406	6 967	-1 354	280
France	30 492	25 960	26 683	19 644	3 809	6 317
Italy	26 659	24 678	13 517	10 764	13 142	13 915
Cyprus	14	8	206	84	-192	-76
Latvia	76	90	69	85	7	5
Lithuania	193	487	140	249	53	238
Luxembourg	364	367	419	592	-55	-225
Hungary	1 603	1 629	1 328	881	275	748
Malta	727	275	393	180	334	95
Netherlands	11 053	16 303	24 030	25 740	-12 977	-9 437
Austria	3 661	6 385	3 198	2 531	463	3 854
Poland	1 092	1 715	2 370	1 321	-1 278	394
Portugal	1 525	2 105	1 279	774	246	1 331
Romania	408	646	430	992	-22	-346
Slovenia	295	399	326	190	-31	210
Slovakia	184	1 056	278	227	-94	829
Finland	3 758	4 008	1 798	1 377	1 960	2 631
Sweden	8 919	10 844	5 557	3 503	3 362	7 342
United Kingdom	48 146	46 022	49 515	39 042	-1 368	6 981
Total Extra-EU- 27	849 739	1 156 224	992 698	1 348 817	-142 959	-192 593
USA / Total	28%	23%	21%	13%		

Source: Eurostat, April 2007

The EU member states trade with the U.S. was however not proportionate. Whereas Germany was the largest exporter to the U.S. in 2006, with 76 billion euro (28 percent of the total), followed by the United Kingdom (46 billion or 17 percent of the total), Cyprus and Latvia accounted only 8 and 90 million euro. Among the member States, the United Kingdom (39 billion or 22 percent of the total) and Germany (37 billion or 21 percent of the total) were also the largest importers, while Cyprus and Latvia again accounted for only 84 and 85 million euros.

EU- 25 trade in services with the U.S.

million euro

	Credit			Debit			Net		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Total	112 301	119 979	122872	104 618	109 780	115967	7 683	10 200	6 905
of which:									
Transportation	21 031	26 509	31 067	15 559	17 373	19 596	5 472	9 136	11 471
Travel	17 559	20 036	21 158	15 763	16 692	17 115	1 796	3 344	4 043
Other services	73 316	73 061	70 364	72 084	74 954	78 631	1 231	-1 894	-8 267
of which:									
Communications services	2 306	2 556	2 544	2 691	2 724	2 649	-385	-167	-105
Construction services	1 134	995	986	752	742	567	382	253	418
Insurance services	7 467	5 376	397	1 991	2 413	1 472	5 476	2 963	-1 075
Financial services	9 431	10 005	11 452	4 620	5 265	6 160	4 810	4 739	5 292
Computer and information services	6 101	6 099	6 115	4 226	4 671	4 605	1 875	1 428	1 510
Royalties and license fees	7 521	8 355	10 015	18 514	19 645	20 798	-10 993	-11 290	-10783
Other business services	32 197	32 866	34 063	32 691	33 450	36 966	-494	-584	-2 903
Personal, cultural and recreational services	2 344	2 238	1 751	3 984	3 952	3 507	-1 640	-1 714	-1 755
Government services, other	4 815	4 572	3 042	2 616	2 092	1 907	2 199	2 480	1 135
Total extra-EU- 25	342 976	372 620	406292	304470	325044	349357	38 506	47 576	56 935
USA / total extra-EU- 25	33%	32%	30%	34%	34%	33%			

Source: Eurostat, April 2007

In 2005, the EU 25 exported almost 123 billion euro of services to the U.S., while imports of services from the U.S. amounted to 116 billion, meaning that the EU- 25 had a surplus of 7 billion in trade in services with the U.S. This surplus was mainly due to transportation services (+11 billion), as well as financial services (+5 billion) and travel (+4 billion), while royalties and license fees recorded the largest deficit (-11 billion). While, according to the Survey of Current Business, Bureau of Economic Analysis, 2004 the U.S. trade balance with the EU in services was in surplus of almost 15 billion dollars in 2001 to 6.9 billion dollars in 2004.

EU- 25 and Member States trade in services with the U.S.

million-euro

	Credit			Debit			Net		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EU 25	112 301	119 979	122 872	104 618	109 780	115 967	7 683	10 200	6 905
Belgium	6 098	5 443	5 891	4 094	3 914	3 602	2 004	1 529	2 289
Bulgaria	:	:	:	:	:	:	:	:	:
Czech Republic	337	407	460	331	373	481	6	34	-22
Denmark	2 400	2 780	4 518	1 996	2 119	4 395	404	662	124
Germany	17 952	17 530	18 844	18 214	18 526	18 840	-262	-996	4
Estonia	100	104	113	48	51	58	51	52	55
Ireland	5 008	5 135	3 650	15 332	17 163	18 803	-10 324	-12 028	-15 153
Greece	4 906	7 011	7 391	2 376	2 527	2 886	2 530	4 484	4 505
Spain	4 934	5 209	5 788	5 164	5 218	5 390	-231	-9	398
France	14 633	14 024	14 163	8 045	9 527	9 916	6 588	4 497	4 247
Italy	4 993	6 740	6 941	6 750	6 315	6 946	-1 757	425	-5
Cyprus	341	492	472	284	277	268	57	215	203
Latvia	150	144	126	50	59	56	101	86	70
Lithuania	78	86	100	60	78	64	18	9	36
Luxembourg	1 114	1 224	1 741	847	1 410	1 774	267	-186	-33

Economic Relation: Cooperation, Competition and Conflict

Hungary	863	914	1 008	1 468	1 691	1 655	-605	-777	-647
Malta	:	55	36	:	48	49	:	7	-13
Netherlands	7 055	7 753	8 547	9 175	9 291	9 849	-2 120	-1 537	-1 302
Austria	1 865	1 860	1 949	2 932	2 486	2 223	-1 067	-626	-274
Poland	:	801	922	:	938	922	:	-138	-
Portugal	618	554	579	488	480	481	130	74	97
Romania	:	:	393	:	:	225	:	:	168
Slovenia	67	88	94	101	110	102	-33	-22	-9
Slovakia	237	185	203	231	202	255	6	-17	-52
Finland	555	590	636	1 012	1 083	1 241	-457	-492	-605
Sweden	3 888	4 407	5 172	3 958	4 148	4 010	-70	260	1 162
United Kingdom	33 298	36 441	33 529	20 882	21 737	21 689	12 416	14 704	11 840

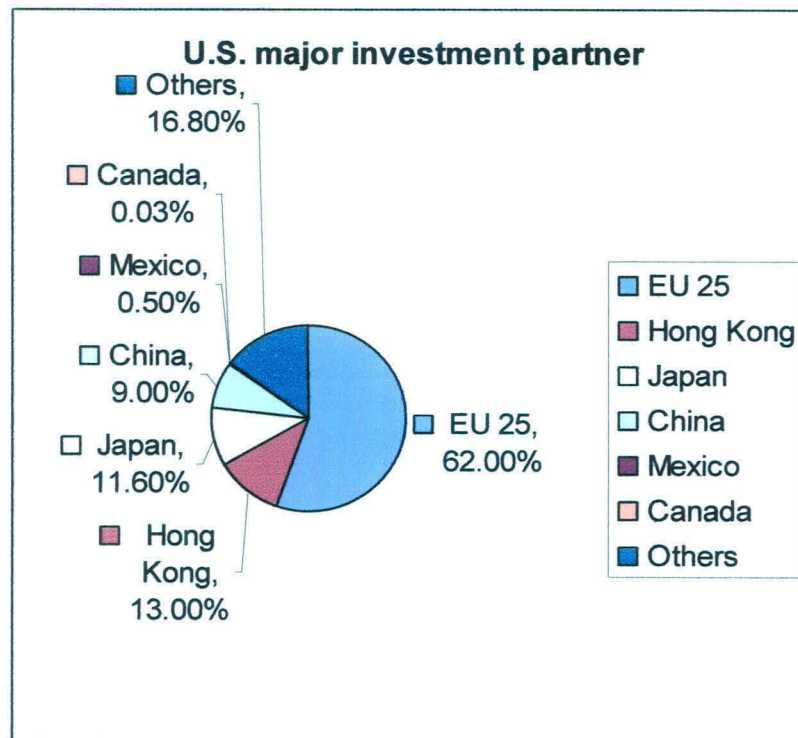
Source: Eurostat, April 2007

In terms of share in goods, the UK lead EU in terms of share of services in U.S. - EU trade, consisted of 34 billion euro or 27 percent of total exports and 22 billion or 19 percent of imports in 2005, followed by Germany (19 percent and 16 percent respectively). Here also as in the case of the share is not proportionally divided among member states. Malta only consisted of 36 million euro of total exports and 49 million euro of total import of services.

According to the U.S. International transactions Data, Bureau of Economic Analysis 2005, the U.S. current account balance with EU in goods and services in 2004 showed a deficit of nearly 104 billion dollars.

INVESTMENT

Investment is another important area which drives the economy along with trade. The trade and investment partner shows the proximity of economic relations which nation's share. The major U.S. trade and investment partner are shown in the following pie chart:



Source: euinsight November 2006

The above pie chart showed that at the end of the year 2006, EU accounted for more than 50 percent of the total investment in the U.S., which was largest in the world. The following table shows the amount of Foreign Direct Investment in the U.S. by the EU and vice versa.

EU- 25 FDI flows with the U.S.

million euro

	2001	2002	2003	2004	2005
EU- 25 FDI in the U.S. (outward)	158 706	2 704	51 388	8 423	29 493
U.S. FDI in the EU- 25 (inward)	79 643	57 609	51 935	9 292	17 110
Net EU- 25 FDI flows (outward minus inward)	79 063	-54 905	-547	-869	12 383

Source: Eurostat, April 2007

The EU accounted for almost two-thirds of all foreign investment in the United States in 2005, and EU based companies were the largest foreign investors in 45 of the 50 U.S. states (and second in the remaining five) (euinsight 2006). The U.S. also invested around 17 billion dollars in EU in 2005.⁵ Approximately, 60 percent of corporate America's foreign investments were located in Europe, and almost 75 percent of Europe's foreign investments were based in the United States. The fact that each side had a huge investment position in the other's market was probably the most significant aspect of the relationship.

Since foreign investment plays an important role in job creation, the figures mentioned above reflects the part investment played in making the U.S. and EU mutually dependent on one another for many millions of jobs on both sides of the Atlantic.⁶ The U.S. and EU were the largest investors in each other's research and development sector, helping both compete on the global stage (Eizenstat 2001).⁷ Thus transatlantic investment proved to be a major driver of markets, job creation, and innovation in both the U.S. and the EU.

⁵ Bilateral transatlantic investment exceeded \$1.5 trillion in 2005.

⁶ The huge investment generates employment \$14 million people in America and Europe. (euinsight 2006)

⁷ The massive amount of companies in each other's markets translates into billions of dollars of sales, production, and expenditures on research and development. (Ahearn 2007)

COMPETITION

One of the tiring tasks of the United States and the European Union was the extension of cooperation in competition policies, known as anti-trust policy.⁸ The important disputes under this category were the European Commission decision to block the merger of General Electric and Honeywell and to impose remedies and fines on Microsoft for alleged violation of European competition laws.

GE-Honeywell Case

GE-Honeywell case crystallized differences in standards and processes employed by antitrust regulators in Washington and Brussels. The EU rejection of General Electric's \$43 billion merger with Honeywell International had highlighted major differences in antitrust standards and processes employed by the EU and the United States in 2001.⁹

The United States viewed that the combined company would offer customers (mostly Boeing and Airbus) a lower price of the package that no other engine or avionics company could match, and thus the competition would be enhanced. While the European Union believes that the lower prices and packages of products that would be offered by the merged entity made competition a lot more difficult for other producers of airplane equipment such as Rolls Royce, Pratt, & Whitney, and United Technologies. And in the long run, it was believed that the merger would force weaker competitors out of the market, and left GE-Honeywell in a condition of monopoly.

