STUDY PROJECT

THE EUROPEAN COMMUNITY 1992 PROGRAM: IMPLICATIONS FOR THE U.S. MILITARY IN THE COMING DECADE

BY

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INTRODUCTION

The European Community (EC) is embarked on an ambitious program to eliminate all the nontariff barriers that exist between its twelve member countries with the objective of completing an internal market by the end of 1992. An internationally recognized intergovernmental organization (IGO), the EC exists apart from the collective member states as a separate legal entity. Its purpose is "... to formulate and execute a common foreign or external policy in economic and commercial areas."[1]

Europeans, faced with rising unemployment, inflation, a loss of jobs, lack of economic growth, and an overall competitive weakness vis-a-vis Canada, the United States, and Japan, recognized that their propensity to pursue protected and highly regulated national economies was not working. In 1985 when the European heads of state and government directed the EC to conduct a study to determine what needed to be done to make Europe more competitive in the global marketplace, Lord Cockfield, Vice President of the EC Commission, wrote that the study:

> ... demonstrates the immense opportunities for the future which the completion of the internal market will open up: opportunities for growth, for job creation, for economies of scale, for improved productivity and profitability, for healthier competition, for

professional and business mobility, for stable prices and for consumer choice. In short, a prospect of significant inflation-free growth and millions of new jobs.[2]

Palo Cecchini reached essentially the same conclusions in a subsequent study noting that setting aside European economic differences and working together to complete an internal market would result in reduced cost, improved efficiency, new patterns of competition, and increased innovation. He predicted that the EC gross domestic product (GDP) would increase between 4 percent and 7 percent, that there would be 2 to 5 million new jobs, that consumer prices would decrease 6 percent, that the public deficit would shrink by 2 percent of GDP, and that the external balance of trade would increase by 1 percent of GDP.[3]

In addition to completing the internal market between the twelve member states, there are some members of the Community that believe that the EC should actively seek to evolve into something more than just an economic union.

> As a general rule, political integration follows social integration, which in turn follows economic integration. EC '92 is the first step in a complete socio-economic revolution. In this process, the concept of security will be redefined -- it will no longer be based on the military needs of a single nation; nor will national security be defined in purely economic terms.[4]

The focus of this paper is to determine whether the EC 1992 program is going to succeed, and how its success will affect the United States and its military in the coming decade. The paper begins with a historical review showing the political will of its members and their progress since World War II. A detailed discussion of the EC institutions will examine the scope, complexity, size, and interrelationships of the component parts of the infrastructure as a means of judging the members' commitment to overcome the obstacles dividing them for centuries. Next, the paper suggests that there are actually two plans associated with EC 1992: a near-term plan to complete the internal market, and a long-term plan for evolving the EC into a superpower. The outlook for both plans is discussed in the section that follows. U.S. concerns are then addressed in broad terms and show that "Fortress Europe" is not the intent of the EC 1992 program. The implications for the U.S. military are examined for both the near-term and long-term aspects of the EC 1992 program and are characterized as both implicit and indirect in nature. The conclusion suggests that a "United Europe of 320 million consumers represents a great potential market for ... the United States which should regard EC 1992 as an opportunity rather than a problem."[5]

HISTORY OF THE EUROPEAN COMMUNITY

One of the most immediate problems facing the Allies in the aftermath of World War II was the need to avoid the political and economic mistakes made after World War I. The forces of logic and reason prevailed over emotion, and the Allies chose to integrate West Germany into the post-war efforts to promote economic recovery and political stability with the specific objective of reducing the likelihood of future war. As often seems to be the case, two significant camps emerged, each favoring a different approach regarding the future of Europe. One group advocated a federal system and a unified Europe speaking with one voice. The other group preferred a looser intergovernmental cooperation that would not diminish the sovereignty of the individual states. This same philosophical difference exists today between the two intergovernmental organizations, the European Community (EC) and the European Free Trade Association (EFTA), which emerged after approximately ten years of various attempts at European economic integration.

The first real effort at integration occurred in 1951. The Treaty of Paris established the European Coal and Steel Community (ECSC), composed of six member states: Belgium, France, Germany, Italy, Luxembourg, and the Netherlands. For the first time, national governments agreed to cede some of their sovereignty to a supranational authority that could act independently. More importantly, they "... assigned to economic integration the role of locomotive for full political and social integration."[6] The ECSC six attempted to take additional steps toward unification and establish a European Political Community and a European Defense

Community, but after several years of effort, failed when France rejected the proposals in 1954.

The year after at the Messina Conference, the forces within the ECSC, agitating for greater European unity, made some progress in the pursuit of their goals. They convinced all the members to accept the following wording in the Final Resolution:

> The governments of the German Federal Republic, Belgium, France, Italy, Luxembourg, and the Netherlands believe that the time has come to make a fresh advance towards the building of Europe. They are of the opinion that this must be achieved, first of all in the economic field. They consider that it is necessary to work for the establishment of a united Europe by the development of common institutions, the progressive fusion of national economies, the creation of a common market, and the progressive harmonization of their social policies.[7]

This challenge to expand the common market into areas other than coal and steel was accepted at the 1956 Brussels conference, where agreement was reached among the members of the ECSC to draft treaties for a new European Economic Community (EEC) and a European Atomic Energy Community (Euratom). Together with the ECSC, the three would be known collectively by their new official name, the European Communities.

The Treaty of Rome, signed in 1958, formally established the EEC and Euratom to enhance the ability of the six to cooperate as an equal with the United States. It was a significant event, because the governments of the six ratified in their respective national assemblies yet another treaty that required each to cede more of their sovereignty in the interest of European unity. Additionally, the Treaty of Rome, combined with the 1951 Treaty of Paris, would serve as the "constitution" for the yet to be formed European Community.

The Treaty of Rome states the goal of the EEC is to provide "four freedoms" by guaranteeing the free movement among the member states of goods, services, capital, and people. Article 2 notes that this task is to be accomplished by establishing a common market and progressively approximating the economic policies of the member states. The activities the community will undertake to achieve the objectives are addressed in Article 3 and include: elimination of duties and quantitative restrictions between member states; agreeing on a common custom tariff and policy towards third countries; and abolishing all obstacles to the free movement of people, services, capital, and goods. The six member states accomplished their objectives 18 months early, completing the "custom union" by July 1968. This accomplishment was noteworthy, considering the time frame and the fact that the member states of the EEC had been on-again, off-again enemies for over a century. It resulted to a large extent because the six members had signed the Merger Treaty in

April 1965, consolidating the institutions of the ECSC, EEC, and Euratom into a unified framework with a Council of Ministers, Commission, European Parliament, and a Court of Justice, all working towards a common end.

The Council of Ministers was established as the decision-making body and was to protect and represent the interest of the national governments. The European Commission was formed to protect and represent the interests of the Community against the narrower perspectives of the member governments, and was charged with the responsibility of initiating policy. The elected European Parliament was essentially responsible for representing their respective constituents. The Court of Justice was responsible for ensuring the member countries complied with the laws embodied in all three treaties of the European Communities.

One area the members were not successful in making progress in during the 1960s was the controversy over the Community budget. There was constant disagreement on how the money was spent and about each member's fair share. Resolution was finally reached in 1970 when the Community was at last authorized to finance itself from the customs duties collected on products from non-EC countries and from 1 percent of the Valued Added Tax (VAT) levied in each member state. The same year, the six members of the European Communities recognized the linkage between regional economic policy and foreign policy when dealing in global markets and established European Political Cooperation (EPC). This is not to be confused with the 1950's attempt to establish the European Political Community referred to above. EPC committed the six members to consult with each other before making final decisions on major foreign policy issues.

