

THE WHITE HOUSE

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PRESIDENTIAL REVIEW DIRECTIVE/NSC-30

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE
CHAIR, COUNCIL OF ECONOMIC ADVISERS
THE CHAIRMAN, JOINT CHIEFS OF STAFF
ADMINISTRATOR, AGENCY FOR INTERNATIONAL
DEVELOPMENT

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SUBJECT: U.S. Policy Toward the European Community (S)

OBJECTIVE

The objective of the policy review is to develop agreed goals and strategies that will guide our relations with the European Community. The review should also consider how best to assure effective coordination of U.S. policy toward the EC, given the many facets of our interaction with the Community. (S)

BACKGROUND

The European Community is collectively our largest trading partner, our largest export market, a major economic competitor, an aspiring player in the formation of world macroeconomic policy, and an important partner in dealing with regional and global problems. (S)

The transatlantic tie is the most balanced trading relationship that we have. In 1991, U.S. exports to the EC rose to \$103 billion for a trade surplus of \$17 billion. The U.S. and the EC have \$200 billion invested in each other's economies, and major U.S. and European corporations now have substantial, integrated operations striding the Atlantic. Collectively, the EC is second only to the U.S. as an economic entity, with its 1992 GDP estimated at \$5.7 trillion. Cooperation with the G-7 is vital for the world economy. The EC includes four of the G-7 states, and the President of the Commission and current EC Council President attend all G-7 summits. (S)

Increasingly, our relations with the EC have moved beyond a focus solely on trade and economics. Today, it is impossible to

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separate our relations with the European Community from our political, security, and defense relations with Europe via NATO, in the CSCE, and through bilateral cooperation. We talk with the Europeans about world problems -- Russia, Eastern Europe, the Middle East, Bosnia -- as much or more in EC-related contexts as we do in the context of the Alliance, and our allies are increasingly consulting among themselves and developing common positions on these issues within the EC framework. (S)

Our relationship with the EC must thus be viewed in the context of our historic ties to Europe, our role in the security of Europe, and the shared perspectives and values with which we and Europe approach world problems. As the EC evolves, so too must U.S. policy. The EC is attempting a significant transformation: from a customs union to a unified market; from a group of 12 to one of 18 or more members with additional associates; from an economic community to a community with political, monetary, and foreign policies, and potentially a defense identity. The outcome of this transformation is uncertain, because of dynamics within the EC and because much depends on developments beyond the EC's control, especially to its east. (S)

The transformation of the EC will be the source of both opportunities and challenges for the United States. To the degree that the transformation produces an outward-looking, unified EC, it will be both a potentially powerful and wealthy partner on a range of political, security, and economic issues and a world actor more capable of independent actors. However, to the degree that the process of internal transformation distracts the EC member states, produces gridlock, or creates a looser organization, the EC may be reluctant or unable to assume a broader role. Whatever the outcome, we will still want to try to mobilize Europe's resources, and they will remain our close allies no matter what shape they are in. (S)

Our approach to the EC and to the other aspects of our relationship with Europe will have an impact -- those in the EC often say a major impact -- on the EC's development and the tenor of transatlantic relations that emerge. At a minimum, with the end of the Cold War, it is unlikely that we could successfully wall off U.S.-EC relations from the Atlantic Alliance or our political interests in Europe. In addition, the potential exists to complement current military and political links with Europe with a solid U.S.-EC relationship and partnership on global issues. (S)

THE CURRENT U.S.-EC RELATIONSHIP

Trade: While the overall, U.S.-EC trade picture is strongly positive, bilateral trade disputes (e.g., discrimination in government procurement practices), as well as disputes in multilateral fora (e.g., agricultural policy in the Uruguay Round) reflect serious differences that must be managed, if not resolved. Our trade disputes often reflect important domestic interests (e.g., farmers), different philosophies about government intervention in the economy (e.g., Airbus), and different legal structures (e.g., uniformly applied EC legislation versus state and local legislation in the U.S.). The

