

BELMONT EUROPEAN POLICY CENTRE

7 January 1993

**1993:
MAKING SENSE OF THE KALEIDOSCOPE**



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INTRODUCTION

If the health of the European Community was determined solely by the state of the political debate about its institutions, it would be sage to say that 1993 should prove a better year than 1992. The old year was in many ways an "annus Europaeus horribilis" with the Community's future development thrown into serious question by the Danish referendum rejection of the Maastricht Treaty on European Union last June. With luck, the process of European integration should resume during the course of 1993.

There was – and perhaps still is – a danger that the Treaty might never even come into force, leaving the Single Market to wither under the pressure of monetary chaos and creeping political disunity. The agreements reached at the European Council held in Edinburgh during December make it more likely that the remaining obstacles to the full ratification of the Treaty will be overcome.

However, the crisis unleashed by Denmark's refusal to approve the Treaty has produced a trauma in EC affairs. There is no doubt that the Community's political leaders have been unnerved by the scale of popular questioning and even rejection of the Treaty and its objectives – not only in countries such as Britain and Denmark with a tradition of Euro-scepticism – but even in the Community's French and German heartland. It is vital that the crisis be resolved, rather than be allowed to simmer on without a real solution. The alienation from the Community and its processes evident in parts of the public must be addressed urgently and not allowed to fester.

The Community's decision-makers enter the New Year aware of the fragility of the popular consent for continued European integration. The good news is that this awareness will underline the need for the Community to carry its citizens with it in preparing for the next stages of European Union.

The bad news is that a loss of political confidence in both the Commission and the other institutions could all too easily paralyse their will to act in areas which cry out for Community decision-making. Many of the most urgent problems facing Europe – above all the need to prevent the spread of war in the Balkans and the increasingly urgent necessity of putting the peoples of the Community back to work – cannot be tackled by mere cooperation among sovereign national countries. Effective action will only become possible if the Community is given the means necessary to deal with these problems.

The European Community's institutional inability to react effectively to the savage civil war in former Yugoslavia has contributed to a sense of demoralisation. But an equally potent challenge to the Community's relevance to ordinary people will be its capacity to find answers to the deepening economic crisis during 1993. However, the Community's failure to act in these crises partly depends on the lack of means given to the Community.

There is no mechanical or simple link between the rise of mass unemployment and the evidence of growing social and political unrest in EC Member States. But such a link exists. If the economic recession continues to deepen in the coming year there is a real danger that the forces of far right-wing, nationalist and xenophobic intolerance – which are bitterly opposed to further European integration – could be further strengthened throughout the Community.

That said, it does appear more than probable now that both Denmark and the United Kingdom will complete ratification of the Maastricht Treaty by mid-summer. Opinion polls predict a convincing majority for approval of the Treaty in the second Danish referendum which will probably now be held during May.

Although the British Government faces formidable opposition to the Treaty notably within the ruling Conservative Party – the final stages of Parliamentary approval could be concluded before the end of June. Therefore, on the face of it there is a reasonable chance that the Maastricht Treaty will come into force on 1 July next – the moment when Denmark hands over to Belgium the six-month Presidency of the Community.

ECONOMIC AND MONETARY UNION

As ratification of the Treaty by all 12 Member States draws closer in the early months of the year, the likelihood of the Exchange Rate Mechanism (ERM) collapsing will decline. Although further changes in ERM parities cannot be excluded – and may even accompany new steps to accelerate monetary union – it is vital that the ERM system survives intact in the meantime. Much will depend, in the short term at least, on the timing of early reductions in interest rates by the German authorities.

Predictions in this area are notoriously vulnerable but the mounting problems facing the German economy may – indirectly – contribute to a renewed sense of stability in the ERM. Many factors now point to the possibility of a protracted decline in the international value of the D-mark – not least because of the growing German federal budget deficit and a forecast gradual reduction in interest rates. A weakening D-mark, combined with a strengthening dollar, could make it easier to defend the existing currency parities within the ERM.

During the current pressure on the French franc, there is an unprecedented solidarity between the Bundesbank and the French to save the franc from devaluation. Although a realignment is unlikely to occur, the psychological impact of a realignment would be a political disaster.

Thus far, there are also some hesitant signs of a recovery in the Ecu market. If this continues through 1993, the debate about the second and third stages of Economic and Monetary Union (EMU) may focus on the need to accelerate preparation for a single currency, rather than the need to postpone the third stage as had been suggested during 1992.

The most important issue facing economic and finance ministers during 1993 will be how to balance progress in meeting the convergence criteria for a single currency, as laid down in the Maastricht Treaty, with pressure to stimulate growth and employment. Much will depend on how economic issues and political priorities interface with each other – particularly in Germany.