In 1972 the six erected the monetary "Snake" as a loose system for coordinating foreign exchange rates. Denmark, Ireland, and the United Kingdom, the first new members of the EEC, were admitted to the community in 1973, bringing the total membership to nine. At the December 1974 Paris Summit Conference, the European heads of state and government agreed to the recommendations of the Fourchet Plan to institutionalize the meetings of the European Council and to require it to meet at least twice a year for the purpose of addressing Community business.[8] The significance of the agreement is that it represents one of the first real steps that moved the Community in the direction of a coordinated European defense and foreign policy. The "Snake" was replaced in 1979 with the European Monetary System (EMS), a more ambitious attempt at monetary union. EMS was brought about in part because the U.S. abandoned the gold standard and allowed the dollar to float against other currencies. Greece was granted admission into the Community in 1981, bringing the total membership to ten.

Regardless of these many accomplishments, however, the 1970s and the early 1980s were far from being good times for the European Communities. In fact, the terms "Eurosclerosis" and "Europessimism" are popular descriptors of this period. The oil price fluctuations in the 1970s and the recession that followed resulted in the individual members introducing protectionist measures in an attempt to address stagnating growth, increased unemployment, and stiffer import competition. One author refers to the period between 1973 to 1984 as the Communities' "dark age." It was marked by ten years of quarreling over Great Britain's contribution to the budget and governments that ignored the Community because they were preoccupied with giving priority to national issues and policies in response to the general economic slowdown.[9] On the other hand, this period confirmed what the advocates of European unification had been suggesting all along, that national solutions and approaches to problems would not work given the evolving political and economic situation in the world.

Early in the 1980s, the Europeans began to recognize that their industries simply were not competitive with those of the United States, Japan, Canada, and the Newly Industrialized Economies (NIE). This realization, coupled with Eurosclerosis and the inability of the institutions of the European Communities to function efficiently, prompted the European Council to agree in 1982 that completion of the internal market would be the priority issue of the future. The "go-it-alone" responses by individual members to the oil price shocks of 1973 and 1979 had not worked. Something had to be done about the 12 percent unemployment rate, high consumer prices, and the low growth rate of approximately 2 percent.[10] In 1983 the European Parliament got more involved and pushed for a plan for achieving economic recovery. Stanley Hoffman points out that by 1984 the EEC members were ready to overcome the obstacles to completing an internal market due to:

> ... disenchantment with Keynesian policies, the wave of economic liberalism spreading from President Reagan's America (appeal of deregulation), recognition by French and Spanish socialists of the superiority of the market over a command economy, the futility of nationalizations, and the virtues of competition. All this created the right climate for a European Revival.[11]

In March 1985, the Council at last directed the Commission to draw up a detailed program for achieving a single market among the members by 1992. The program would include a specific time table against which one could track their progress in executing the program. The Commission began work immediately with Lord Cockfield, a former government official, businessman, and UK cabinet member drafting the Commission's White Paper to the Council, entitled "Completing the Internal Market." The task was completed by June 1985, and the European Council reconvened in Milan to endorse the White Paper and pledge the Community to complete the Internal Market by the end of 1992. The White Paper was significant because it recognized that intra-EC import tariffs had long been removed and set out, instead, to dismantle the non-tariff barriers to trade among the members.

This historic White Paper is a detailed plan to remove all obstacles to the free movement of goods, people, services and capital intra-EC. The report establishes a time table for implementing some 300 measures to abolish physical, technical, and fiscal trade barriers.

The physical barriers are the most visible and impede the free movement of people, goods, and transport as a result of border formalities and transport and handling charges. Technical barriers, on the other hand, are not as visible. They are the product of national regulations and standards which are very disruptive to intra-EC trade and increase the cost of producing goods. The objective is to replace national standards with European standards where it is necessary to harmonize and to deal with all other standards by observing the principle of mutual recognition. The Council will issue directives regarding health and safety requirements that, when met, will enable products to move freely within the Community. The fiscal barriers may prove to be the most difficult to resolve, since they impact directly on the way each member state raises money through taxation. There are large disparities in both the amounts and items taxed in each country. For example, in January 1988 VAT ranged from 12 percent in Spain and Luxembourg to 25 percent in Ireland. The real issue for overcoming this barrier is whether member states will be willing to cede a large portion of fiscal sovereignty in the area of macroeconomic policy to the EC Commission in Brussels.[12]

The Commission's White Paper received strong support from all the member states for three primary reasons: First, as noted above, the changes occurring in the international economy dictated a much closer and effective European economic alliance. Second, the instability in East-West relations was cause for increasing cooperation. Third, as Martin Elling points out in his paper on the structure and development of the EC, there was a politically permissive climate in the leading member states.[13] Francois Mitterrand of France was serving as the president of the European Council and hoped that renewed integration would offer France the opportunity to play a greater leadership role in Europe. Further, a former French Finance Minister, Jacques Delors, was serving as president of the EC Commission and had been instrumental in the drafting of the White Paper. Helmut Kohl had come to power in Germany on the promise to liberalize markets. He saw the White Paper proposals as parallel to his own, and desired the increased influence that would devolve upon the Federal Republic of

Germany in the course of building a more united Europe. Margaret Thatcher, British Prime Minister and apostle of deregulation, embraced the prescriptions of the White Paper as essentially an experiment in market deregulation that fit nicely with her Conservative Party's economic goal and provided a defensible objective for her government to champion. Indeed, to paraphrase Stanley Hoffman, it was the right climate leading to the right results because the right people were in the right place at the right moment.

Portugal and Spain were admitted into the EC in 1986, bringing the membership to the current twelve. Next came the final, critical step in launching the internal market program. The Commission had long recognized that the requirement for unanimity in Council voting set forth in the Treaty of Rome and the agreement within the Community that any member could block a vote in the Council by invoking the principle of vital national interest were impediments that must be overcome before progress could be made. To resolve this dilemma and put teeth into their plan for completing the internal market, the member states agreed to amend the Treaty of Rome by unanimously ratifying the Single European Act in July 1987, providing the operational change necessary to implement the White Paper and the political authority required to get the process underway. The Single European Act replaced the requirement for unanimous voting in the Council on all matters and extended weighted voting by a qualified majority into four rather broad areas or categories, which included: creation of the internal market by 1992, technological research and development, economic and social cohesion, and improvements of working conditions. Votes were apportioned among the member states in accordance with their size, the maximum number of votes going to France, Germany, Italy, and the United Kingdom. The votes were apportioned in such a way that it requires two large countries and one small country or one large country and three small countries to block a vote before the Council. Membership in the Community, taxation, professional qualifications, and the rights and interests of employees still require a unanimous vote. The Single European Act also commits each member to implement the measures identified in the White Paper before 1 January 1993. It enhanced the powers of the Commission and Parliament regarding the implementation and oversight of EC policy and extended the purview of the Paris and Rome Treaties to cover monetary and environmental policy. However, the greatest long-term effect on this act may turn out to be that it finally brought foreign policy cooperation under the official purview of the treaties.

The last significant detractor for the Commission was eliminated in February 1988 at the summit meeting of the European Council in Brussels. There the leaders of the member countries agreed to finance a budget large enough to carry out the 1992 program to include providing "structural funds for the regional development of the less developed members to achieve the promise of economic cohesion within the Community."[14] This action eliminated the budget issue as a major point of contention among the members and demonstrated their commitment to achieving the goals enumerated in the White Paper and the Single European Act.[15] The Community had finally agreed to the necessary compromises to get on with completing the internal market. They had in place the tools and resolve to achieve their goal of economic and political union in order to be more competitive in the global markets and have a greater voice in the international affairs affecting their interests.