EC's institutional shortcomings make it more difficult to resolve trade disputes. Although the Commission has the negotiating lead, the Council must approve the strategy and the results. In the Council, consensus remains the goal, and members are reluctant to isolate states determined to hold out (especially if they are large). As a result, the dynamics among the member states have a direct impact on the Commission's negotiating authority. Still, the U.S. and the EC share a range of common economic interests, including the opening of Japan's market and the stabilization of economies in transition, that can expand the scope of our economic cooperation. (S)

Macroeconomics: On global macroeconomic issues, member states retain primary responsibility. They alone participate in the G-7 finance ministers' consultations, although the Commission attends the G-7 Summit. The Commission's role may well increase under the Maastricht Treaty as it gains responsibility for the surveillance process which is to promote the convergence of European fiscal and monetary policies. The Commission has already begun to speak out more on EC-wide macroeconomic policy and the G-7 process, on which it is eager to engage in a dialogue with us. (S)

Political Cooperation: In order to promote better overall relations, the U.S. and the EC agreed to a declaration on relations in November 1990. That document outlines areas of cooperation and commits us to a range of consultations, including bi-annual presidential-level meetings. This framework has resulted in an intense network of U.S.-EC discussions. Simultaneously, the EC has emerged as an important source of resources and support for the pursuit of shared interests around the world. The EC is, for example, an essential partner in achieving the economic and democratic transformation in Eastern Europe, an important aid contributor for Russia, a vital source of humanitarian assistance in Bosnia and other crisis areas, and a major source of development aid. But the consultative process falls short when quick or decisive action is needed. U.S.-EC discussions often run aground on the EC's inability to reach consensus or to take a decision when a member state resists. (S)

Problems of Modern Societies: We have a growing dialogue with the EC on problems that we both face as modern societies such as dealing with privacy, safety and environmental regulations, and tax collection. While some of these issues are trade related, in general this field of discussion has been cooperative and mutually beneficial, and it is expanding. (S)

U.S. POLICY OBJECTIVES

Given this setting, our policy goals toward the EC and its member states include the following:

- To liberalize trade through the successful conclusion of a Uruguay Round agreement and further movement toward common laws, regulations, and policies affecting trade through bilateral and multilateral channels;

- To resolve bilateral trade disputes not included in the GATT negotiations, to find ways of managing future disputes which avoids trade disruption, to prevent EC protectionism and to make it easier for U.S. companies to operate in the EC;
- To open third markets, with particular attention to Japan, Russia, and China;
- To encourage stronger global macroeconomic growth and to strengthen macroeconomic policy coordination;
- To establish an overall pattern of effective U.S.-European cooperation on regional and global problems and to encourage more responsibility-sharing among us in dealing with them.
- To improve collaboration on promoting political and economic reform in Russia, the rest of the NIS, and Central and Eastern Europe.
- To make full use of EC resources in the quest for peace and in any post-peace reconstruction in such areas as the former Yugoslavia and the Middle East.
- To promote similar approaches and stronger cooperation on global issues -- on the environment (particularly in multilateral policy development and implementation), counter-terrorism, counter-narcotics, human rights and development assistance.
- To enhance the mutual benefit from our dialogue on problems faced by modern societies.

Underlying these objectives is the potential for developing an effective global partnership on international economic, political, and security issues with what could be an emerging European political and economic superpower. (S)

ASSESSMENT AND OPTIONS FOR ACHIEVING OUR OBJECTIVES

I. TRADE AND INVESTMENT

What are the likely trade and investment trends in the U.S.-EC context over the next 10 years? What are the key export and investment sectors? How are those sectors likely to evolve over the next 10-20 years? (S)

Agreement with the EC (e.g., market access, agriculture) is a precondition for the successful conclusion of the Uruguay Round. The central question is what approach is most likely to facilitate an agreement that fulfills U.S. objectives, given the conflicting positions within the EC and its current institutional arrangements. USTR Kantor is engaged in trying to forge a Uruguay Round agreement with the EC. The Uruguay Round working group is currently looking at strategies for completion of the Round. This study should not interfere with their efforts, but the PRD can look at the broader question of the best strategies and tactics to use with the EC on trade issues. (S)