EU antitrust regulators relied, in part, on the economic concept of "bundling" to reach its decision.¹⁰ The combined company, it was believed, would make more profits with lower prices. But the EU was not convinced with this argument.

⁸ These laws provide remedies to deal with a range of anti-competitive practices, including price fixing and other cartel arrangements, abuses of a dominant position or monopolization, mergers that limit competition, and agreements between suppliers that foreclose markets to new competitors.(Ahearn 2001)

⁹ GE produces aircraft engines and Honeywell makes advanced avionics such as airborne collision warning devices and navigation equipment.

¹⁰ Bundling is the process of selling complementary products in a single, discounted package.

Microsoft Case

Microsoft was fined \$612 million by the European Commission on March 24, 2004, and was ordered to disclose to its competitors the interfaces required for their products to “talk” with the Windows operation system. In addition, Microsoft was required to offer a version of its Windows operating system without Windows Media Player to PC manufacturers or when selling directly to end users. The order effectively put Microsoft on notice that future attempts to add features to Windows would be challenged in Europe if the additions would bring rival products at competitive disadvantage.

United States criticized the approach taken by the EU in requiring code sharing as part of its remedy for protecting the competitors, and not the competition. A number of antitrust lawyers argued that the decision highlights fundamental differences between the U.S. and EU in dealing with monopoly abuse (Hufbauer 2003).

The US and the EU together account for approximately 60 percent of international trade. Their size gives them significant power in negotiations, which allowed them to form and shape the rules as they wish. By working in partnership the two heavyweights were much more likely to arrive at the results they wanted. However the two traders were also each other’s most serious competitor in third markets as well as being by far each other’s largest commercial partner.

It was generally believed that the economic relations between the U.S. and the EU, if not conflicting in nature, were competitive. On the question whether EU rivaled the United States, most scholars agreed. According to them, the EU had a population of 380 million against the U.S. population of 285 million. Its GDP was roughly about 10 trillion dollars. Its share of world trade was about the same as the U.S. Its exports were more and had a more favorable balance of trade with the rest of the world. Further, the EURO is the only reserve which could rival a dollar. With the enlargement of the EU, a bloc of larger GDP was created by incorporating the Slav tigers, the new economies of Eastern Europe. According to many economists, the creation of large markets due to

enlargement had led to higher rate of growth. Thus the European economic model had nonetheless produced higher level of productivity more than the U.S.

Apart from the rhetoric, the truth is however, that the EU cannot rival the U.S. The U.S. is the major trading partner of the EU, and both the U.S. and EU can only prosper if they continue to be partners rather than being in conflict or a competitor.¹¹ EU can never take the place of the U.S. because EU's increased GDP and larger share of world trade is the product of only few highly developed members of the EU, comprising the G8. Most of the other countries though provide large markets are in reality depended on the most developed nations of the EU, as can be seen from the share of goods and services by member countries in the charts mentioned above. The EURO also for the same reason cannot compete with the dollar, as the share of prosperity is not proportionate in EU member states.

CONFLICT

The trade relations between the US and the EU though largely governed by the WTO, in the way that both of them defended free-trade principles, but they often were found accusing each other for pursuing protectionist policies such as imposing tariffs, quotas and other direct barriers to trade typically imposed at EU or US borders or giving unfair advantages to its own exporters through state subsidies or safeguard actions as in the case of imposition of tariffs on steel import by the US government. The U. S. – EU economic relations thus show the elements of cooperation leading to some conflicts. Given a huge level of commercial interactions, the trade disputes were considered quite natural and perhaps inevitable.

However, the nature of transatlantic disputes had changed in the twenty- first century from the past century. In the twentieth century the transatlantic disputes were largely about market access and protectionism. But the recent disputes arose due to differences in the institutional structures of the economies of the U.S. and the EU. Though agriculture and industrial trade continued to be the main areas of conflict,

¹¹ In every region of the world and in many important sectors—agriculture, steel, and aircraft manufacture, to name just a few—the United States and European Union firm vie for customers, markets, and contracts.

disputes had encompassed issues as diverse as health and safety standards, certification and testing, environmental policy, eco-labeling, competition laws, discriminatory taxation, technology policy, government procurement, investment restrictions, intellectual property protection, regulation of the Internet and cultural protection (Hancock, Robson 2003: 6) .

The main sites of discord in United States-European Union trade can be kept in the following four categories:

Compliance with the WTO rulings

Though both the U.S. and the EU were instrumental in the making of the WTO in 1995, and talked about strengthening of the multilateral trading system by forcing the developing countries to comply the provisions of the WTO, the truth was that both the U.S. and the EU did not confirmed to the provisions of the WTO and were ready to go or actually went against its provisions to carry out their personal economic gains.

Some of the important disputes caused due to non- compliance of the WTO rulings were as follows:

U.S. Tax Benefits for Exports

Foreign Sales Corporation (FSC) was considered as one of the most important steps of a U.S. exporter to reduce federal income tax on export-related income.¹² By setting up a FSC in certain foreign countries the U.S. exporter obtained a corporate tax exemption on a portion of its earnings generated by the sale or lease of export property. The WTO on complain of the EU in 2000 declared the FSC Act as illegal. The US Congress, in its place, passed the Extraterritorial Income Exclusion Act (ETI) which was also found inconsistent with WTO obligations in 2002.¹³ The US however, did not meet the deadline to implement this decision, and on 30 August 2002, the WTO approved the

¹² FSCs were means formerly provided by United States taxation law for U.S. companies to receive a reduction in U.S. federal income taxes for profits derived from exports, through the use of an offshore subsidiary.

¹³ The exclusion of extraterritorial income provides a significant tax benefit by excluding from gross income a portion of income from qualified foreign sales.

European Union request for over USD 4 billion in retaliatory tariffs. The sanctions reached 14 percent in December 2004 and in May, the U.S. repealed the Foreign Sales Corporations/ETI export-contingent subsidy tax scheme, including all grandfathering provisions.

Byrd Amendment

The enactment of the Continued Dumping and Subsidy Offset Act (CDSOA), or Byrd Amendment by the U.S. Congress in October 2000 was challenged the EU and seven other parties in the WTO on the ground that the provision constituted a “non-permissible specific action against dumping or a subsidy” contrary to various WTO agreements.¹⁴ As U.S. did not complied with the ruling by the arbitrated deadline of December 27, 2003, the eight complaining members requested authorization from the WTO in January 2004 to impose retaliatory measures. The WTO on August 2004 decided that each of the eight complainants could impose counter measures on an annual basis in an amount equal to 72 percent of the CDSO disbursements.

The Deficit Reduction Act 2005 repealed the CDSO in February 2006. However, the language in the provision, allowed CDSOA payment on all goods that entered the U.S. As a result, EU, Canada, and Mexico indicated to keep the sanctions on the U.S. imports as long as the disbursement continued.

Resolving Longstanding Disputes

Among the longstanding disputes the major issues of confrontation between the U.S. and the EU moves around Aviation, Steel and Beef Hormone disputes.

¹⁴ This provision required that the proceeds from antidumping and countervailing duty cases be paid to the U.S. companies responsible for bringing the cases, instead of to the U.S. Treasury. (Ahearn 2007)

Airbus-Boeing Subsidy Tensions

In the Aviation industry, the major source of friction in the US-EU relations was the European Union support for Airbus Industrie, a consortium of four European Companies that collectively produce Airbus aircraft.¹⁵ The United States accused Airbus for providing massive subsidies since 1967 to aid in development, production and marketing of Airbus.

European Union contested the charges leveled by the U.S. and argued that its entire passenger market could not be left in the hands of the Americans and thus it had to provide support to Airbus in order to stand the global competition, especially in the wake of Boeing- Mc Donnell Douglas merger.

The problem mainly arose in 2000 with the Airbus's launch of the program to construct the world's largest passenger aircraft, the Airbus A380.¹⁶ The project is estimated around \$13 billion, of which Airbus expected 60 percent of this sum from its member firms, while the remaining 40 percent from subcontractors, including State-aid from European governments.¹⁷

Boeing also came up with the proposal of a new large aircraft 787 with the seating capacity of 250, with the proposal of being funded by non-US subcontractors and non-traditional funding.

The U.S. filed a case with the WTO on May 30, 2005 stating extension of illegal subsidies to Airbus by European Commission in order to provide undue advantage to it. The European Commission also filed countercharges against the Boeing asserting that it received illegal subsidies from the United States government.

The WTO established two panels on October 17, 2005 to listen to both the parties and final rulings are expected by October 30, 2007.

¹⁵ The Consortium of four consists of France, UK, Germany and Spain.

¹⁶ Airbus A380 is being offered in several passenger versions seating between 500 and 800 passengers, and as a freighter.

¹⁷ State-aid is limited to one-third of the project's total cost by a 1992 Agreement on Government Support for Civil Aircraft between the United States and the European Union (EU), which is rejected by the US but not by the EU.

Steel subsidies

In both the United States and the European Union the dispute over the steel industry had been a perennial source of problem, since it raised fundamental issues about the equity of WTO rules regarding border tax adjustments (Hufbauer 2003).

Although the European Union industries had privatized in the 1990s, the United States alleged that many of the European Union Companies were reaping the benefits from earlier state subsidies and/or engage in dumping steel products in foreign markets.

The United States steel companies had filed petitions and put countervailing duties, antidumping and safeguard actions to challenge European steel imports and to protect their domestic markets. The European Union on the other hand has countered it by challenging it in WTO against the alleged misuse of countervailing duties and anti-dumping laws by the United States. On March 5, 2003 President Bush had unilaterally imposed three years safeguard tariff at the rate of 30% on all major steel exporting countries except Canada and Mexico, which the EU considered inconsistent with the WTO provisions.

Beef Hormones

The beef-hormone conflict had established itself as the mother of all food safety trade disputes. In 1989, the European Union (EU) established measures banning the access of foreign imports of beef treated with five growth promoting hormones. The EU claimed that these measures were necessary to protect human health from harmful additives to their food. The ban affected approximately, \$100-\$200 million of loss to U.S. Though it consisted of less than one-tenth of one percent of U.S. exports to the EU in 1999, the dispute had become important as it showed the sovereign right to regulate the safety of its food against WTO obligations. Several WTO dispute settlement panels ruled that the ban was inconsistent with the Uruguay Round Sanitary and Phytosanitary (SPS) Agreement, but the EU refused to remove the ban. In May 1998, the European Union announced that it would eliminate the ban by May 1999. Having not done so, The United States was allowed to retaliate with 100 percent ad valorem annual duties on a list of EU

luxury exports to the United States valued at \$116.8 million starting in 1999. The U.S. took this strong step as it feared that the incident might produce a snowballing effect on other countries which would adopt similar measures based on health concerns that lacks a legitimate scientific basis.

However, occurrences of “mad cow disease” in several EU countries and the outbreak of foot and mouth disease (FMD) in the United Kingdom and three other EU countries created an environment not conducive in resolving the meat hormone dispute and the EU indicated its intention to make the ban on hormone-treated meat permanent. The EU presented what it believed to be the conclusive evidence proving the dangers of the hormones. Arguing that its act was in compliance with the WTO ruling, the EU called on the US and Canada to lift sanctions immediately. The United States, however, refused to accept the evidence of the harm to human health from eating beef rose with the hormones, and so the dispute continued (Salvatore 2004). The beef dispute, however, raised a contentious issue, should a country’s perceptions of health risks be subordinate to multilateral trading rules (Saltzman 1999: 2).

Different Public Concerns Over New Technologies and New Industries

The emergence of biotechnology and e-commerce industry also provided issues which brought cooperation and conflict between the U.S. and the EU.