INSTITUTIONS OF THE EUROPEAN COMMUNITY

If the size and complexity of the bureaucracy of an organization is indicative of the likelihood that it will ultimately achieve its goals and objectives, then the EC should be well on its way to doing just that. There are five different bodies with relatively well defined powers and areas of responsibility, supported by permanent staffs that number over 15,000. The division results in a system of checks and balances that is designed to ensure that the interests of all receive fair and equal treatment: the Community, the constituent groups that may or may not cut across the boundaries of the member states, and the national interests of each of the twelve. The EC is an Intergovernmental Organization (IGO) that has an internationally recognized legal status that derives from the multilateral treaty among its members. As such, it is authorized to conclude international treaties in its own name which are binding on all member nation-states.[16] The Community has a formalized and structured process that any proposal must go through before it becomes law and a means of addressing the failure of members to abide by the laws. The Community has very definite protocols that govern the behavior between its members and the bureaucracy. Permanent facilities for its institutions are located in Brussels and Luxembourg. Finally, there is a very real sense of identity and purpose among the members of the five EC institutions, who believe that achieving the goals of the Treaties of Paris and Rome are well within the realm of the possible. They are committed to that end.

Council of Ministers

The Council of Ministers, or EC Council, is the decision-making body for the twelve member states. It is comprised of cabinet level representatives, who meet either in Brussels or Luxembourg. France, Germany, Italy, and the UK each have ten votes on the Council; Spain has eight; the Netherlands, Belgium, Greece, and Portugal each have five;

both Denmark and Ireland have three; and Luxembourg has two votes.

The Presidency of the Council rotates every six months among the member states, based on the alphabetical order of each country's name, in its own language. The Council meets at the call of the President, at the request of one of the Council members, or at the request of the Commission. It conducts its business based on a rolling work program. The three member governments holding the previous, present, and next Council Presidency coordinate the subjects and measures they wish to address during the six-month period. This prevents an incumbent member country from politicizing the agenda to serve its own purposes. The Ministers that actually attend the Council meetings vary depending on the agenda and the voting requirements for a given proposal. For example, the Finance Ministers will meet to vote on matters regarding monetary union, while the Ministers of Health would meet to vote on an AIDS policy. However, when the Council is deciding major issues, the norm is for the twelve Foreign Ministers to meet and vote.

The "workhorse" of the Council is the Committee of Permanent Representatives (COREPER), which provides continuity difficult to achieve with different ministers attending each meeting.[17] The COREPER prepares the work of the Council and takes action on those items assigned by the

Council. Each representative is appointed by his national government as an Ambassador to the EC and is the head of the country's mission. There are actually two COREPER committees. COREPER II includes the Permanent Representatives, who address political issues. COREPER I includes the Deputy Permanent Representatives, who are responsible for dealing with administrative matters. Additional assistance is provided to the Council by the permanent Secretariat staff of approximately 1,900 members located in Brussels. The Council is responsible for administrative and financial decision making, relations with international organizations and third countries, and coordinating the general economic policies of the member states.

European Council

The European Council is comprised of the heads of state or government of the twelve member nations. Until the signing of the Single European Act of 1987, they could influence the EC Council of Ministers, but lacked any explicit authority to insist that their desires were carried out. The Act confirmed the legal basis of the European Council within the EC, added the President of the EC Commission to their deliberations, and assigned them the responsibility of coordinating foreign policy. They meet at least twice a year to discuss issues of political cooperation outside the jurisdiction of the EC. However, they are not empowered to enact legislation. The European Council sets general policy, resolves deadlocked issues, and serves as a coordinator and facilitator. Its most important role is coordinating foreign policy, which emphasizes the sentiment among its members that political cooperation is critical to achieve integration.[18]

Commission

The Commission is the executive arm of the EC and is the only body that drafts proposals for Council decision. It is the initiator of Community policy. The Commission is comprised of 17 Commissioners selected for four-year terms by their respective governments, based on the mutual consent of the member countries. France, Germany, Italy, Spain, and the UK each have two Commissioners, and the remaining members each have one. They act only in the interest of the Community and not their national governments. They are subject to removal by a vote of two-thirds of the European Parliament, but this has never occurred. The President of the Commission is elected by the European Council from nominees submitted by the national governments. He is responsible for providing direction to the Commission and ensuring that it "... serves as the general guardian of the founding treaties."[19] The Commission has the authority to represent the EC in external trade agreements, negotiate trade and agricultural agreements with third countries, investigate and fine individuals and companies for breaching

EC rules of competition, and to prosecute member countries in violation of EC law before the European Court of Justice. The view of the Commission is that a united Europe "... would be much more competitive internationally and would be able to realize significant economies of scale, higher productivity, and increased innovation associated with the potentially vast European marketplace."[20]

European Parliament

The Parliament, also known as the Assembly of the European Community, is the only democratically established body. The 518 Members of Parliament are elected simultaneously by EC citizens every five years in each country. The next election will be in 1994. France, Germany, Italy, and the UK each have 81 representatives; Spain has 60; the Netherlands, 25; Belgium, Greece, and Portugal each have 24; Denmark has 16; Ireland, 15; and Luxembourg, 6. The Parliament meets in plenary session for one week each month, usually in Strasbourg. Their 3,000-member Secretariat is headquartered in Luxembourg, plus there are 18 special committees of the Parliament that are permanently stationed in Brussels.

The primary role of the Parliament is to oversee the legislative process by debating in public the actions considered by the Commission and the Council. Parliament reviews and comments on proposals of the Commission before they are sent to the Council for decision. It may amend Council and Commission proposals dealing with the completion of the internal market, research and development, regional policy, and improvements in working conditions. Parliament approves the annual EC budget, votes to admit new member countries into the EC, and may, with a majority vote, veto treaties with third countries.

A unique aspect of the Parliament is that the members do not sit as national groupings, but sit as political groups or coalitions that cut across national boundaries. There are usually eight different political party groups that range in size from 172 members to 17 members.[21] By far the two largest blocks are the Socialist Group (S) and the Group of the European People's Party (PPE), both with over 100 members. The European Democratic Group (ED) has approximately 60 members. The five remaining coalitions each have less than 50 members and include the following: Communist and Allies Group (COM), Liberals and Democratic Reformist Group (LDR), European Renewal and Democratic Alliance (RDE), Rainbow Group (ARC), and the Group of the European Right (DR). This arrangement, by design, encourages the members to think of themselves in Community terms rather than in national terms. This concept is consistent with the overall long-term objective of the Single European Act of European political integration.

Court of Justice

The European Court of Justice has responsibilities within the EC similar to those performed by the U.S. Supreme Court. The Court of Justice interprets the Treaty of Rome and the Single European Act, rules on whether or not member state actions conform with the Treaties and EC legislation, and resolves disputes involving Community institutions. When the Court of Justice rules that an issue is incompatible with the EC Treaties, it can nullify measures adopted by the Council of Ministers, the Commission, or even national governments of member states. "Judgments of the Court in the field of EC law overrule those of national courts, creating a supranational legal regime."[22] An example of the Court's authority is the 1979 ruling in the Cassis de Dijon case, which concluded that all members of the Community must admit products from another member state as long as there is no valid concern for public health or safety. The decision marks the beginning of the principle of mutual recognition, which remains alive and well within the Community as a prerequisite to achieving an integrated market.[23]

The Court of Justice is located in Luxembourg and is comprised of 13 independent and impartial judges appointed by mutual consent of the member countries. They serve a six-year term, which may be renewed. Half of the members are either replaced or reappointed every three years, and there is always a minimum of one judge from each member state. The Court generally conducts its business in plenary session, but can meet in chambers with three to five members dealing with a particularly complex or technical matter. The judges are assisted by six Advocates General, who provide the Court with impartial and independent reasoned reports that discuss in detail prior case law and pertinent source materials.