If the Uruguay Round is successfully concluded, what should be our priorities with the EC in addressing trade and investment issues for the future? Are these better pursued bilaterally or multilaterally? (C)

What are the prospects for resolving current disputes with the EC? What further disputes may emerge over the next year? Should we consider establishing new bilateral mechanisms to manage and resolve these disputes? Are there grounds to be concerned about movement toward a "fortress Europe" mentality in the EC, and if so what should we do to counter such a trend? (C)

II. MACROECONOMIC POLICY

What are the prospects for encouraging the EC to pursue a stronger growth-oriented policy and how best should we go about doing that? The President recently raised this subject with Chancellor Kohl, President Mitterrand and Jacques Delors. All three pointed to EC efforts to promote growth as an essential complement to member state initiatives. (C)

Do efforts to establish an EMU facilitate or hamper growth? What are the pluses and minuses of EMU for us? What approach should we take toward the EMU process? (C)

At present, macroeconomic coordination with the EC takes place primarily with its member states in the context of the G-7 process. Can we use the Commission to advance our G-7 goals with individual EC member states? Should we consider expanding our bilateral dialogue with the Commission to include appropriate macroeconomic issues? (C)

III. EUROPEAN UNITY AND THE ENLARGEMENT OF THE COMMUNITY

The U.S. has regularly stated that it supports European integration, and that it is up to the Europeans to decide how they want that process to proceed, provided that Europe remains open and outward looking. This has been based on the judgement that on balance we would probably gain more from increased unity than we would lose and that we could not in any case be seen to oppose that process. There has been criticism here and in Europe that we have not been as supportive of European integration as our stated policy indicates, especially in the security area. The most skeptical Europeans, particularly in France, argue that we want to keep Europe divided politically and economically to maintain our dominant position. (C)

What are the prospects for further political and economic unification (i.e., European Union)? Do we need to be concerned about an upsurge of nationalism, protectionism, or right-wing parties within the EC? To what degree, and under what conditions, is the EC likely to maintain a common foreign and defense policy? What would an EC foreign and defense identity be likely to mean in practice? What would the implications be for NATO, for CSCE, in the UN? What are the costs and benefits of European Union for U.S. interests? (C)

What can the U.S. do to affect the development of the European Union? Should the U.S. take a more active role in aiding its development? If so, how? If not, should we try to remain neutral or somehow make our views known? (C)

How is the EC likely to address the pressures for enlargement? What are the economic and political implications of developments in Central and Eastern Europe and the former Soviet Union for the EC (e.g., trade, immigration)? What impact would enlargement have on the "deepening" of the Community and on its decision making? What effect would enlargement have for the WEU and for NATO, both via indirect security commitments to new EC members and via possible NATO membership for new members? What are the advantages and disadvantages of enlargement for us? How can the U.S. ensure that enlargement takes place in a manner that does not harm U.S. interests? (C)

IV. AREAS FOR EXPANDED COOPERATION

It is increasingly difficult to separate our dialogue with European allies on international political and security questions into clear categories -- NATO, bilateral, or EC. In the UNSC, we regularly deal with the "EC three" on key questions. On Bosnia, we deal with some questions in NATO and others in the EC context. On the Middle East, we deal as intensely in an EC context as we do bilaterally, and on Eastern Europe, the EC (G-24) forum is the focus for most of our dialogue. In the CSCE, we now confront EC proposals in the security as well as the political areas. In this context, a strong U.S.-EC link that facilitates responsibility-sharing on regional and global problems can complement a renewed NATO in our overall relations with Western Europe. Indeed, if we consider a broad definition of "security" to include democracy, free market systems, and a habitable world, the EC with its democratic values and resources can be an essential partner for us. Thus, a key U.S. objective must be to maximize the use of EC resources and political support where we share common interests, and to create a pattern of responsibility sharing with the EC that serves our interests. There are, for example, areas where we would like the EC to provide most of the resources as it is doing in Eastern Europe, while in other areas we will want to maintain the leading role but benefit from EC support. (C)