Biotechnology

The US-EU trade had been partially disrupted with differences over genetically engineered (GE) crops and food products (Ahearn 2007: 18).¹⁸ Since 1998, the EU had put a de facto ban (or moratorium) on the imports of genetically-modified (GMO) crops on the belief that their long-term effects on human health are uncertain, without any scientific justification.

In May 2003, facing the potential spread of the EU approach to third countries, the United States (along with Canada, and Argentina) challenged the EU de facto

¹⁸ Genetically-modified (GM) crops are those which can grow more quickly than traditional crops and are resistant to insects.

moratorium to be in violation of the WTO Agreement on Sanitary and Phytosanitary (SPS) measures.

The EU had argued that the SPS agreement only addressed measures to protect human, animal, or plant life or health, which does not cover all issues. Some questions like GMO applications deal with non-living components of the environment and were not in violation of the SPS agreement.

Although the EU effectively lifted the moratorium in May 2004 by approving a genetically engineered corn variety, the three complainants pursued the case, in part because a number of EU member states continued to block approved biotech products (Ahearn 2007: 19).

Aircraft Hushkits

Due to overcrowding of aircrafts and the airports situated in heavily populated areas, there was a serious noise problem in EU countries. In order to deal with this problem, the EU in 1997 developed an EU-wide noise standard. But when it became clear that it would impose high economic costs on European manufactures and airlines, the EU advanced a regulation that would limit the operation of "hushkitted" aircraft in European skies, which in turn would put the American aircrafts at the loggerhead.¹⁹ The U.S. thus viewed the regulation against hushkitted aircraft as a protectionist measure to help protect Europe's Airbus from a more competitive market, rather than an environmentally conscious Europe (Ludolph 1999).

On March 14, 2000, the United States filed a motion with the International Civil Aviation Organization (ICAO) seeking relief from the EU's regulation. The U.S. case maintained that the regulation did not comply with ICAO regulations and discriminated against U.S. interests. In early 2002, however, a settlement was reached under which the EU repealed the regulation and the U.S. withdrew its complaint (Ahearn 2007:20).

¹⁹ Hushkitting is a process that involves a combination of strategies, including renovated engine enclosures and replacement engine components, designed to reduce aircraft noise.(Ahearn 2007)

E-Commerce and Data Privacy

Differences over e- Commerce and data privacy constitute another area of dispute in the U.S. – EU trade relations. The problem in the area of e-commerce began on July 1, 2003, when the EU required the U.S. and other non-EU firms to pay value added tax (VAT) on the sale of goods and services digitally delivered to individual consumers in the EU.²⁰ The rule was discriminatory as it required the U.S. and other non-EU firms to register in one country but pay the VAT at the rate applicable to each customer's country, while, in contrast, EU firms pay tax at the single rate of the country in which they are located.

In the field of data privacy, concerns about individual privacy had increased with the advent of electronic commerce. The European Data Protection Directive prohibited the transfer of personal information from Europe to third countries which did not provide "adequate" data protection (Ludolph 1999). The problem arose between the U.S. and EU on this issue because United States did not come under the list of the countries. The need for U.S. companies to be able to move data from Europe to the U.S. prompted the creation of the "Safe Harbor" agreement of 2000.²¹ This mechanism allowed the U.S. companies within the jurisdiction of the Federal Trade Commission to comply with the EU Directive if they were enrolled with the Commerce Department, publicized that they would comply with the safe harbor rules, and recertify their compliance annually (Ahearn 2001).²²

Visa waiver policy

Another bone of contention between the U.S. and the EU economic relations is the discriminatory visa waiver policy of the Bush administration, particularly against the countries of Eastern Europe. Some new EU member-states like Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Estonia, Latvia, Lithuania, Greece, and

²⁰ This tax rule was applied to the supply over electronic networks (digital delivery) of software and computer services generally, including a wide array of information services.

²¹ It is a set of principles for data protection that U.S. companies could voluntarily use to deal with EU data protection requirements.

²² As of December 2005, 837 U.S. companies were certified to the safe harbor program (Ahearn 2001)

Malta were not recognized by Washington as qualifying for their citizens to enter the U.S. under “visa waiver” permissions.²³ Though the Bush administration gave security as the reason for non-extension of the visa waiver program, it brought back the schism in Europe created during the Cold War times (Dale 2007).²⁴

Strengthening the Multilateral Trading System

The large and highly interdependent U.S.-EU economic relationship is successful because of the continued efforts to liberalize trade and investment rules that affect transatlantic commerce. Through the successes of international trade liberalization, primarily through the World Trade Organization, and U.S. and EU internal reforms in regulation of commerce, growth of the transatlantic marketplace has been sustained by opening markets, reducing costs and improving the confidence of consumers in the protections provided them in the U.S. and EU markets (Ludolph 1999).

The failure of Seattle round of WTO meet in 1999 in coming to any consensus did not led to the end of the organization. The trade ministers from the 150 member countries of the WTO agreed to launch a new round of trade negotiations in Doha, Qatar in 2001. By most accounts, U.S.-EU cooperation played a major role in producing agreement at Doha. Their cooperation began early in 2001 with the settlement of the long-running banana dispute and tacit agreement to settle other disputes without resort to retaliation. The importance of Doha round lies in the fact that developed countries agreed to set the time frame, targets, and modalities to implement Agreement on Agriculture (AOA) and General Agreement on Trade and Services (GATS) by specifying targeted timeframes latest by 2006.²⁵

The Doha round got a fillip at the Hong Kong meet held in December 2005 by way of Hong Kong declaration as its outcome was in conformity with the framework

²³ Under the program, citizens of most countries in Western Europe can travel for up to 90 days as tourists to the United States without needing to worry about a visa.

²⁴ During the Cold War Europe was divided into east and west corresponding to Soviet and American sphere of influence.

²⁵ AOA consist of three agreements, namely i) market access by reducing duties on imports of agricultural commodities from different countries; ii) reduction of subsidies on agriculture, and iii) patenting of agriculture. While GATS is related to opening of service sector to foreign service providers.

agreement of Doha giving developing countries the hope that their aspirations had been met by way of commitments by developed countries. However, all these hopes were dashed in July 2006 when member countries met at Geneva to give final shape to Hong Kong declaration which made commitments to fulfill Doha obligations.²⁶ The Doha round in fact, stumbled from the start over how far rich nations would go to dismantle their huge farm subsidies and open up their markets. The European Union firmly pointed the finger at the United States for the final breakdown, saying Washington had been demanding too high a price for cutting the \$20 billion it spends on farm subsidies. Accusing the United States of “stonewalling”, the European Union trade commissioner Peter Mandelson (2006) said, “Surely, the richest and strongest nation in the world, with the highest standards of living can afford to give as well as take.” But the United States was adamant and neither the European Union nor other developing countries were prepared to offer the sort of access to their markets that Washington needed to make a deal on subsidies worthwhile (The Economic Times 2006).

There were thus no doubt several issues on which U.S. and EU had differing views, but they continued to work together closely to narrow the gaps between their positions.

The so-called also “mini trade wars” accounted for only about 1-2 % of the total value of transatlantic trade and investment. Even the multi-billion dollar disputes over steel trade and US tax subsidies had affected only a small share of bilateral trade (Eizenstat 2001). The agriculture sector also accounted for only around 5 percent of total U.S. exports and imports with the EU, and about 7 percent of total U.S. world exports and for about 8 percent of total EU world exports. Thus the U.S.-EU trade conflicts may not be as big and threatening as they appear, but at the same time, they would not be considered to be trivial as they represent a mere 1-2% of transatlantic trade because they had the potentiality to spill over to other areas of the transatlantic relationship.

The U.S. - EU economic partnership went way beyond pure trade matters: it was supported by a number of institutionalized dialogues and regulatory cooperation between the partners. Intensive contacts and dialogues took place both at the governmental and trans governmental level to carry out the free flow of trade between the EU and the

²⁶ Thucydides said, “Large nations do what they wish, while small nations accept what they must.” (Chomsky 2007)

United States, with increased cooperation, like business dialogues, and dialogues between consumers, trade unionists and environmentalists, as well as frequent meetings involving officials, ministers, and members of the European Parliament and the US Congress. Apart from using the dispute resolution mechanisms of the WTO and OECD and working together in the context of the G-7/8 summit framework, the US and the EU had tried to develop bilateral forum for intensive consultations on economic and commercial matters.²⁷

The year 2006 saw the successful resolution of or, at least substantial progress in three long-running trade disputes:

- In February, the US Congress repealed the Byrd Amendment, but stopped short of full compliance by introducing a long transition period. To reflect this situation, EU sanctions was reduced in tandem with remaining Byrd payments.
- In March, the EU and the U.S. lifted telecoms procurement sanctions against each other, bringing to an end more than a decade-long dispute.
- In May, the U.S. repealed the Foreign Sales Corporations/ETI export-contingent subsidy tax scheme, including all grandfathering provisions, which had been repeatedly ruled WTO incompatible.

Foreign trade and investment data depict a strong, interdependent, and significant U.S.-EU bilateral economic relationship. The relationship would grow in importance with the advancements in technology and other forces of globalization, assisted by the future enlargement of the EU, which would force more trade and investment barriers to fall (Cooper 2006:3). The EU remained a significant participant in the U.S. economy and a major factor in policy considerations. For example, the EU and its members were influential members of the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Bank, and, together with the United States, would play decisive role in developing and implementing the missions of those institutions (Hancock, Robson 2003: 6).

²⁷ The New Transatlantic agenda in 1995, Positive Economic Agenda and Financial Markets Regulatory Dialogue in 2002 are the forums to talk on trade disputes between the transatlantic nations.

CHAPTER IV

*****POLITICAL AND SECURITY TIES: CONVERGENCE AND DIVERGENCE *****

The U.S. - EU relationship on political and security issues was intense because of shared similar values and institutions and cooperative economic interaction. With the end of the Cold War and the emergence of a unipolar world, it was believed that the required minimum level of cooperation between the two had decreased. It was demonstrated in 2003 at the refusal of France and Germany to support the Bush administration in the war on Iraq.

Kagan (2001) believed that the reasons for the transatlantic divisions were deep, and would endure. The divisions could be seen in the parting of ways by the U.S and EU in setting national priorities, determining threats, defining challenges, making and implementing foreign and defense policies.

It was argued that since the advent of Bush administration in 2000 differences had widened. Bush administration rejected the international treaties, including the International Criminal Court and the 1997 Kyoto Protocol, and did not support the strengthening of the 1972 Biological Weapons Convention and the imposition of limits on illegal trafficking of small arms—all initiatives supported by the European Union (Smith 2003). In strategic issues also, though the EU supported the U.S. in the war with Afghanistan in 2001 differences soon cropped between them.

Thus Kagan (2001) argued that the EU members should stop pretending that Europeans and Americans shared a common view of the world. In political and security issues, while Americans looked for finality in international affairs, if possible even unilaterally, the Europeans generally favored peaceful responses to problems, preferring negotiation, diplomacy, and persuasion to coercion.

It was, however, not right to say that the U.S. and EU always held dichotomous views on major issues of world politics, particularly during the Bush administration. On the other hand, the perceptions and actions of the U.S. and EU in political and security matters showed a great deal of convergence along with some divergences. The major issues affecting the political and security relations between the U.S. and EU during the year 2001- 2006 and the degrees of convergences and divergences between the two are below:

EU DEFENSE AND NATO

The uneven response of the European Community during the Persian Gulf War of 1991 raised doubts about the plausibility of a common security policy of Europe.¹ The "Euro defence debate" emerged, but it also witnessed differences among European states. On the question of continuation of NATO for the security of the European countries at the end of the Cold War, Britain chose to balance the reunited Germany by preserving the NATO alliance. France chose to do the same thing (to balance the reunited Germany) but by strengthening the European Community on political, economic and monetary lines and forming a European defence identity on an intergovernmental basis and thereby eliminating the role of the U.S. So, while the British policy was to do whatever it could do to preserve the NATO, the French policy was to do whatever to establish an autonomous European defence identity.