Because of a growing case load, the average time for a Court decision was approximately 18 months. To alleviate some of the problem and recognizing that in all likelihood it could only be expected to increase, the Single European Act provided for the creation of a lower court. In October 1988, the Council established the Court of First Instance. It is comprised of twelve qualified and independent members serving six-year terms, with one-half of the court replaced every three years. They normally hear cases in chambers of three to five judges on matters pertaining to disputes between the EC and its employees, antitrust suits, and other matters pertaining to simpler competition rules.

EC Process

Five forms of legal instruments govern the behavior of the members of the EC.[21] Directives are binding on the member states, which must take the necessary action to translate them into national law and regulations.

Directives address the final result that is to be achieved, or the "what," and leaves the "how" to the discretion of the individual states. The Commission is responsible for drafting and proposing directives, which are reviewed and considered by the European Parliament and then forwarded to the Council where they are adopted based on the agreement of a qualified majority. Regulations carry the same weight as directives, but are more limited in scope. Together directives and regulations make up the Community's body of law. Decisions are generally executive actions such as the formal adoption of an international agreement and can be applicable to specific states or individuals, but are binding in their entirety. Recommendations and opinions are not binding. As their names imply, they encourage addressees to act in a certain way.

There are four voting procedures applicable to the decision process within the EC. Simple majority recognizes the equal status of sovereign states and is used to adopt decisions. However, simple majority does not take into account the differences in the members' size, economic and political influence, and their contribution to the Community. Therefore, the most frequently used voting procedure is qualified majority, which is weighted to reflect the political and economic position of the member states. As is noted in the earlier discussion of the Council of Ministers, a total of 76 votes are apportioned among the twelve states. If the Council is acting on a proposal from the Commission, a minimum of 54 affirmative votes are required to constitute a qualified majority; if it is acting on one of its own initiatives, then a minimum of 54 affirmative votes from eight of the twelve member countries are required to achieve a qualified majority. The last procedure, and the most difficult to achieve, is unanimous voting, which is reserved for the most important decisions. A unanimous vote is required to change the Treaty, to admit new members into the Community, and to establish special economic relationships.

The interesting thing about this process is that it gives each of the parties, i.e., the Community, the member nations, and the political constituencies, multiple opportunities to advance their perspective. The Commission representing the EC viewpoint initiates all proposals and may or may not choose to include input from the Parliament or the Council in the final version that is voted on. The Parliament, representing the constituencies, gets two different opportunities to comment on any proposal. If Parliament feels strongly enough and achieves the required two-thirds majority of votes on a particular issue, it may offer an amendment to a proposal that, when coupled with a unanimous vote in the Council, overrides the Commission's position. Or the Council, representing the national interest, can choose to side with the Commission and approve a proposal with a qualified majority, ignoring any amendments submitted by the Parliament. Regardless of the outcome, the process results in compromise which leads to the long-term objective of economic and political integration.

THE PLAN FOR 1992 AND BEYOND

This section addresses the EC plans to achieve its goals and specifies the methodology to eliminate the barriers standing in the way of greater unity. The aim of EC 1992 goes beyond completing a common market by harmonizing national rules and regulations; "... it is to reduce the mass of rules and regulations to replace maximum interference with maximum opportunity for private business, banking, insurance, and industry."[25] There are two dimensions in this regard that are key to understanding and comprehending the plan, which has various forms that are stated or implied.

First, there is nothing magic about December 31, 1992. While the Community established this as the target date for completing the internal market, it should not be viewed as an event that marks the point in time when they will have either succeeded or failed in their efforts. December 31, 1992, simply represents the Community's self-imposed suspense date for completing certain actions and serves more as a benchmark for measuring progress and assessing the political will of the members to live up to their commitments. Therefore, the entire concept of EC 1992 should be recognized as a process that has already resulted in significant changes in the relationships of the member states, both between themselves and with other countries and alliances. It is a process that should encourage the Community twelve to accept an even greater degree of integration and support a more unified European point of view as long as they perceive that it is in their best interest to do so. Second, there appears to be two phases to the EC plan. Phase one is the near-term plan, which is written down in the White Paper and the Single European Act and embodies those actions that address economic unity. The Act specifies that the objective is to achieve an integrated market among the twelve member states that "... shall comprise an area without internal frontiers in which the free movement of goods, persons, services, and capital is ensured in accordance with the terms of this Treaty."[26]

Phase two is the long-term plan for the EC after 1992. It goes beyond economic cooperation and envisions the Community assuming attributes in the areas of foreign policy, monetary union, and security, even though not all the member states agree that they want to carry their efforts to such an extreme.

Evidence of the long-term plan can be found in the wording of the treaties, pronouncements of the members, and the existence of affiliated organizations within the EC that provide the Community with a way to address those sensitive subjects that are currently the jealously guarded purview of its respective sovereign governments. The Single European Act amends the Treaty of Rome and provides a legal framework for incorporating European foreign policy cooperation within the EC. Those in the Community advocating more than simple economic union argue that the internal market:

> ... should contribute substantially to the process of building Europe, including the foreign policy and security aspects," and "... if that Europe of twelve remains faithful to its political objectives and to its global vision, it will not only be a single market, but a European union with social, cultural, foreign relations, and -- in full cooperation with the North Atlantic allies -- security responsibilities.[17]

The three organizations of European Political Cooperation (EPC), European Monetary Union (EMU), and the revitalized Western European Union (WEU) provide the Community with the fora for addressing the areas that some members feel are the natural follow-on to economic unity. These organizations provide the members with the vehicle to agree or disagree in areas closely linked to international trade without interfering with the progress of completing their internal market. They also allow members to simultaneously explore modular options that could converge with the EC process at some later date should they agree to cede even more of their individual sovereignty in return for the benefit of belonging to a world superpower.

Plan for 1992

The near-term plan has several aspects. First is the "all or nothing" aspect that requires members to accept the White Paper program in its entirety. The EC Commission insists that there can be no Europe a la carte and that the near-term plan is an inseparable whole.

Next is the marketing aspect of the near-term plan that fosters the idea of Community citizenship. It encourages members to identify with the EC when they are confronted with issues having implications that heretofore would have been addressed in strictly national terms.[28] The Community has a flag with a circle of twelve gold stars on a blue background and has adopted the "Ode to Joy" from Beethoven's Ninth Symphony as its anthem. There is an EC passport and an express line for EC citizens at airports. Schoolbooks are being upgraded to sell the EC concept and herald its role in improving the living conditions and security of the general population. Progress is being made at efforts to allow EC citizens working in another country to vote in local elections, regardless of their nationality. And finally, EC-wide umbrella groups are being formed as a result of the increase in transitional business contracts to lobby in Brussels on a permanent basis for their Community constituents.