It is far from clear how German attitudes towards EMU and a single currency will be affected by the current economic slow-down. Much may depend on whether the problems of growth and employment in Germany are seen to be purely temporary and mainly linked to the unexpectedly large costs of unification or whether they come to be seen as more structural and longer-term.

The final ratification of the Maastricht Treaty is certain to influence the direction of the debate about monetary union. With the Treaty assured and with the return of greater stability to the currency markets, the climate may become more favourable to a fairly rapid move to a single currency. It cannot be excluded that – in the aftermath of the Treaty's implementation – a group of EC Member States (France, Germany, the Benelux and maybe others) will opt for a fast track to full monetary union leaving others to catch up later.

THE DANISH PRESIDENCY

The Danish Presidency of the European Community which took over from the United Kingdom on 1 January, is keen to establish a very different style in running EC affairs. The emphasis will be on a "consensus approach" and not the use of the Presidency to pursue a national agenda in the manner of the British Government. There is a risk that a general election will be called early in the Presidency, following the publication of the report on Tamils and the possible resignation of Prime Minister Poul Schlueter.

It will also fall to the Danish Presidency to begin the implementation of the Edinburgh Summit decisions on transparency and subsidiarity. In practice,

greater openness will start with the televising of at least the first – agenda setting – meeting of the General Affairs Council to be held in Brussels of Ministers on 1 February.

The British and Danes have always pushed hardest for some opening up of the Council of Ministers whose proceedings have always been conducted behind closed doors, even when enacting EC legislation. Most other EC Member States have been hostile or at least suspicious, arguing that delicate intergovernmental negotiations cannot be conducted in public.

Initially, the opening up of the Council is unlikely to go much further than a single symbolic televised meeting of foreign ministers. But the Danes will test the water to see whether this should not be extended to all purely legislative sessions of the Council, leaving intergovernmental negotiations to be held in privacy.

The credibility gap between the decision-makers and the EC citizens must be closed. A widespread debate on the Community's structure and main objectives should be the first stage in constructing a participatory society at national and Community level – a society where decisions are really taken as closely as possible to the citizen in accordance with the principle of subsidiarity. An issue of the debate should be whether a constitution for Europe is required.

The new Danish Presidency will also try to ease the unnecessary secrecy surrounding a lot of Community documentation. Briefings to the press about both meetings of the Council and of COREPER (the Committee of Permanent Representatives of the 12) will be increased as will access to papers prepared for ministerial decision.

In parallel with these moves both the Commission and the Council will begin to operate under the new subsidiarity rules. The Commission will in future seek to justify all legislative proposals in terms of whether any action at EC level is justified or whether it is more properly a matter to be decided at national or regional level.

The Commission has also undertaken to consult with interested parties in advance of making proposals for legislation. For its part the Council will endeavour to limit demands on the Commission for Community action, particularly in the internal market area, and to put greater reliance on mutual observation of national regulations. Both institutions will also examine proposed, as well as existing, EC legislation to see whether and to what extent individual instruments can be withdrawn or repealed.

INSTITUTIONAL REFORM AND ENLARGEMENT

A key priority for the Danish Presidency is to begin formal negotiations with four of the eight existing applicants for EC membership. Negotiations with Austria, Finland and Sweden are likely to get under way by early February. Talks with Norway, which only applied in the closing weeks of 1992, will start soon after.

The Danish Presidency is keen that progress is made as rapidly as possible with all four applicant Member States. Copenhagen is particularly anxious to show the Danish public that the Community is keen to embrace new Nordic members with similar cultural and political traditions to that of Denmark itself.

In the Danish view the negotiations could be completed in the second half of 1993 under the Belgian Presidency. In theory, this would allow the whole of 1994 for ratification in all 16 countries of the Treaties of Accession with the four newcomers - permitting them actually to join on 1 January 1995.

The Maastricht Treaty requires that an intergovernmental conference be convened no later than 1996 to review and if necessary revise the Treaty. It is not correct for the people of the applicant countries to be expected directly or indirectly to approve the entry of their countries into the Community just prior to Treaty changes being negotiated. However, further institutional reforms are clearly needed and it is essential that they be agreed by the Twelve and the applicant countries before enlargement takes place.

The clear decision of the EFTA applicant states to base their request for accession on an unambiguous acceptance of the full Maastricht Treaty bodes well for the negotiations. At some point in 1993, a proposal will have to be made by either the Danish or the Belgian Presidency (in the second half of the year) about what role the applicant countries should have in preparing for the 1996 review of the Maastricht Treaty.