However, a compromise was reached in 1992. The Maastricht treaty which brought the EU into existence also included a clause on European security and defense. It established the Common Foreign and Security Policy (CFSP) and stipulated that it was the Western European Union's (WEU) task to elaborate and implement defence-related decisions and actions of the European Union. At the same time Western European Union was considered the European pillar of NATO and the proper channel for developing European Security and Defense Initiatives (ESDI) was the establishment of an evolving and effective cooperation between NATO and WEU.

With the end of the Cold War and the disappearance of the Soviet threat, France envisaged a diminished NATO and wanted political control of European security policy transferred to European community. It wished to create a stronger Europe with an independent security and defence identity. Arguing that the U.S. was unwilling to give Europeans any leadership role within NATO, France opposed the efforts to give NATO new political tasks. However, the failure of the European Community to offer a united response in the Gulf crisis had shown its limitations.

¹ France and Britain dispatched ground forces to the multinational coalition assembled in Saudi Arabia and those contingents comprised less than one-tenth the number of the US forces.

The Rome Declaration of November 1991 redefined NATO's continued importance by adopting the "New Strategic Concept". The New Strategic Concept identified that the threat of a massive full-scale Soviet attack, which provided the focus of NATO's strategy during the Cold War, had disappeared but at the same time new broader challenges to alliance security interests, such as the proliferation of weapons of mass destruction, regional instability, and terrorism had emerged. And since European states were not ready to carry on their defense on their own NATO would be continued. Since its creation in 1949, NATO was enlarged five times by the end of the year 2006 and every time it was enlarged, it grew stronger.² After the end of the Cold War, reflecting the post Cold War global realities, NATO was enlarged twice successfully bringing former Soviet-camp enemy states into its fold. NATO enlargement was largely seen as a force of expanding security and stability in the world and it gave the United States a foothold of influence in Europe. In the words of NATO Secretary General Jaap de Hoop Scheffer (2004) "it will be a major step towards a long-standing NATO objective: a Europe free, united and secure in peace, democracy and common values." The Brussels Summit in 1994 adopted Partnership for Peace (PfP) programme for the expansion of NATO in central Europe and former Soviet republics.

NATO a Cold War imperative had demonstrated resilience in adapting to new international situations and new challenges and remained one of the most successful peacetime military organizations. That the U.S. would turn to NATO for support in the aftermath of the terrorist attacks was indicative of the degree to which cooperation and collaboration had been institutionalized and internalized by the members of the Alliance.

However, some member of the European Union insisted on the creation of an European Union's defense arm, known as the European Security and Defense Policy (ESDP) to which even the United States is ready provided that it would be tied to NATO (Archick, Morelli 2006:6).

² Since its creation, the Alliance has taken in new members on five separate occasions in 1952, 1955, 1999 and 2004. in this way, the 12 founding members-- Belgium, Canada, Denmark, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, the United States-- have grown to 26.

The truth is that the European Union would never be able to replace NATO. Simply put, it was NATO which had provided the stability in Europe that made the EU's own efforts possible.

Ironically, the very success NATO had enjoyed over the past fifty years had led many to doubt its continued importance in the post- Cold War world. Critics of NATO and its expansion ask 'Where is the threat' that the alliance is designed to meet. But they overlooked the fact that there was no threat precisely because NATO had worked, and it had worked because the United States had stayed actively involved in Europe's security.

Further defense required innovations, but EU member states spend only about one half to two- thirds of what the U.S. spend each year for defense and armaments (Schley 2004: 82). Thus the EU lacked sufficient will and resources both to take the burden of its own defense.

MIDDLE EAST

The Middle East region of world had always been in a state of flux due to the interplay of domestic instability, regional conflicts and penetrations by global powers.³

This region witnessed a heavy cocktail of terrorism, the threat of proliferation of Weapons of Mass Destruction, lack of stable and democratic states and a virulent and destructive ideology (Szabo 2004:48).

IRAQ

The terrorist attack of September 11 in the United States produced an unprecedented wave of solidarity across the European continent and support for developing a common transatlantic approach to terrorism.⁴ Less than twenty four hours after the attack NATO invoked Article 5 of the North Atlantic Treaty.⁵ However, a year

³ The examples of it can be seen in the Iran-Iraq War (1980-88), the Gulf War (1990-91), and the war in Iraq (2003- Present). (Gawdat 2005)

⁴ Chancellor Gerhard Schroeder of Germany declared his "unlimited solidarity" with Washington. While France's newspaper Le Monde ran a headline which stated, "We are all Americans."

⁵ According to this clause of the treaty, the parties agree that an armed attack on one or more of them in Europe and North America shall be considered an attack against them all.

later differences erupted in transatlantic relations with the extension of Bush's decision to invade Iraq also, in the garb of saving the world from the disaster of weapons of mass destruction. For some, the invasion of Iraq in 2003 signaled the end of a 50 year era, while for others, like Secretary of State Colin Powell, the crisis was less than extraordinary, and was only latest in the long series of family feuds in the West that were to be occasionally expected in any relationship; and he felt that the tensions would subside and Western unity would be restored (Zhongping 2006: 176).⁶

The European states like France, Germany and Russia believed that the problem with Iraq was not a difficult one, and thus could be solved without the actual use of force. The United States and France came up with a compromise resolution in November 2002, and asked Iraq to surrender all its weapons of mass destruction, the refusal of which on Iraq's part would be declared a "material breach" of UN resolutions (Cohen 2005: 147). But this compromise resolution was only a warning to the Saddam government and not an authorization to use force that the United States wanted. The Bush administration however, took the unanimous passing of this resolution in the Security Council as blank approval to use force in Iraq. The president believed that it was enough to give legitimacy to an invasion of Iraq and the removal of Saddam. The European countries, however, were not ready to let the U.S. interpret this passing of the resolution as giving legitimization to its action in Iraq. For the European countries it was only a mean for starting the process of putting pressure on Saddam Hussein to come to terms in a peaceful manner. They wanted to proceed legitimately according to the norms set up in the International Code of Conduct and thus were ready to give sufficient time both to Saddam Hussein and the Weapon Inspectors of the United Nations in Iraq to see whether Iraq actually possessed weapons of mass destruction or not.⁷ Further, they wanted the handling of situation through the United Nations, a multilateral organization rather unilaterally by the United States. The Europeans believed in resolving conflict by

⁶ Henry Kissinger, a close and long observer of US-EU relations, concluded that differences over Iraq had produced the gravest crisis in the Atlantic alliance since its creation five decades ago. "I have been through many of them over the years on every imaginable issue." Powell told a French audience in May 2003..... "and I am telling you what the future is going to hold. The future is going to hold a world that will have a strong transatlantic community." (Zhongping 2006)

⁷ The later findings showed that Iraq does not possess any weapons of mass destruction.

compromise, conciliation and negotiation, rather than force and naked power (Heywood 2002).⁸

But the hastiness shown by the Bush administration in the Iraq War had, in fact, turned even the ardent supporter of United States in its so called war on terrorism alone. The impatience of the Bush administration had alienated the closest allies of the U.S. and undermined America's credibility and standing on the continent (Asmus 2004: 8).⁹

Across the Middle East also, the followers of Islam who condemned the September 11 attack on Al Qaeda and joined the United States in its war on terror, became furious at the sudden attack on Iraq and gave a call for jihad to defend Iraq against the Americans.¹⁰

Some European nations even considered Iraq crisis as a conspiracy on the part of the Bush administration to create "disaggregation" among the members of European Union. The Members of the European Union actually got divided into two branches—one going along with the United States and the other opposing its unilateral action (Zhongping 2006: 177).¹¹ The Bush administration expected that though there were oppositions in the beginning, gradually other states would join as and when the American forces would proceed in Iraq. But to the utter dismay of the United States except for the small number of its client states and Australia, Spain and Poland, who joined the "coalition of the willing" the bandwagon effect did not happen.¹² Even in Great Britain, the most trusted ally of the United States, opposition to the war and criticism of Blair's support for Bush had soared (Cohen 2005: 149).

⁸ Politics [is] the activity by which differing interests within a given unit of rule are conciliated by giving them a share in power in proportion to their importance to the welfare and the survival of the whole community. (Crick 1962)

⁹ Bob Woodward, a journalist in his book *Plan of attack* (2004) suggested that Bush was obsessed with Iraq and had decided to go to war against Saddam's regime shortly after American forces commenced the attack on Afghanistan. He revealed that the administration has secretly and probably, illegally diverted funds appropriated from Afghanistan to use for planning the war against Iraq. (Cohen 2005)

¹⁰ The Bush administration admitted that Iraq doesn't possess weapons of mass destruction.

¹¹ As Bush himself has said in a speech to the US Congress, in the immediate aftermath of 11 September, that henceforth US relations with other countries would be judged by whether they were 'for us or against us' in the war on terrorism. (Steinburg 2003)

¹² Bandwagoning refers to the act of weaker states joining a stronger power or coalition within balance of power politics.

The invasion of Iraq saw the enunciation of Bush's First Strike Doctrine.¹³ The important features of the doctrine consisted of:

- a strong belief in the importance of a state's domestic regime in determining its foreign policy and the related judgments that this was the time of great opportunity to transform international politics;
- the perception of great threats that could be defeated only by new and vigorous policies (most notably preventive war);
- a willingness to act unilaterally when necessary; and,
- as both a cause and a summary of these beliefs, an overriding sense that peace and stability required the United States to assert its primacy in world politics.

The European Union, however, did not support unilateral preventive wars and preferred multilateral approaches in which the use of force was last and distant option. The vast majority of Europeans always believed that while Iraq and other rogue states did not pose the same level of threat to the European Union, as they did to the U.S. and the threat posed by Saddam Hussein was more tolerable than the risk of removing him. But Americans, being stronger, developed a lower threshold of tolerance for Saddam and his suspected weapons of mass destruction, especially after September 11. And by the end of 2006 the U.S. and EU had similar turning points as the war in Iraq was far from mission accomplished.¹⁴

It was believed that the U.S. required the help of its allies but was left alone, because of the impatience shown by the Bush administration in solving Iraq problem. The Iraq war was considered the most serious folly committed on the part of the Bush

¹³ The Bush administration released a report on September 20, 2002 outlining an aggressive national security policy that says the United States must adapt its forces and planning toward favoring pre-emptive action against terrorist groups and hostile states that possess or are developing weapons of mass destruction.

¹⁴ According to Christopher Layne, an empire needs military for four purposes: conquest, deterrence, punishment and policing. A conquest in order to be comprehensive required successful policing as well, but Iraq raises the question of US ability of policing.

administration and it was believed that the war proved to be ‘Spanish ulcer’ for the Bush administration in its management of transatlantic relations.¹⁵

But this difference did not mean parting of the ways between the U.S. and Europe. This could be seen by the poll conducted by German Marshall Fund—Chicago Council on Foreign Relations in the summer of 2002 which showed that Europeans and Americans had common views of threats and distribution of power in the world. Both Europeans and Americans placed international terrorism and Iraq developing weapons of mass destruction at the top of their list of perceived threats.¹⁶

With regard to Iraq being a cause to the transatlantic rift, Hall Gardner (2003) believed that the case of Iraq had been overemphasized and was used as a chicken neck for transatlantic divisions caused due to a combination of other reasons. He said that the idea of regime change in Iraq was on the official agenda since the October 1998. President Clinton had signed into law the Iraq Liberation Act (Public Law 105-338), which stated “It should be the policy of the United States to support efforts to remove the regime headed by Saddam Hussein from power in Iraq and to promote the emergence of a democratic government to replace that regime (Gardner 2003).”

Thus the problem was never the fear of only Iraq possession of weapons of mass destruction, rather was how to overthrow Saddam Hussein—through support of insurgent forces, coup d’état or direct military intervention. (Gardner 2003). The crisis in Iraq did not spark the transatlantic division, utmost it can be said that it assisted and widened the already existed division.