The last aspect of the near-term plan targets removing the nontariff barriers among the member states. These barriers are divided into eight different categories:

1. Border controls
2. Movement of people and right to establishment
3. Indirect taxes
4. Company law
5. Movement of capital
6. Services sector
7. Regulations and standards
8. Public procurement

Border controls are to be eliminated, but remain necessary to deal with the problems of immigration, terrorism, and drugs. They assist states with different tax structures to prevent tax fraud and evasion. However, their eventual elimination could save the EC approximately $10 billion annually or about 2 percent of intra-EC trade.[29] Measures adopted by the Council in 1988 removed most of the obstacles to the unrestricted movement of people and allowed citizens to relocate freely for occupational reasons. Some restrictions still apply in cases where individuals desire to move to another country for other than occupational reasons or when rules regarding academic degrees and professional qualifications are involved. However, language and cultural differences may be the major limiting factor that discourages professionals from relocating. Here again, the plan specifies abolishing these barriers. The

Commission considers the differences in the indirect taxes of the member states a "... major impediment to the establishment of an integrated market."[30] Progress is difficult in this area because it involves the manner in which governments obtain financing, which is why the plan seeks only to harmonize or closely approximate the value added and excise taxes which differ significantly from state to state. Not all members agree with the Commission regarding taxes. The UK leads the opposition, asserting that differences in taxes do not represent a barrier to achieving an internal market.[31] However, such a position ignores the fact that harmonizing or approximating tax structures will help eliminate border controls, thus reducing transportation cost and delays and, ultimately, the price consumers pay for goods.

There are differences throughout the Community in the legal framework that governs company law, the problem being that the operation of enterprises is governed by national law rather than Community law. Although the Commission is working towards a consensus on a number of company law issues, their success depends on whether they convince both labor and management to accept a version of worker participation.[32] The Council adopted a directive designed to eliminate all impediments to the movement of capital flow within the EC by 1991. This was one of the more difficult issues for the Council and one where there may be a degree of backsliding by member countries. The services sector, including trucking, air carriers, broadcasting, television, banking, investment, and insurance, is a category highly regulated by national governments. The plan to overcome barriers in this area is to observe the principle of mutual recognition that requires all members to accept the home country's control of an enterprise operating within their respective economy.[33] Potential gains to the Community from removing the barriers in the service sector are sizeable. In the financial sector alone, the estimated savings resulting from the application of mutual recognition run as high as $26 billion.[34]

National regulations and standards result in technical barriers that are not visible, but add cost and disrupt trade in many ways. The Council attacked this category by approving a directive that establishes Community-wide standards for health and safety, environmental protection, and consumer protection. All products conforming to those standards are to be allowed to move freely between member states. As far as national standards and regulations are concerned, if countries cannot agree to mutual recognition in a particular case, then the Community will take action to harmonize the difference. Last, public procurement is big business in the EC, representing approximately 15 percent of the Community's GDP, or roughly $600 billion. There is strong opposition to the Community interfering in this highly protected domain of the "national champions," who are virtually guaranteed most of the public procurement contracts. However, the plan will open this category to all EC companies based on the argument that the resulting competition could save approximately $20 billion in the near term and reduce future public procurement cost even further.[35]

The most important aspect of the near-term plan is that it forces the members to come to grips with their differences in a disciplined manner, helping them recognize common areas as the basis for compromise. Additionally, the plan has a strong advocacy in the Commission that continues to prod the member countries along and to seek out the solutions that will keep the process moving forward. By early 1989, the Commission had submitted proposals for 229 of the 279 White Paper actions identified as necessary for completing the internal market, of which the Council adopted approximately 107.[36] However, before these directives can achieve their intended purpose, they must be implemented into national legislation by each of the twelve governments. As of January 1990, "... of the 68 internal market directives which should have been in force in EC member states, only seven had been implemented by all twelve member states."[37] This situation should improve as the process moves closer to its December 1992 suspense date. Additionally, businesses, as they become more competitive and efficient, should start to influence policy makers to move towards consensus on the difficult matters that continue to impede their realization of the internal market objective, i.e., increased profits, growth, reduced costs, lower inflation, stable currencies, and economies of scale.[38]

Regardless of the problems the Community is encountering with the execution of the near-term plan, there is a legal and binding Treaty agreement among the members that clearly identifies what is to be accomplished and by when. Such is not the case with the next topic.

Plan Beyond 1992

The long-term plan is not written down in a document comparable to the White Paper. There are no time lines, and it is not embraced with the same degree of enthusiasm by all the members. At one extreme is the most vocal dissenter, Prime Minister Thatcher, who in 1988 stated her government never wished to see a "United States of Europe." At the other extreme, her attitude "... is particularly troubling for European-minded policy makers, because the end goal efforts at integration, as repeatedly affirmed by the founding treaties and by the heads of government themselves, is European union."[39]

One reason for the large disparity in views about what the future should hold for the Community is that the concept of "European union" is not operationalized in the EC Treaties. The concept of European union is only alluded to, left imprecise, and addressed in concomitant organizations so that the members may consider relevant issues knowing that they may disagree or reach an apparent impasse without jeopardizing the progress of their parallel efforts to complete the internal market.

This unwritten but implicit long-term plan that manifests itself in the three mechanisms of the EPC, EMU, and WEU is more than a gentlemen's agreement that may be pursued or ignored without any consequence. There are a number of inducements to encourage or require members' participation in the areas of foreign policy, monetary cooperation, and security. The goal is to ensure that the member nations continue to actively engage in dialogue with the intent of reaching a more unified view and approach. Subsequently, when the time comes and the EC is ready to evolve, it can converge with the appropriate organization that has been maturing in parallel with the Community. The fact that these organizations exist increases the likelihood that member states may resolve their differences. This will reduce the number of variables complicating their relationships and provide them with a clearer indication of whether it is in their mutual best interest to seek more than economic union.

European Political Cooperation

EPC began in 1970 shortly after the European Council tasked its Foreign Ministers to confer in their capacity as national representatives vice EC Ministers and to recommend ways to achieve better political cooperation, an area that was intentionally excluded from the EC Treaties. The ministers' recommendations were expressed in the Davignon Report, which essentially concluded that the way to improve political cooperation is through "... systematic and regular consultation and coordination among the people responsible for national foreign policy, from heads of governments to regional departments in the ministries of foreign affairs."[40] The Council accepted the recommendations and established the EPC mechanism requiring the EC Foreign Ministers to meet in their national capacity four times a year to discuss foreign policy and report to the European Council. This new organization would not have the supranational status of the EC and would not make decisions or agreements that were binding on the member states. It would be a separate organization from the EC. The intent was that it should move along in parallel with the EC. Both institutions shared the same people to study the issues and develop recommendations, often making it difficult to define the boundary between the two.

The heads of state and government of the EC twelve had found a way, using an indirect approach, to begin a process linking political cooperation with the EC. The purpose was to rationalize the economic policy of the Community with the foreign policies of the individual members without threatening the sovereignty of the states nor violating the Treaty of Rome. With the advent of the Single European Act, the role of EPC increased, resulting in significant changes. First, the institutions of the EPC were linked more closely with those of the EC, narrowing the distance between their parallel paths. The two now share the same Council President (the position that rotates every six months among the member countries). This is a more influential position in EPC than the EC because the President initiates action and represents the position of the members of third countries, roles reserved to the Commission in the EC.

A permanent Secretariat was added to EPC with five officials appointed for two-and-a-half year terms and with offices in Brussels so that they may remain in close contact with the EC Council and Commission. The EPC Political Committee (POCO) was tasked "... to give the necessary impetus, maintain the continuity of European political cooperation, and prepare minister discussions."[41] POCO is the workhorse for EPC and collaborates with the ambassadorial level Permanent Representatives of the EC on a regular basis. The institutions of the two are still legally separated, but when the Foreign Ministers meet each quarter wearing their EPC hat, the President of the EC Commission is included in their deliberations. Additionally, the Foreign Ministers are allowed to "... discuss foreign policy matters within the framework of Political Cooperation on the occasion of meetings of the Council of European Communities."[42] This was done because Foreign Ministers are required to meet monthly in their EC capacity in addition to the four times they must meet to address EPC matters. A confidential telex network was installed to link together the Foreign Ministers, the EC Commission, and the EPC Secretariat to make it more convenient to discuss political cooperation on a regular and real-time basis.