What key interests are shared both among the EC members and between the EC and the U.S.? What is the best means for turning our shared interests into common action, including in areas where EC member states disagree? In that regard, what can be learned from the Yugoslav crisis? What areas are ripe for responsibility sharing? Where should we encourage the EC to take the lead and how best can we do that? (C)

In reviewing the best prospects for enhanced cooperation, we should consider the opportunities in the following areas, among others: assistance to economies in transition; the former Yugoslavia; ethnic and nationalist conflict elsewhere in Europe and the former Soviet Union; Middle East peace process; Maghreb; Africa; Haiti and other Caribbean states; Central America; environment; narcotics trafficking; counter-terrorism; nuclear

safety; proliferation; human rights; and development assistance. Delors and his staff have also suggested increased cooperation in scientific and technical research and training. (Note that in the EC, counter-narcotics and counter-terrorism fall under the inter-governmental Trevi process rather than the European Political Cooperation, EPC.) ~~(S)~~

V. TRADE-OFFS BETWEEN THE POLITICAL, TRADE AND ECONOMIC

There will be opportunities for us as well as pressures from the EC to make trade-offs between political cooperation, trade and macroeconomics. At some point, for example, we may well want to try to use the leverage associated with our role in Europe and our broader relationships with EC member states to move them on difficult trade and macroeconomic issues. They will hope to do the same. We should consider how to manage this process and perhaps reflect upon some trade-offs or cross-bargaining that might be in our interest. For example, would it be easier, as some Europeans have argued, to get the French to sign on to a GATT accord if it were part of a larger package including German, Japanese, and U.S. contributions to macroeconomic growth and aid to Russia? Would treating the EC more seriously on foreign policy or being more supportive of European unity, yield any benefits in the trade area? ~~(S)~~

VI. BILATERAL MECHANISMS

The question of our institutional relationships with the EC arises in connection with the areas discussed above. Some in the EC (both the Commission and member states including Germany) continue to talk of the desirability of a U.S.-EC treaty. Since the mention of a treaty in the 1989 speech of then-Secretary of State Baker, the consensus in the Bush Administration had been that consideration of a treaty will only be possible once the EC has matured institutionally. ~~(S)~~

Are there steps we can take to enhance the mechanics of our relationship with the EC? How well has the 1990 Transatlantic Declaration worked? Has it boxed us into the wrong set of relationships or meetings with the EC? How can we improve its functioning? Under what circumstances might we consider a formal treaty or other relationships with the EC and what form might those take? What would be the content of a treaty? Could it be negotiated without reviving harmful debate about the roles and relationships of the EC, WEU, and NATO? Is there some mechanism short of a treaty that would be useful? ~~(S)~~

VI. ORGANIZATION

Because of the overlap between the U.S. approach toward the EC and a range of other relationships (e.g., bilateral, NATO, G-7) and the number of U.S. agencies deeply involved in U.S.-EC relations, it would seem to be useful to establish an interagency group to coordinate U.S. policy. What form should that on-going organization take? ~~(S)~~

TASKING

The Assistant Secretary of State for European Affairs shall convene a high-level Interagency Working Group (IWG) to conduct this review and to task specific drafting responsibilities. It is understood that USTR would take the lead in preparing trade papers, Treasury would take the lead on macroeconomic issues, and State would take the lead on political issues and those discussing the overall U.S.-EC relationship. Other agencies may be asked to draft specific papers and can contribute as desired. Possible conflicts among policy options and differences of opinion should be stated clearly. Papers should be kept short and useful for IWG discussion. Initial papers should be submitted to the State IWG Chairperson by April 30 for forwarding to the NSC/NEC through formal channels in order to allow a first discussion meeting of the IWG on May 3. NSC should draft the final options paper in consultation with State and the NEC. It should be submitted to the NSC Executive Secretary no later than May 21. 76X



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