This line of argument could further be proved by the fact that European nations were not against the death penalty given to Saddam Hussein, for his atrocities committed in the DuJail crisis.¹⁷ In a surprising poll survey conducted by Novatris/ Harris for the French daily *Le Monde* regarding views on hanging of Saddam Hussein, it was found that

¹⁵ The Peninsular war fought between France and Spain resulted in heavy casualties for France and proved tragic for Napoleon for which it is said, ‘Spanish ulcer has killed him’.

¹⁶ As early as 2002, a substantial majority of the publics in Germany (82%), France (67%), and the UK (86%) viewed Saddam Hussein as a ‘great’ or ‘moderate’ threat, and believed he should be removed rather than disarmed. (Steinburg 2003)

¹⁷ Saddam Hussein was found guilty in killing of 146 Shiites in DuJail in 1982.

though some of the European nations made hue and cry about the undesirability and illegality of the Bush invasion of Iraq, almost all of them supported death penalty for him, irrespective of the fact that death penalty is illegal in Europe. A majority of respondents in Britain (69 percent), France (58 percent) and Germany (53 percent) said they were in favor of executing Saddam Hussein. And in Spain, 51 percent of Spaniards surveyed said they thought Saddam should indeed be executed. Another poll, commissioned by Germany's leftwing *Stern* magazine, found that 50 percent of Germans support the death penalty for Saddam (Kern 2007: 1).

So, the reality was that ordinary Europeans and ordinary Americans saw eye-to-eye on most issues, including capital punishment (Kern 2007: 5).

IRAN

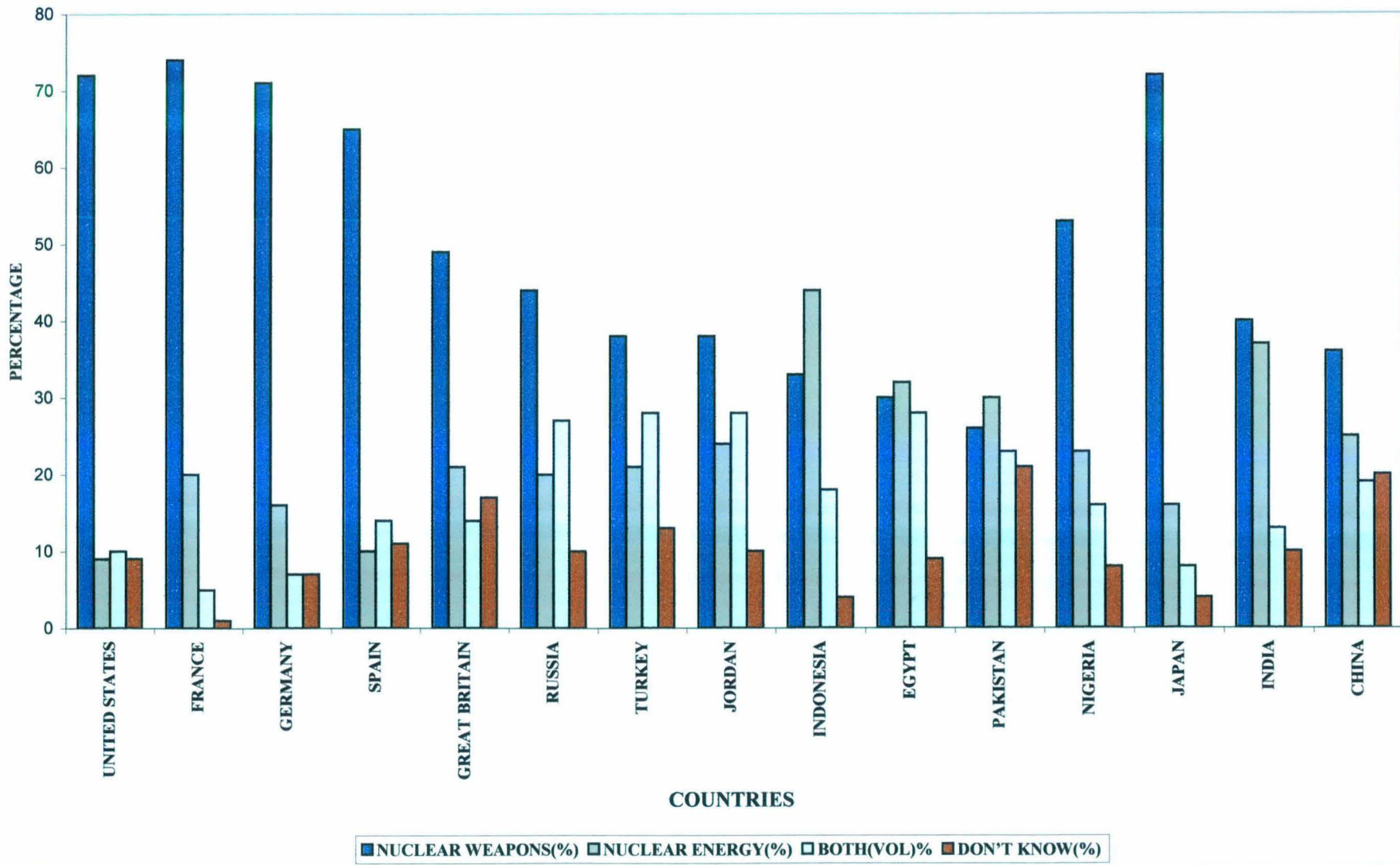
The U.S. - Iran nuclear standoff was a manifestation of changing global strategic realities. A global superpower was challenged by a regional power on the question of its right to pursue a civil nuclear energy program. Since December 2002, the U.S. had accused Iran of being covertly engaged in developing nuclear weapons, and receiving centrifuges system for enriching uranium and nuclear weapons technology and design clandestinely from A.Q. Khan of Pakistan in violation of Non Proliferation Treaty.¹⁸ In November 2003 the IAEA stated that Iran had acknowledged that it produced weapon's grade uranium but there was no evidence to show that Iran had built a nuclear weapon.

Iran had denied the U.S. accusations and maintained that its nuclear program was peaceful in nature and was for power generation only. It claimed that its nuclear program was legal under the Non Proliferation Treaty and it was entitled to develop uranium enrichment technology under international inspection for peaceful purposes.

In a poll survey conducted by Pew Global Attitude Report, most of the Western countries agreed that states which did not have nuclear weapons should be prevented from developing them. Of those polled 91% in Germany, 87% in Japan and 85% in

¹⁸ Non Proliferation treaty is an international treaty, opened for signature on July 1, 1968 to limit the spread of nuclear weapons.

GOALS OF IRAN'S NUCLEAR PROGRAM



France said non-nuclear countries should be prevented from developing nuclear weapons. Roughly three-quarters in Great Britain (77%), the United States (74%), and Russia (73%) also said that countries did not have nuclear weapons should be prevented from developing such weapons. The Muslim countries were also divided on the issue of halting nuclear weapons proliferation and opinions on Iran's nuclear program. A narrow majority in Jordan (53%), 50% of Pakistanis, and 44% of Egyptians said non-nuclear countries should not be stopped in their attempts to develop nuclear weapons; and comparable percentages in all three countries said they favored Iran acquiring nuclear weapons. Most Indonesians (61%) and Turks (58%) said countries which did not possess nuclear weapons should be prevented from developing them. Majorities in these countries also expressed opposition to Iran's acquisition of nuclear weapons. Regarding the goals of Iranian nuclear program, the poll showed that with the exception of Great Britain, large majorities expressed the opinion that the goal of Iran's nuclear program was to develop nuclear weapons and relatively few countries agreed that Tehran had the dual goals of developing weapons and energy.

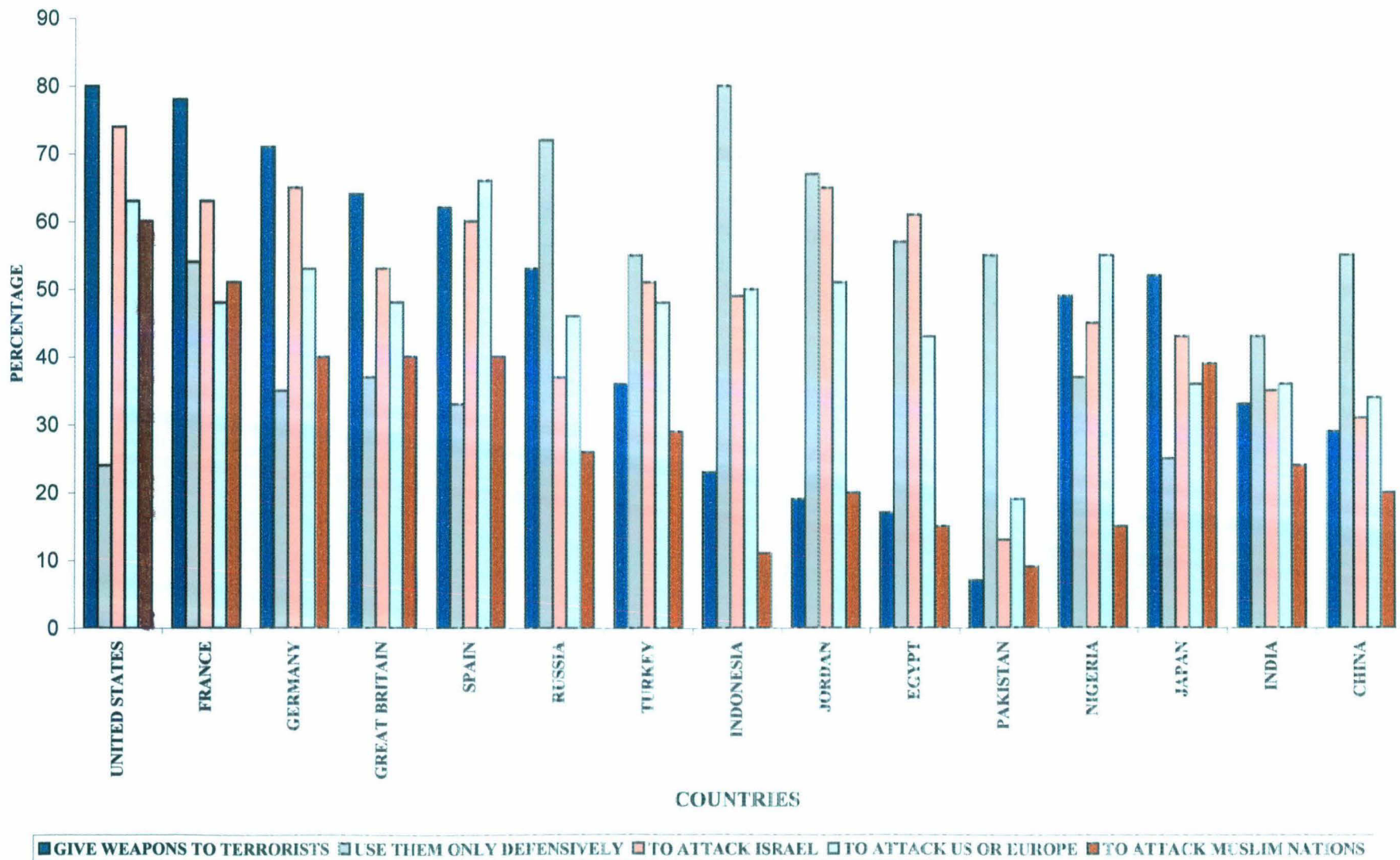
The idea that Iran wanted both weapons and energy was a much more prevalent view in other countries. In Egypt, 30% thought that Iran's aim was to develop nuclear weapons, while 28% thought that the goal of its nuclear program was to develop both weapons and energy. Relatively high percentages in Jordan and Turkey (28% in each) also felt that Iran wanted to develop both weapons and energy from its nuclear program. More than four-in-ten Indonesians (44%) say the goal of Iran's nuclear program was energy - the highest percentage of the 15 nations surveyed. Still, somewhat more Indonesians (a combined 51%) said Iran's goal was to develop nuclear weapons (33%), and 18% said that it wanted both weapons and energy.