The second major change in EPC resulting from the ratification of the Single European Act was that foreign policy was finally brought under the purview of the EC Treaties. The Act notes that "the High Contracting Parties, being members of the European Communities, shall endeavor jointly to formulate and implement a European foreign policy."[43] The Act goes on to note that the external policies of the EC and the policies of EPC must be consistent and that member countries must, before announcing a final decision at the national level, "... inform and consult with each other on any foreign policy matter of general interest."[44] The membership had finally come to recognize that working out their differences ahead of time and reaching a unified position with regard to foreign policy matters resulted in increased influence in the international arena. The reason they were able to reach agreement in this area is because the recommendations and decisions of EPC are not binding on member governments, leaving their sovereignty intact.

Voting was the third area in which the Single European Act made changes in EPC. Faced with the difficulties of making progress when all decisions require unanimous approval and the fact that majority voting was not an alternative because it would amount to the "a priori" loss of sovereignty on the part of the members, an alternative procedure was promulgated in the Treaty requiring all twelve states to respect the majority trend. "The High Contracting Parties shall, as far as possible, refrain from impeding the formation of a consensus and the joint action which it could produce."[45]

These major changes to EPC -- linking the institutions of EPC and the EC closer together; bringing foreign policy under the purview of the Community Treaties by requiring the policies of the EC and EPC to be consistent; and adopting a voting procedure that is based on respecting the majority trend -- are working. "To illustrate, within the CSCE negotiating framework, EC member countries come to NATO discussions with a Community consensus already developed."[46] EPC coordinated an EC position among its members and then with the United States prior to CSCE negotiations at Helsinki and in follow-up meetings. At the January 1989 meeting in Vienna, the twelve expressed a joint position regarding East-West relations. EPC is maturing side by side with the Community and is more influential on the world scene. While remaining separate from the EC, their parallel paths have moved them closer together, ready to converge at the direction of the member states. The process will continue to mature, if for no other reason, because the EC "... Commission has become the guardian of the vision that true economic union will ultimately involve political union."[47]

European Monetary Union

Similar to EPC, EMU is viewed as both necessary to achieve true economic integration and a natural consequence of economic integration. But unlike EPC, it is not a mature mechanism and has yet to be formalized among the twelve members of the EC. EMU ia not addressed in the White Paper or the Single European Act and it will build upon the European Monetary System (EMS) established in 1979. At their last summit meeting in 1989, eleven of the twelve leaders of the European Council agreed to call for an intergovernmental conference in December 1990, to consider amending the Treaty of Rome to advance EMU.[48] The plan currently being pursued by EC Commission President Delors has three phases.[49] The first step requires all member countries, including the UK, to join the EMS Exchange Rate Mechanism by 1 July 1990. The second step will be to form a system of regional banks subordinate to a central bank responsible for coordinating economic policy. The final step will be to adopt a single currency. Clearly, this vision calls for total fiscal and monetary integration which goes well beyond the single dimension of the near-term plan for completing the internal market, and should provide the parallel mechanism for monetary union that can converge with the EC process after 1992.

Western European Union

The WEU is the mechanism (separate but parallel to the EC) for addressing security questions and coordinating defense issues. The concept of a unified European defense policy within the context of the Community is very controversial. There is probably even less agreement among the members of the EC twelve on this matter than there is regarding EPC and EMU for a number of reasons. Many of the members fundamentally question whether the EC, which spends over 70 percent of its budget on agricultural subsidies, ever could or would give sufficient priority to defense matters to ensure protection of their national interests.[50] Article 223 of the Treaty of Rome exempts defense trade from Community regulations. There are other European organizations that deal with defense related issues, i.e., NATO, EUROGROUP, and the Independent European Program Group (IEPG). However, there is a fatal flaw associated with each of the three from the perspective of achieving a unified European defense policy--NATO includes more than European allies, EUROGROUP does not include France, and the IEPG is involved strictly with armaments cooperation and has no competence in security matters.[51] Regardless, the concerns in the early 1980s over INF and the arms race proved to be sufficient reason for at least seven of the then ten members of the EC to agree to pursue a European defense policy by resurrecting the WEU after it had been essentially moribund for over a decade.[52]

A treaty organization dating back to 1954, WEU would satisfy the implicit requirement of the Community for a mechanism that was separate but capable of developing in parallel with the objectives of the EC. France, the UK, Luxembourg, Belgium, Germany, Italy, and the Netherlands signed the Rome Declaration in October 1984, breathing new life into their old organization and establishing rules to guide its future activities.[53] Both Foreign Ministers and Defense Ministers were required to meet in joint session twice a year. Each country's representatives to the Consultative Assembly of the Council of Europe would also serve in the WEU Parliamentary Assembly. The Political Directors from each Foreign Ministry and their equivalent from each Defense Ministry would meet as often as required by their ministers, as would special working groups. But even though the organization is in place to address European security, there is a much greater distance between the parallel paths of the WEU and the EC than there is between EPC and the EC. A good illustration of this point is the indirect manner in which the Single European Act addresses European defense policy, "... nothing in this Title should impede closer cooperation in the field of security between certain of the High Contracting Parties within the framework of the WEU or the Atlantic Alliance."[54] Regardless of the loose association between the WEU and the EC, the framework exists for Community members to continue pursuing a European defense policy without interfering with their effort to achieve economic union. As WEU matures and evolves its development can continue in parallel or converge with the EC. Either way, "for many Europeans the writing is now on the wall: There is a growing need for a more independent, united European voice on defense."[55]

THE OUTLOOK FOR 1992 AND BEYOND

The outlook is very positive that the EC will achieve its near-term goals to complete the internal market and become competitive with the United States and Japan in the international market place. This is true even though not all of the White Paper issues will be resolved by the end of

1992. Mergers and foreign takeovers are increasing as companies respond "... to the opportunities and dangers of the increased globalization taking place in the world economy."[56] Throughout the member countries there is a political consensus in favor of completing the internal market. The EC has been formally recognized by COMECOM, which signed an agreement in June 1988 establishing official ties with the Community. The countries of Eastern Europe and the USSR requested formal diplomatic relations with the EC shortly thereafter, and along with EFTA, have been seeking closer links to the single market.[57] Austria and Norway have requested membership in the Community, which now has formal diplomatic relations with over 130 countries. The institutions of the EC are effective at reconciling differences among the member states and with third countries as the Community grows in stature on the world scene as a supranational organization. The EC speaks on behalf of its members in negotiations regarding General Agreement on Tariff and Trade (GATT). The President of the Commission is formally included in the economic summit meetings of the Group of Seven and in international monetary discussions. Collectively, these examples indicate that there is a great degree of momentum driving the EC process. It should prove sufficient to overcome the obstacles along the way to completing the internal market. In 1957 politicians conceived the idea of a common market over the objections of the business community. Now the situation has reversed: "... entrepreneurs and corporations keep pressure on politicians to transcend considerations of local and national interest."[58] The European business community recognizes that unity is "... the best hope for stimulating growth and technological innovation and for remaining an influential presence in the world."[59]

The outlook for the long-term plan is far less promising primarily because the members are divided over the issues of monetary union and a unified European defense policy. The Community is moving towards a more unified foreign policy because all the members are required to belong to EPC, which brings the Foreign Ministers and their staffs into monthly, if not weekly, contact. While foreign policy remains outside the supranational realm of the EC, there is a consistency between the public positions of the individual countries and the stated policy of the Community because the members are committed to seeking consensus by the Single European Act. Such is not the case with EMU and WEU. There will be no decision on the former until the end of 1990. This assumes there are not more pressing world events at the time that will consume the energies of the Council and further delay any decision regarding monetary union. The likelihood that a unified European defense policy can be achieved through the instrument of the WEU and subsequently included under the supranational umbrella of the EC is very improbable. There is no evidence to indicate that the WEU is anything more than a mechanism for its advocates to keep their arguments alive in the hope that eventually their time will come.