THE STAND BETWEEN THE U.S. AND THE EU- TROIKA¹⁹

The U.S. and UK, France and Germany argued that the way Iran had acquired nuclear technology from questionable sources suggested that its nuclear programme was not exclusively peaceful. They insisted that Iran should not work on enrichment because

¹⁹ The EU-Troika consists of United Kingdom, France and Germany.

WHAT IF IRAN DEVELOPS NUCLEAR WEAPONS?



once the technology was mastered the same facility could be used to produce not just low enriched uranium for power reactors but highly enriched uranium for nuclear weapons also. The United States also opposed Iran's nuclear programme on political grounds. It suspected that Iran was trying to regain the regional power status in West Asia that might go against the U.S. and Israeli interests. It would destabilize the volatile West Asian region and there might be disturbance in flow of oil and natural gas from West Asia to industrialized countries. Israel enjoyed undeclared nuclear weapons monopoly in West Asia. Since Iran did not recognize the right of Israel to exist as a sovereign and independent state, the nuclearisation of Iran might threaten the very existence of Israel.²⁰

In an opinion poll conducted by the Pew Research Institute on the issue of what Iran would do of its nuclear weapons, large majorities in the U.S. and Western Europe, as well as about half of Japanese (52%), said that it would more likely provide them to terrorist groups.

However, in Muslim countries mostly believed a nuclear-armed Iran would use such weapons for defensive purposes only. 80% of the Indonesians and smaller majorities in other Muslim countries said Iran would use nuclear weapons only for its defense. In addition, relatively small minorities in all five Muslim countries surveyed felt that Iran would pass nuclear weapons to terrorists.

At the same time, more than six-in-ten in Jordan (65%) and Egypt (61%) said that if Iran developed nuclear weapons it would attack Israel, and about half of Turks (51%) and Indonesians (49%) agreed to it. In Jordan and Egypt, in particular, sizable minorities favored Iran acquiring nuclear weapons (45% and 44%, respectively).

There also was a widespread belief, in Muslim and non-Muslim countries alike, that a nuclear-armed Iran would attack the United States or European nations. Two-thirds of Spaniards (66%) and nearly as many Americans (63%) said such an attack was likely. Roughly half of the respondents in France, Germany and Britain - as well as in Turkey, Indonesia and Jordan - said an attack by Iran on the U.S. or Europe was likely.

²⁰ Iran has threatened Israel to "wipe Israel off the map."

INTERNATIONAL EFFORTS

In September 2005 the Board of Directors of IAEA passed a resolution to refer the Iranian nuclear issue to the Security Council for suitable action on the ground that Iran had violated her obligation under IAEA Charter. The U.S. and EU voted in favor of the resolution though Russia and China, two largest and populous states abstained from voting. In February 2006, the Board of Directors of IAEA passed a second resolution recognizing that Iran nuclear program should be referred to the Security Council for violating international obligations. This time the U.S. and EU along with Russia and China voted in favor of the resolution. This voting showed the determination of both U.S. and EU to contain proliferation of nuclear weapons.

The Security Council on 31 July, 2006 adopted a resolution requiring Iran to suspend all activities relating to uranium enrichment by August 31, 2006 or face sanctions. But Iran refused to suspend its uranium enrichment program claiming it to be its sovereign right. Iran also maintained that the nuclear issue was being used by the West to put pressure on Iran to change its foreign policy especially towards Israel and the West Asian peace process.

The United States on 31 May, 2006 offered to hold direct talks with Iran on the nuclear issue. On 1 June, Russia, China and EU- Troika extended a package of incentives to encourage Iran to join the talks. Under the package Iran should agree to suspend its uranium enrichment program. In return:

- they would hold talks with Iran on nuclear issue;
- Iran would be provided with light water reactors for power generation;
- Iran would be supported in its effort to join WTO;
- Iran would be given access to the U.S. high technology in the field of agriculture;
- The United States would lift sanctions on the sale of United States made aircraft parts that would enable Iran to upgrade its civilian airlines.

However, Iran rejected the offer and emphasized that it would not accept suspension of uranium enrichment program as a precondition for holding talks.

ISRAEL- LEBANON AND PALESTINE

The conflict in Lebanon began on 12 July 2006 when Hezbollah guerillas abducted two Israeli soldiers and killed three others during a raid in Israel. Israel vowed to get its soldiers released and thus retaliated.

The differences occurred between the United States and members of the EU, because EU wanted immediate intervention by the United States to stop the conflict. The United States, on the other hand, appeared to be encouraging its West Asian ally Israel, when it described the grotesquely disproportionate reaction to the abduction of two Israeli soldiers as acts of self- defence. A plan for the insertion of an international stabilization force into southern Lebanon was put on hold because Washington wanted to give its regional enforcer sufficient time to realize shared objectives of pushing the Hezbollah to walls. Israel carried out its bombing campaign ostensibly to force the Hezbollah to release its soldiers, and pressurised the militant outfit to pull back from the border. The European countries believed that the militant outfit deserved to be condemned for causing the deaths of over 15 Israeli civilian. At the same time they were concerned that the vast majority of over 300 killed, 1000 wounded and 50,000 displaced on the Lebanese side were also civilian.

The Israeli- Palestinian question is also mired in power politics, and the Hamas (a militant organization) victory had complicated the issue. Hamas demanded that it would agree for a permanent truce with Israel, if Israel withdrew from the occupied territories, released Palestinian prisoners and allowed the Palestinian refugees to return to land from where they were forced to flee. But Israel rejected the demand for the return of the Palestinian refugees back to Israel as it would make the Palestinians, the majority population in Israel and obliterate the Jewish character of Israel. The Quartet had started pressurizing Hamas to change its policies after it came to power and on its refusal, the

U.S. and the EU, the largest aid donors of Palestine to run the civil administration had stopped the financial contribution.²¹

TERRORISM

One of the important challenges of the nation states in the twenty- first century is the changed security environment. In this, along with the responsible states (who pursued traditional modes of behavior in the global arena of politics based on familiar notions such as *pacta sunt servanda*) the world was faced with rogue states who were either in possession of or about to acquire weapons of mass destruction, including biological and chemical weapons.²² These were the states that harbored or supported terrorist movements based on militant doctrines of global reach (Schwab 2003).

The more recent pattern of urban terrorism was directed at the softest of soft targets, usually in unexpected ways against the civilian populations, to create fear in a larger audience. These soft targets were chosen for their shock and propaganda value with the aim to create fear in a broader audience so that they would pressurize their respective governments to make political concessions desired by the terrorists.

While the end of the Cold War brought a high sense of security for the United States, it also made it clear that new kind of threats would emerge which could prove to be more fatal for human race as a whole. It would come not from the economically and militarily strong states but were associated with the melting of boundaries caused due to increasing globalization.²³ Although these threats ranged from international criminal and drug organizations to infectious disease like HIV, and environmental degradation, it became clear soon that the enemy number one of the twenty- first century was terrorism (Steinburg 2003). The world's experience of terrorism, however, preceded 9/11 and had been abetted by factors other than only virulent distortion of Islamic tenets such as 'jihad'. However, the defining discourse of dealing with the menace had been dominated

²¹ The Quartet consists of United States, European Union, Russia and the United Nations.

²² *Pacta sunt servanda* (Latin for "pacts must be respected"), is a basic principle of civil and international law.

²³ The spread of information technology made it increasingly difficult to control the flow of weapons of mass destruction know how, while ever more porous border made the smuggling of dangerous materials easier. (Steinburg2003)

by the U.S. perception and action. 9/11 was considered as one of the deciding incident of world politics as it was believed that it gave call not only for unity among nations despite minor differences, to deal with the threat as was done during the Gulf War of 1990-91. The subsequent attacks in Madrid, Beslan, Bali and Jakarta, Istanbul and Baghdad passed on the message that it was now the responsibility of every nation that stood on the side of hope and liberty to deal with it. On the eve of September 11, there were numerous signs that the post-Cold War era (1990-2001) was drawing to an end. What September 11 had done was to close that epoch with a horrid bang rather than in soft and easy stages.

The twin attacks on WTC and the Pentagon building called for an immediate and sincere outpouring of sympathy from Europe, and strong commitments of unity and mutual assistance from their governments. The Americans and the Europeans agreed that in a world where the enemies of the state were not the states themselves and where such non- state actors were capable of unleashing massive destruction, traditional strategies for protecting national security need to be altered.²⁴

The global response towards dealing with the menace of terrorism was based on Benedict Anderson's idea of "Imagined Communities" which mean that whenever and wherever a tragedy occurred or to be more precise in this case a terrorist strike happened, its impacts was felt far and wide. The scourge of global terrorism required the strength of a global response. Its success depended on how well the external reaction is linked with the domestic actions. Thus its success rested in the ability to engage the world community and foster healthy dialogue and strategic cooperation among allies. The loss of so many lives was a powerful reminder that we were indeed one people belonging to one human race. That at the end of the day our differences did not outweigh the humanity that defines and binds us. Acts of terrorism were manifestations of diabolical and malignant (ir) rationality and both causal factors and motives required careful analysis. In the absence of such sagacious policy responses, the next such occurrence might be a case of déjà vu.

²⁴ Upon President Bush's visit to France in the spring of 2002, French President Jacques Chirac confirmed that we all engage in a fight that is a bond between the peoples of both sides of the Atlantic. (Zhongping 2006)

Thus when the United States started its grotesque reaction against the Al Qaeda organization by way of large scale destruction in Afghanistan on the plea of destroying terrorist training facilities and removing the Taliban regime, Europeans though hesitant and mildly protested at the swiftness of United States military action, largely approved the United States. The European governments materially assisted. They also assisted by sharing intelligence, disrupting AL Qaeda activities in Europe and cutting off funds flowing to terrorist groups.²⁵

The September 11, 2001 terrorist attacks gave new momentum to EU initiatives to improve law enforcement cooperation against terrorism and other cross-border crimes such as drug trafficking, human trafficking, and financial fraud, both among its 25 member states and with the United States.

In a speech to the World Affairs Council in Los Angeles Tony Blair (2006) said,

“..... there is an arc of extremism now stretching across the Middle East and touching, with increasing definition, countries far outside that region. To defeat it will need an alliance of moderation that points a different future in which Muslim, Jew and Christian; Arab and Western; wealthy and developing nations can make progress in peace and harmony with each other. We will not win the battle against this global extremism unless we win at the level of values to the world. This is a war, but of a completely unconventional kind. 9/11 in the US, 7/7 in the UK, 11/3 in Madrid, the countless terrorist attacks in countries as disparate as Indonesia, the continuing conflict in Lebanon and Palestine, it is all part of the same thing. In fact, these acts of terrorism were not isolated incidents they were part of a growing movement. This war can't be won in an unconventional way. It can only be won by showing that our values are stronger, better and more just, fairer than the alternative. Doing this, however, requires us to change dramatically the focus of our policy. We are fighting a war, but not just against terrorism but about how the world should govern itself in the early 21st century, about global values.”

However, differences erupted in the U.S. and European approaches to counter terrorism policy as Washington extended the war against terrorism beyond Al Qaeda and Afghanistan to Iraq as well. Most of the EU members continued to view terrorism

²⁵ The EU and the U.S. have concluded several agreements on police information-sharing, extradition, mutual legal assistance, container security, and exchanging airline passenger data. Nevertheless, some challenges remain. For example, a U.S. – EU agreement allowing European air carriers to provide U.S. authorities with passenger data has been controversial because of fears that it compromises EU citizen's privacy rights. (Ahearn, Archick, Belkin 2007)

primarily as an issue of law enforcement and political action rather than a problem to be solved by military means. They did not accept the idea of a 'war' on terrorism. They found themselves comfortable in using other methods like intelligence sharing, police action etc. to deal with this phenomenon.