The fate of all or part of the long-term plan should not stop the EC from reaching the goal of establishing a unified economy and from being much more competitive in the global marketplace. The three aspects of the long-range plan, by design, are only intended to complement and enhance the economic union. Whatever the outcome, there is "little evidence that the United States will be faced with a politically united Europe any time in the near future. But the process of economic and, to a lesser extent, political integration is continuing."[60]

U.S. CONCERNS

Over the years there have been numerous concerns expressed by those outside the Community about the EC 1992 program. For the United States, these concerns fall into three broad categories: protectionism, reciprocity, and transparency.

Protectionism

This concern addresses the possibility that the twelve member states of the EC intend to establish a "Fortress Europe" by replacing their interior barriers with exterior barriers that will essentially deny the rest of the world access to their market of 320 million consumers. Such a concern occurs for many reasons and is encouraged by statements like the one made by the EC Commissioner for External Trade when he suggested in a speech "... that the economic advantage of opening up the European market would not be unilaterally extended to the EC's trading partners; access to the EC market would be extended only to countries that granted trade concessions to the EC."[61] For those outside the EC, that kind of statement can't help but bring into question whether the EC 1992 program is a protectionist ruse or a genuine effort to increase European economic strength predicated on a belief in the benefits of a free market. While few share the view that the program is a ruse, many feel that certain sectors of the U.S. economy may be affected by community-wide import quotas imposed for a transitional period in certain domestic industries such as automobiles and textiles. The net result for each sector could be two-fold: American companies may be restricted to a smaller market share abroad, and they may be faced with greater competition at home as a result of other countries excluded from the EC diverting products to the U.S. market. A similar protectionist measure that could have the same effect as export quotas is the use of the rule of origin to discriminate against U.S. companies exporting to or operating within the Community. It is normally used to prevent foreign suppliers from circumventing antidumping rules, but in some cases the wrong party is penalized. When the EC placed duties on Japan's Ricoh, they extended the duties to U.S. Ricoh products even though they are considered American made by the U.S. Customs Agency.[62]

Peter McPherson of the U.S. Treasury Department identified several areas where additional protectionist policies may result: "... the right of establishment, mergers and acquisitions, government procurement, subsidies, local content requirements, and standards and certification."[63] However, while he may prove correct in varying degrees, the EC has shown a willingness to compromise whenever the U.S. has disagreed with a Community policy. For example, the U.S. Commerce Department and the EC have reached agreements on standards, certification, and testing issues, which many predicted would be an impasse for the two parties. Agnelli Giovanni, Chairman of FIAT, would tell Americans concerned about protectionism that "... because 1992 has grown out of a recognition of the advantages of a free market ... its success will depend on strengthening Europe's traditional economic and political alliances rather than excluding the rest of the world."[64] He argues that the single EC market represents far-reaching opportunities for U.S. business that will result from increased demand, lower costs, increased ease of operation, and potential economies of scale. Similar views are common throughout Europe among growing numbers of nonprotectionists who favor a liberal economic and trade regime. They believe that the EC would be the eventual loser should other trading blocs retaliate against their companies in response to protectionist pressures imposed by the Community. Their position is that "... more can be gained through an open economic system in terms of acquisition of technology, access to markets, ability to participate as part of a global financial network, and potential for participation in international alliances."[65]

<u>Reciprocity</u>

The U.S. is concerned over reciprocity because the EC may attach new meaning to the concept that could undermine the multilateral trade liberalization achieved in the Uruguay Round of GATT and place arbitrary demands for concessions on foreign countries. The most favored nation (MFN) principle of nondiscrimination is a cornerstone of GATT.[66] Article I states that a country's tariff should be applied equally to all members of GATT. Article III commits all GATT members to observe the principle of national treatment, requiring them to treat imported goods no less favorably than similar domestic goods, and prohibits members from employing nontariff policies that discriminate against exports in favor of local products. There are those who believe that the EC is interpreting reciprocity in more conditional terms that limit MFN and national treatment, seeking more to balance the results of trade between the

Community and its trading partners. A good example is the EC's second banking directive passed in December 1989. As originally drafted, the U.S. would have to provide reciprocal treatment to EC banks in order for American banks to have access to the Community. This would have required significant change in U.S. interstate banking laws, which differ greatly from European banking laws. In the end, EC banks would have realized preferential treatment in the American market. After the U.S. consulted with the EC expressing the potential problems that would result from the wording in the draft directive, the Community agreed to compromise once again. According to the U.S. Department of Commerce, the second banking directive was revised in April 1989 and satisfies the objections raised by government and business over the earlier proposal.[67]

The position of the Community on reciprocity seems fairly straightforward. The EC Commission is on record as favoring multilateral trade liberalization consistent with its international obligations under GATT. If the EC cannot reach a multilateral agreement, then it will seek to establish a bilateral trading agreement on a by-country basis. Should that fail, the EC may deny a country access to its markets.

Transparency

The U.S. concern about transparency is not complicated. The Commission is charged with the development of approximately 280 action proposals to complete the 1992 program. They have declared that they will proceed in an open and transparent fashion as they construct the market.[68] While the United States applauds the declaration, there is concern that third countries may not be allowed to review and comment on proposals early enough in the development cycle to be able to influence the final product. This same concern applies to all the decisions made within the EC, whether in regard to rules, regulations, quotas, local content, or standards. But as was shown in the second banking directive and standards setting examples, the EC is willing to accept U.S. input and, if necessary, modify their policies to meet the needs of the U.S. and other third countries. Recognizing this, the Advisory Committee for Trade Policy and Negotiations in their November 1989 report for the Congress concluded that "to safeguard U.S. business interest, the government and companies need to develop a long-term strategy for following and influencing issues and for coordinating their efforts where most effective."[69] The Committee knows that in the business world, transparency is a two-way street. It is one thing for the Europeans to say they will accept foreign input, but the U.S. must be willing to expend the effort required to find out what the Europeans are doing and to participate fully in developing compromises acceptable to both parties.

IMPLICATIONS FOR THE U.S. MILITARY

When a military commander receives a mission, the first thing done is a careful analysis of the order to determine both the stated and implied tasks to be accomplished. Applying the same technique to the EC 1992 program reveals that there are no stated "tasks" for the U.S. military to be found in the Community directives promulgated within the authority of the Single European Act. There are, however, implications for the U.S. military in both the near-term program for economic union to be completed circa 1992 and in the long-term programs that envision the EC as the European spokesman for both foreign policy and security policy. Glennon Harrison of the Congressional Research Service wrote that "European integration is not only of importance to U.S. companies that trade or have investments in Europe; it also has wider implications for the U.S. in the areas of economic, political, military, and scientific cooperation."[70] The implications for the U.S. military will result indirectly from concomitant action within the United States precipitated by the success of the EC's integrated market.