Further, Europeans were increasingly worried in the manner the United States carried its counter terrorist activities which made the war on terrorism, a war on Muslims, thus giving credence to 'Clash of Civilization' thesis of Samuel Huntington. It created a great deal of misunderstanding between the U.S. and Europe as Europe could not go against Muslims the way the United States went. As Europe consisted of 15 million Muslim populations, and one of the policy of European governments was the assimilation and integration of Muslim Communities in Europe.

Despite some tensions between the United States and European Union on the ways of solving the problem of terrorism, they shared a positive relationship and worked together. With the cooperation of both the U.S. and the EU worldwide, nearly \$140 million terrorist-related accounts had been frozen, and over two-thirds of the Al-Qaeda leadership were either captured or killed. Further, operational and logistical terrorist support cells had disrupted in Europe, Saudi Arabia, Yemen, and Southeast Asia (George W. Bush 2004). At the June 2004 Summit in Ireland, the U.S. and the EU issued a joint declaration on combating terrorism that reinforced their commitment to work together on this global challenge (Archick 2005).

NUCLEAR WEAPONS AND NORTH KOREA

It was paradoxical that although the nuclear issue continued to dominate the world politics, the agenda of global nuclear disarmament had taken a backseat. This had happened because Washington had deliberately distorted the meaning of nuclear non-proliferation to connote only horizontal non-proliferation, with no obligation on major nuclear powers to rapidly carry out vertical non-proliferation of their own huge stockpiles. This combination of hypocritical and hegemonistic ambitions could not guarantee peace and stability in the world.

The Clinton doctrine of control of space for military purposes to “ownership” of space, which might mean instant engagement anywhere in the world was continued by the Bush administration. Thus the missiles could be launched “very quickly, with very short time lines on the planning and delivery, any place on the face of the earth” (Chomsky 2007:11).

The Bush administration broadened the first strike option, and had increasingly blurred the line between conventional and nuclear weapons, thus heightening the risk that the nuclear weapons would be used. These actions of the United States had obviously created concerns and criticisms, and European nations warned that as the proliferation of nuclear weapon had unforeseen consequences, so too, would be the weaponization of space (Chomsky 2007).

Since the Democratic People’s Republic of Korea (DPRK) nuclear issue came to the fore in 2002, attempts to resolve the issue had encountered numerous obstacles.²⁶

The DPRK, better known as North Korea test fired a stream of seven missiles on July 5 2006. Though the flight test of the Intercontinental Ballistic Missile, Taepodong-2 designed to hit the United States targets and threatened Japan as well, was unsuccessful, North Korea claimed that the new missile exercises strengthened its deterrence against the United States.

In order to resolve peacefully the North Korean nuclear crisis an effective system of verification was introduced by the six parties. And to ensure a nuclear-free Korean Peninsula, the diplomatic road map was started with the convening of multilateral talks involving the United States, North and South Korea, China, Japan, and Russia. Under this multilateral umbrella, bilateral talks between the United States and North Korea also took place (Schwab 2003).

ENVIRONMENT

The only threat remotely comparable to use of nuclear weapons was the serious danger of environmental catastrophe (Chomsky 2007:16). In a series of transatlantic

²⁶ The six parties consist of North and South Koreas, Japan, China, Russia and United States.

environmental disputes, consisting of controversy over biodiversity, genetically modified organism etc., the issue of global warming topped the chart.

Global warming referred to increase trapping of terrestrial radiations by increased concentration of Green House Gases resulting in increasing mean annual global temperature of earth's surface.²⁷ The most serious impact of global warming would be melting of polar ice resulting in increasing sea level, which would result in submergence of nearly one-third of the total landmass especially low lying areas.²⁸ It could also cause heat waves, heavy rainfall, flood, drought, forest fires, and severe cyclonic storms.

According to United Nation Framework Convention on Climate Change, developed countries agreed to reduce the emission of their green house gases to 1990 level by the year 2000.²⁹ The Kyoto Protocol, adopted during third conference meeting at Kyoto, Japan in 1997, established for the first time, legally binding limits for industrialized countries on the emissions of carbon dioxide and other greenhouse gases.³⁰ Accordingly, 39 developed countries had legally committed to reduce the level of six greenhouse gases by at least 5.2 percent of their 1990 level, by 2008-2012 commitment years.

The disagreement over the Kyoto Protocol was mainly over European attempts to make the United States agree to take measures to reduce carbon dioxide emissions. The United States signed the Kyoto Protocol but the treaty was not ratified by the U.S. Senate as Clinton administration did not send it to the Senate. The Bush administration had also rejected the Protocol for being too costly for the U.S. economy and further because developing countries like China and India were not bound by it. The reality, however, was that these countries made an insignificant contribution of greenhouse gas emissions,

²⁷ Green House is a glass house which helps in trapping reflected heat radiated from earth's surface and, thus increase the temperature to provide conducive environment for green plants to grow. The six Green Hose Gases responsible for Green House effect are Carbon Dioxide, Methane, Sulpher Hexafluoride, Perfluorocarbon, Oxides of Nitrogen and Water Vapour.

²⁸ Sea level can also increase because of expansion of warm water, and according to Inter Governmental Panel on Climate Change, it has been estimated that sea level will rise by about 8-88 cm by the turn of the twenty first century.

²⁹ The United Nation Framework Convention on Climate Change was adopted during the Earth Summit Conference in June 1992 at Rio, Brazil. The Convention also provided for annual conferences to solve the problem of global warming.

³⁰ The Kyoto Protocol came into force on 18 February 2005, 90 days after Russia ratified it, as it was provided that the Protocol will enter into force only after its ratification by at least that many developed countries which are responsible for making fifty percent of the total green house emissions.

while the U.S. does one-fourth of total emissions.³¹ Due to worldwide pressure the Bush administration in the G-8 meeting on 11 June 2007 agreed at least in principle, the objective of cutting greenhouse gas emission by 50 percent by 2050.

DEMOCRACY AND HUMAN RIGHTS

Both the United States and the European Union believed in democracy and wanted to spread the ideas of democracy. In fact one of the conditions for the countries joining the European Union was that the aspiring state should be democratic. But both differed on the way of bringing about democracies. While the United States believed in export of democracy, the European Union did not believe in export of democracy but in creation of favorable condition for the birth and flourishing of democracy.

On the front of human rights, the United States and European Union were always at logger heads. The United States though gave lectures to the countries all over the world for implementation of human rights, and even went for intervention on humanitarian grounds failed to put its own record right. Both on national and international front the U.S. was criticized by the countries of European Union for violation of human rights. The story of the horrors inflicted on the Iraqi prisoners at Abu Gharib and at Guantánamo Bay by American guards, and the photos of prisoners being tormented and humiliated aired on CBS, had questioned the credibility of the Bush administration regarding protection of the human rights of the prisoners of war. The administration could not escape the responsibility for the shame Americans felt and the anger directed at the United States by the rest of the world.

Most of the humanitarian interventions done by the United Nations truly speaking were American intervention. The interventions done after the Gulf War of 1990, like intervention in Bulgaria(1990-1991), Albania(1991-1992), Somalia(1993), Peru(1990s-PRESENT), Mexico(1990s- PRESENT), Columbia(1990s- PRESENT),

³¹ "You are either with us or against us", George Bush announced in late 2001 shortly after launching the global war against terrorism. The same is true of global warming. As the world's largest polluter, the United States needs to return to the international negotiating table to solve the problem (Spence 2005).

Yugoslavia(1995-1999),Afghanistan(2001-PRESENT) and Iraq(2002- PRESENT) were all United States intervention for its personal gains.

James Kurth (2001) has given four models of intervention by the United States. They were--

- abstention, or no military intervention at all (Rwanda);
- relief of the disaster without addressing its political causes (the policy of the George Bush Senior in Somalia);
- relief of the disaster plus imposing a semblance of political order by securing in power a particular local and friendly political figure (Haiti and Sierra Leone); and,
- reconstruction of the entire political system of the afflicted country, along the lines of some sort of liberal, democratic, and even multicultural system (Bosnia, Kosovo, East Timor, the policy of the Clinton administration in Somalia and the Bush administration in Afghanistan and Iraq).

There were differences among the U.S. and countries of European Union on the legality of Iraq war as well, as most of the European countries considered it as a case not suitable for intervention.

In the row of several cases creating rift in the transatlantic ties was the refusal of the Bush administration to ratify the International Criminal Court (ICC) statute signed by the Clinton administration. Following the Balkan wars, during which widespread atrocities were committed, the EU decided it was necessary to build up an international order whereby tyrants would not be able to hide behind the veil of national sovereignty to perpetrate crimes against humanity. However, the United States considered that the ICC statute was flawed in that it gave too much power to international investigators. This could result in politically motivated attempts to prosecute American troops and government officials (Goh 2003: 9).

Thus the transatlantic tensions of the twenty- first century did not begin with the coming of George W. Bush in January 2001, nor did they begin after September 11. While the hard headed policy of the Bush administration in its early months had certainly raised the differences on the European and American perspectives on the issues of international governance, and the attack of September 11 shone the brightest possible light on the transatlantic gulf if in strategic perceptions, those divisions were already evident during the Clinton years and even during the first Bush administration. The United States did not change after September 11, but it only became more of itself. Thus the differences did not mean rift, as it showed the broadness and independence of their relationship where two partners holding different views and perceptions could go together to solve a crisis.

CHAPTER V

CONCLUSION

On the issue of transatlantic divorce Kupchan (2001) said,

“History is coming full circle. After breaking away from the British empire the United States federation emerged as the leading nation and eventually eclipsed Europe’s great power. It is now Europe’s turn to ascend or break away from America which refuses to surrender its privileges of primacy. Europe will inevitably rise as America’s principle competitor.”

As to what were the symptoms of divorce, Emmanuel Todd in his work “After the empire: An essay on the decomposition of American empire” said that there were profound forces at work between the U.S. and the EU, some of which brought the U.S. and EU together while others forced them further apart. Such a combination of being pulled together and pushed apart was typical of the approach of the divorce.

From the end of the Second World War, Europe fell into strategic and economic dependence on the U.S. and the once global reach of the European powers no longer extended beyond the Continent (Kagan 2003: 18). The Transatlantic relationship has been the cornerstone of the global order since 1945. While there have been wars in various parts of the world during the last 50 years, there was no major conflict matching anything like the two World Wars of the last century. The United Nations designed by the United States and the European Union succeeded in bringing about a substantial period of global peace and progress to humanity.

This period of global peace had ushered in a dramatic period of development and of economic growth.¹ Moreover, there was staggering economic progress, and in the last 50 years, there was six-fold increase in world output accompanied by a 20-fold increase in trade in goods. By the end of the 20th Century, the world produced the same amount of goods and services every three years which took the whole of the nineteenth century to produce. The U.S. and EU enjoyed the worlds largest and deepest economic relationship, as together they accounted for the majority of world GDP. And all this would not be

¹ “[W]hen the United States and Europe cooperate, we can achieve security for our people, and enhance the prosperity for our people ... as well as do our duty to help relieve the suffering of those who are less fortunate.” (Bush 2006)

possible without the combined efforts of the United States and European Union in the areas of investment, aid, technology, education and western models of governance.²

The Truman and most of his successors supported the idea of an integrated Europe in order to build a politically stable and economically strong Europe. It was supposed to provide Americans with strong trading partners and to meet the Soviet menace effectively. Moreover stability and peace in Europe allowed the U.S. to focus on other areas, like Asia and the Middle East.