Near Term

The implications for the military will likely result from three actions that should be part of the U.S. response to the EC 1992 program: a decrease in defense spending, a reduction in the number of U.S.-owned defense industries, and a significant increase in the transfer of technology. These implications will not be evident to the members of the armed forces for the next couple of years. However, they should be very real considerations for planners and programmers whose job it is to look five years into the future. There is a strong likelihood that the United States will have to reduce defense spending to be able to concentrate more of its resources on sustained growth to remain competitive with the emerging European economic superpower. Paul Kennedy argues that reduced defense spending is necessary because:

> ... there looms today a tension between a nation's existence in an anarchic military-political world and its existence in a laissez-faire economic world; between on the one hand its search for strategic security, as represented by its investment in the latest weapon systems and in its large-scale diversion of national resources to the armed forces, and on the other hand its search for economic security, as represented by an enhanced national prosperity, which depends upon growth (which in turn flows from new methods of production and wealth creation), upon increased output, and upon flourishing internal and external demand -- all of which may be damaged by excessive spending upon armaments. Precisely because a top-heavy military establishment may slow down the rate of economic growth and lead to a decline in the nation's share of world manufacturing output, and therefore wealth, and therefore power, the whole issue becomes one of balancing the short-term security afforded by large defense forces against the longer-term security of rising production and income.[1]

As defense spending decreases, there will be less money for training, maintenance, procurement, research and development, manning, and base operations. The force will be smaller and its roles will change.

Adjustments in the U.S. defense industry have already begun. Competition is getting tougher, earnings are down resulting in a flight of capital, and some companies are choosing to cease their defense related activities altogether. It is too expensive for U.S. defense firms to continue to try and provide one-stop shopping for the government. This problem is further exacerbated by the fact that the U.S.-owned company is becoming a vanishing breed, regardless of the industry. For American companies to survive, they must be successful in the international marketplace. This is particularly true among the high technology enterprises which must compete worldwide for substantial foreign investment support for the expensive and vital research and development essential to the industry. They must achieve economies of scale necessary to keep their prices down. Being competitive in the global market is fast becoming a prerequisite for achieving a profitable share of the U.S. domestic market.

Simultaneously, the success of EC 1992 will mean that European defense industries will be bigger as a result of mergers. They will also invest in U.S. companies and gain access to new technologies. The U.S. military is going to find itself relying more and more on "... foreign manufactured components and expertise for such sensitive items as missile guidance systems, radars, communications gear, satellites, and air navigation instruments."[72] Additionally, the military could be faced with the need to redefine or modify the acquisition process and related security policies in order to do business with the growing and profitable multinational industries. The multinationals will be replacing the less efficient and more expensive U.S.-owned businesses which are only able to survive as long as the government is willing to subsidize them at great, if not unacceptable, cost. The military may have to turn to multiple sources in the future, disregarding the nationality of firms, to overcome the possibility of an external concentration in industries upon which the defense effort depends.[73] Should this happen, the military may resort to lobbying the branches of its own government to stop using trade as an instrument of foreign policy.

The EC perspective is that "improved U.S.-European defense industry cooperation depends principally on one issue: technology transfer."[74] Europe is going to keep up the pressure in this area. If the U.S. is unwilling to share technology, then the Europeans will take their business elsewhere and stop incorporating U.S. components into their defense and high technology products, undercutting the ability of U.S. firms to compete at home or abroad. Additionally, an increasing number of U.S. companies will have subsidiaries in the EC, and the expanded people-to-people interaction this generates will prove to be one of the most effective means of transferring knowledge, skill, and technology.[75] "The divergence between U.S. and EC approaches to technology transfer may become more pronounced as European economic integration proceeds and internal border controls are eliminated."[76] Without internal borders, the EC will not be able to maintain control of re-exports within the Community, which will increase the risk that sensitive technology will become available to EC trading partners who may be potential enemies of the United States.

Long Term

The implications for the U.S. military beyond 1992 result from the EC assuming supranational powers over its members in the areas of foreign policy and defense policy. On April 19, 1990, the leaders of France and West Germany urged the Community to forge a political union with common foreign and security policies by 1993. If the EC can eventually speak for its members in foreign policy matters, then it would only seem natural that it will be inclined to wean Europe from U.S. leadership, which would alter the political dynamics within NATO. A politically integrated EC should be more assertive and willing to challenge the U.S. in regions where U.S. policy has dominated. The consequence for the U.S. could be a further reduction of military forces on the European continent. Faced with less forward deployed forces and a smaller active duty military, there would be greater emphasis in the United States to focus future defense spending on mobilization and strategic mobility. These are areas that have traditionally taken a back seat in the procurement of new ground, air, and sea weapon systems to give the U.S. military a qualitative advantage over potential enemies.

CONCLUSION

The European Community is committed to completing the internal market. They have made significant progress in achieving this goal, regardless of whether they successfully accomplish all the tasks laid out in the White Paper by the end of 1992. The willingness of the members to cede some of their sovereignty to a supranational organization is driven by economic necessity which seems to be the engine for change in the Community. The process appears to be irreversible based on recent history, the scope of the EC's effective and entrenched institutions, and the political commitment to its comprehensive plan.

EC 1992 is not going to be a "Fortress Europe." The notion is inconsistent with the whole approach to the 1992 program, which recognizes the benefits of tearing down barriers and pursuing free enterprise. "The Community is essentially outward looking, and its political energies are not being expended on the internal process at the expense of external considerations."[77] Competition will increase, confirming the economic success story of the free enterprise system.

The Community has a near-term plan and a long-term plan. The former is limited to those actions required to complete the internal market by removing the nontariff barriers that exist between the member states. They are succeeding with the implementation of this plan and "... the single market will be larger, more unified, more open, simpler to enter, and more competitive than ever before."[78] The long-term plan of the EC is to eventually embrace political foreign policy, monetary union, and a common defense policy within its supranational charter. Three separate but parallel organizations exist within the EC context to allow the Community to pursue its long-term goals. The hope is that someday the EC will be able to converge with each organization and assume a true superpower position in an increasingly interdependent multipolar world.

The line separating the EC and EPC becomes fainter with time, and the foreign policy statements of the members are increasingly consistent. The EMU will be advocating a single currency and centralized banking system, which some see as a natural follow-on to completion of the internal market. However, while the EC has the potential to evolve into an economic superpower like Japan, it is doubtful that it could develop into a military superpower like the United States. Only three-fourths of the members have agreed to participate in the WEU, and not all of those could be expected to agree to give up even more of their sovereignty to the bureaucracy in Brussels, especially when it comes to their respective national security interests.

> The size of the EC membership, with its varying security perspectives; its inclusion of neutral Ireland (and a possible second neutral if Austria's application is accepted); its growing economic ties with EFTA and Eastern Europe; and the sheer scale of the economic and political challenges it still faces before it can claim to have the vision of 1992: These factors all mitigate against the EC's adoption in the near term of a clear security mandate.[79]

In both the near term and the long term, the EC will impact the U.S., which is going to have to make some changes to compete with this new significant actor in the global marketplace. A number of these changes will be precipitated by the 1992 program and should have an indirect impact on the U.S. military in the mid-term. The military's planners and programmers should be considering those implications to determine how they may affect the design and size of the force, and the funding priorities in the coming decade of declining resources. In the long term, the EC will assume a greater leadership position in Europe and alter the relationships within NATO, which will remain as an indispensable alliance but with a different role for the United States.

The bottom line is that "... the development of a stronger, more dynamic EC is in the U.S. interest. In our economically interdependent world, all nations benefit from the prosperity of others."[80] Paul Kennedy points out that the challenge for the United States will be to preserve a reasonable balance between perceived defense requirements and the national means to maintain those commitments.[81] This is going to require the country to allocate a larger percentage of its national resources to keeping its economic and technology bases of power from eroding. The resulting implications for the military will be subtle but real, and the challenge for its leaders will be to discern those implications and their potential consequence through the peacetime "fog-of-war" and to anticipate the changes that will be required. Seizing and maintaining the initiative is key to success on the battlefield. To fail to achieve it or to lose it is a sure formula for defeat. If the leadership fails to anticipate the implications of EC 1992 for the U.S. military in the coming decade, they will not have the initiative and will be forced into a reactive mode.

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