The coming of the twenty- first century and 9/11 incident saw massive cooperation between the U.S. and EU. German President Gerhard Schroeder rightly said, “We all are Americans.” But the decision of the Bush administration to go for a war in the Iraq alone without the United Nations sanctions widened the transatlantic rift.³

REASON FOR DIVERGENCES

Though economically the two continents converged, yet across many other areas — the environment, defence, foreign policy — transatlantic perspectives considerably diverged. The major differences between the U.S. and the EU were as follows:-

First was the difference on the view of world power. Kagan (2003) said that the Europeans were turning away from power to a self contained world of laws and rules and transnational negotiations and cooperation. While Americans believed that world politics was a Hobbesian world (a war of all against all), where international laws and rules were unreliable and where security depended on the possession and use of military might. So on major strategic and international questions Americans were from Mars and Europeans from Venus. The United States and European Union were different by their nature as on several questions of power, the efficacy of power, the morality of power and the

² Colin Powell before the Foreign Policy Association in May 2003 said, “For more than 50 years, the ties between the United States and our allies and friends in Europe have been sinews of security, democracy and prosperity in the transatlantic region. ...in our increasingly globalised age. Strong Euro- Atlantic partnership will be a key to security, good governance and growth not only in the transatlantic region but in the whole world.(Zhongping 2006)

³ There has always been conflict between Europeans and Americans. But these differences of opinion were never taken to extremes, as is now the case. It will be difficult to revive the spirit of camaraderie that we have lost. (Kissinger 2005)

desirability of power. Further, in dealing with any political situation the Americans were hawks and pragmatists while the Europeans were like doves.⁴

Second difference was due to self definition of Europe against the U.S. in terms of social and economic model. EU was a version of democratic capitalism which put a high premium on social solidarity, social justice and welfare. It believed in a market economy but not in a market society, represented by the U.S.

Kupchan (2001) argued that the real clash was not between any one of civilizations which Huntington had identified but between the American and European states, between the Venetian and Mars.

With the Soviet menace gone, there was no clear and common enemy confronting the West. Though it was argued that terrorism was so, the U.S. and EU perception and analysis of how to deal with terrorism differed. While the EU believed that terrorism could be solved by tackling poverty and bringing about modernization, the U.S. considered it a menace to be solved only with military intervention.

AREAS OF AGREEMENT

During the Cold War, shared security concerns were the main drivers for cooperation in the Atlantic community, while trade and economic issues played a secondary role. With the end of the Cold War and the formation of European Union, the priorities reversed. While trade, investment and technology linkages deepened, the United States and Europe squabbled over rebuilding Iraq, regulating the Internet, global warming and handling genetically modified food (Hancock and Robson 2003: 1-3).

⁴ Hawks gave more importance to military power is more important and consider war as a necessary medium to obtain justice. They don't attach importance to international institutions and are ready to bypass it; Pragmatists consider economic power as more important than military power and that war is sometimes necessary to obtain justice. They also assign an important role to international institutions, including the United Nations, and favor strengthening them. They prefer to act with international legitimacy but are also prepared to act without it to defend their national interests if need be; Doves believe that economic power is more important than military power and reject the importance of. Like Pragmatists, they want to strengthen international institutions, but refuse to use force in the absence of multilateral legitimacy. (Asmus 2004)

The United States and European Union were inextricably linked not only because of the massive volume of trade transaction and investment but also because the United States and Europe shared a common heritage and common core values: democracy, human rights and open markets (Goh 2003: 17-18).⁵

There were areas of extensive agreement between the United States and EU on issues such as the promotion of democracy and the fight against international crime, and shared perceptions on the need for an open international trading system. These common interests were generally stronger than their differences and distinguished the United States and EU from many other international actors. Each was also aware of how much it needed the other. It was claimed that on both sides of the Atlantic there was fundamental difference of values. While the U.S. resort to force quickly, favor policies of coercion than persuasion, believed in solving problems and eliminating threats, and were less inclined to work multilaterally, Europeans were different. The Europeans favor peaceful settlement of disputes, prefer persuasion to coercion and believed in multilateralism. But if we draw a Venn diagram we would found that 80 percent of it would consist of the intersection part corresponding to the common values of America and Europe and only a small banana on both sides would represent exclusive American and European values. European societies were in fact Americanized societies (Ash 2002).

The differences that existed were serious but were not unbridgeable. They required considerable attention from both the U.S. and EU, their will to stand together and the mutual recognition that anything less would be a loss for all. Together both the U.S. and EU could manage the problems of globalization and terrorism efficiently.

The truth was however, that the present transatlantic tensions did not begin with the inauguration of George W. Bush in January 2001, nor did they begin after September 11, while the unilateralist attitude of the Bush administration no doubt sharpened the line of discord between transatlantic nations, those divisions were already present during the Clinton years and even during the first Bush administration, and could be seen in the refusal of Clinton to send the Kyoto Protocol for ratification to the Senate, construction

⁵ "The real point is that the United States was born of Europe's rib." (Goh 2003)

of missile defence system designed to protect the United States from nuclear armed rogue states such as North Korea, the demand that the American troops be immune from prosecution by the new International Criminal Court which for Europe was a symbol of a world in which all nations were under the law, intervention in Kosovo and Somalia etc.(Kagan 2001).

And Iraq crisis did not create the rift, as the transatlantic alliance was left intact. The Americans and Europeans shared a similar worldview and were close to each other. It could be seen in a poll conducted by the Chicago Council on Foreign Relations and German Marshall Fund of the United States. The poll showed that despite reports of anti-Americanism, Europeans liked Americans as much as they liked each other. Also, they shared an extremely similar perception of threats, with international terrorism topping the list. Interestingly, 49% of Europeans and 46% of Americans considered global warming to be an extremely important threat, which was strikingly similar despite the policy differences among the concerned governments. Moreover, both the American and European publics were highly supportive of multilateral approaches, with very close percentages on both sides of the Atlantic supporting a strengthening of international institutions (e.g. for the UN, 77% in the U.S. and 75% in Europe supported its strengthening). Furthermore, both Americans and Europeans overwhelmingly agreed that it would be desirable for the EU to exert strong leadership in world affairs (81% in the EU and 79% in the U.S.), and 70% of Americans wanted the U.S. and EU to deal with problems jointly, even if it mean relinquishing their first-best policy choice. Thus, when one tried to measure the fundamentals of their relationship, it appeared to be strong and healthy. Significantly, the Europeans and Americans agreed even where their governments disagreed. Importantly, majorities of Americans supported the Kyoto Protocol (64%), the land mines treaty (75%), and the International Criminal Court (71%), while the U.S. government took a different position (Millet 2002).

Asmus (2005) has described four fundamental reasons as to why the United States should support European Union.

First was to sustain peace and stability in Europe so that the United States could concentrate on other areas.

Second was that the EU economic success and achievements which acted as a magnet for other European countries to become its members. The success of the EU was thus the best guarantee that Europe remained peaceful, democratic and secured in the decades ahead. The role of EU in transforming the nations could be best observed by the tremendous changes both in structural and legal forms which Turkey, an aspirant for the membership, had made.

Third was the need of a strategic partner by the United States to meet the challenges of the twenty-first century. The best example was EU support to the United States in the war on terror, the action against the spread of nuclear, biological and chemical weapons, and the goal of promoting freedom and democracy around the world. Further, the twenty- seven EU members support the United States not only by providing resources and materials but also by providing legitimacy.

Finally, the United States and the European Union together formed a natural coalition of democracies and attracted other democracies to work together to confront new challenges around the globe like tackling the root causes of terrorism and the need to combat them through democracy promotion, assisting in economic growth and trade and addressing the root causes of terror.

On the other hand, EU by itself lacked not only will but also resources to deal with major international crimes. The proponents of closer U.S.- EU ties argued that neither the United States nor Europe was capable enough of dealing with the issues of global concern alone and thus needed the help of each other to solve the problems. Moreover, the history revealed that they could accomplish better when they worked together.⁶ This could also be seen by the fact that the high cost of the military occupation of Iraq, the mounting budget deficit, the daily “drip-drip” of casualties, the need for

⁶ “Neither NATO nor the EU is a full-service institution; neither is sufficient because both are necessary – to win a war, end a war, and deal with the aftermath... In short, while it may not be possible for us to take on everything together, it is imperative to make sure that taken together we do everything.” (Goh 2003)

international legitimacy, and domestic dissatisfaction, had all combined to push the Bush administration back to the UN.

The United States thus used to see the European Union as an essential element of the post World War II peace settlement and as an important contributor to the security of Western Europe during the Cold War. And after the Cold War it saw the European Union as indispensable for the security and stability of Europe.

The U.S. and the EU were so much interdependent in economic, political and strategic terms that serious clash of interest was almost unthinkable. The present critical situation marked by the divisive attitude to the War on Iraq would also get over. Fifty years of working together and resolving differences had given the two sides plenty of experience on which to draw in finding a way out of their most recent disputes (Desbordes 2004: 554).

Moreover, partnership did not mean agreement in every instance, or that their interest would always coincide. The United States and European Union were two partners who shared the common vision of the future, though their way of achieving the future was different. But that did not mean they were against each other and that was the reason for their joint effort to solve bilateral, regional or global issues.

*****APPENDIX*****

APPENDIX

Largest source of U.S. Imports

COUNTRIES	PERCENTAGE SHARE IN U.S. IMPORTS
EU- 25	18.50
CANADA	17.20
CHINA	14.60
JAPAN	8.30
MEXICO	10.20
OTHERS	31.20

SOURCE: euinsight November 2006

Largest source of U.S. Exports

COUNTRIES	PERCENTAGE SHARE IN U.S. EXPORTS
EU- 25	20.60
CANADA	23.00
CHINA	4.70
JAPAN	6.10
MEXICO	16.30
OTHERS	32.00

SOURCE: euinsight November 2006

U.S. major Investment partners

COUNTRIES	PERCENTAGE SHARE IN U.S. INVESTMENT
EU- 25	62.00
CANADA	0.03
CHINA	9.00
JAPAN	11.6
MEXICO	0.50
HONG KONG	13.00
OTHERS	16.80

SOURCE: euinsight November 2006

Goals of Iran's nuclear program

COUNTRIES	NUCLEAR WEAPONS	NUCLEAR ENERGY	BOTH	DON'T KNOW
UNITED STATES	72	9	10	9
GERMANY	71	16	7	7
FRANCE	74	20	5	1
SPAIN	65	10	14	11
GREAT BRITAIN	49	21	14	17
RUSSIA	44	20	27	10
INDONESIA	33	44	18	4
TURKEY	38	21	28	13
EGYPT	30	32	28	9
JORDAN	38	24	28	10
PAKISTAN	26	30	23	21
NIGERIA	53	23	16	8
JAPAN	72	16	8	4
INDIA	40	37	13	10
CHINA	36	25	19	20

SOURCE: Pew global attitude reports project of the Pew Research Center 2002

<http://pewglobal.org/reports/display.php?ReportID=252>

What if Iran develops nuclear weapons

COUNTRIES	GIVE NUCLEAR WEAPONS TO TERRORISTS	USE THEM ONLY DEFENSIVELY	TO ATTACK ISRAEL	USE IT TO ATTACK U.S. OR EUROPE	USE IT TO ATTACK MUSLIM NATIONS
UNITED STATES	80	24	74	6	60
GERMANY	71	35	63	53	40
FRANCE	78	54	53	48	57
SPAIN	62	33	60	66	40
GREAT BRITAIN	64	37	53	48	40
RUSSIA	53	72	37	46	26
INDONESIA	23	80	49	50	11
TURKEY	36	55	51	48	29
EGYPT	17	57	13	19	9
JORDAN	19	55	61	43	15
PAKISTAN	49	37	45	55	15
NIGERIA	52	25	43	36	39
JAPAN	33	43	35	36	24
INDIA	29	55	31	34	20
CHINA	36	25	19	20	

SOURCE: Pew global attitude reports project of the Pew Research Center 2002

<http://pewglobal.org/reports/display.php?ReportID=252>

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