The most sensible course of action would be for discussion of further institutional reform to take place between the 12 and the four applicant states in parallel with the enlargement negotiations themselves. This would allow an amended Treaty to be put for ratification in all 16 countries before accession.

At the same time, the Danes will also have to secure some amendments to the European Economic Area (EEA) Agreement following its rejection in the Swiss referendum on 6 December. The hope is that the amended Agreement can still come into force by the mid-year. The main problem is whether or not

Switzerland's budgetary contribution will be made up and, if so, how.

It will also fall to the Danish Presidency to conclude some of the internal market issues which the British Presidency was unable to conclude in the second half of last year. One of the most difficult issues will be a compromise allowing the lifting of internal frontier controls on the movement of people by the end of 1993 – something which the Schengen countries hope to have achieved by the summer.

THE SINGLE MARKET

The Council is also bound to return to issues such as the treatment of dual-use goods – i.e. goods with both a civil and a military application – within the Single Market. It is feared that without such an agreement, illicit trade in arms and dual-use goods will become more difficult to monitor and control. In the early weeks of the new Presidency, the Danes will also have to tackle the problem of the future access to the EC markets of a number of state trading countries whose existing Agreements have now expired.

The new Presidency can also be expected to push more determinedly than its predecessor for the controversial environment and social dossiers. It will be essential for Copenhagen to show its public opinion that the Community, far from being a threat to high national social and environmental standards, will press for higher minimum standards throughout the EC.

TRANSATLANTIC RELATIONS

The advent of the Clinton Administration confirms that major changes have taken place in the United States and that more will take place. Urgent action is needed to minimise the risk of transatlantic tensions and maximise the cooperation. This requires a conscious effort on both sides to increase their understanding of each other and to seek to renew the relationship based on solving common problems rather than negotiating the settlement of disputes.

Top priority will be the completion of the Uruguay Round GATT negotiations. Despite the commitment expressed by Commissioner Sir Leon Brittan and others to complete the Round, it now looks unlikely that the deal will be concluded in January. Transatlantic dialogue will also focus on which global measures should be taken to encourage economic recovery.

The internal EC review about possible reform of the EMS exchange rate mechanism may also have implications for transatlantic relations in 1993. British Prime Minister John Major has already suggested that part of that reform should include some new exchange rate relationship between the ERM as a whole and both the US dollar and the Japanese yen. It may of course be

part of the British agenda to propose closer links with the dollar and the yen as part of a strategy for deferring essential decisions on EMU. However, a single European currency would provide the most effective basis for negotiating a stable system of global exchange rates.

FOREIGN AND SECURITY POLICY

The most pressing foreign policy issue facing the Community at the start of 1993 remains the war in the former Yugoslavia. This raises the delicate question for the Danish Presidency of liaison between EC political cooperation and the more military aspects of discussions on Yugoslavia and other trouble spots in the Western European Union.

The internal dispute between Greece and the rest of the Community over recognition of Macedonia demonstrates the weaknesses of the present system of decision-making on foreign and security policy. It also underlines the need for a more coherent approach by the Community to the challenges confronting it in the field of foreign and security policy. This should be a key priority for the planned review of the Maastricht Treaty provisions.

CONCLUSION

It will be easier to assess the underlying health of the Community when Denmark hands over responsibility for the Presidency to Belgium after the Copenhagen Summit in June. By then, the Maastricht Treaty should be ready for implementation and the enlargement negotiations should be well under way. At that point we can expect a renewal of the discussion on the further changes to the Community's institutions which are indispensable and which will be the focus of the review of the Treaty scheduled for no later than 1996.

BELMONT EUROPEAN POLICY CENTRE RECOMMENDATIONS

- 1. Ratification of the Maastricht Treaty**
The Community must proceed on the assumption that the Maastricht Treaty will come into force during the second half of 1993.
- 2. Institutional reform and enlargement**
Preparations for further institutional reform to meet the challenges of enlargement should start once the Treaty is ratified.
- 3. Closing the credibility gap**
The gap between the decision-makers and the citizens must be closed. A widespread debate should be launched to determine what should be the principal objectives and structure of the Community. The European Parliament – together with the 12 national Parliaments – should begin by holding "hearings" on the views of Europe's citizens about their priorities for ever deeper union.
- 4. Management reform**
There should be an early and comprehensive review of the existing organisation and management practices of the EC institutions.
- 5. Expediting Stage 3 of EMU**
Preparations for Stage Three of EMU and in particular the implementation of the convergence criteria should be speeded up.
- 6. Renewing the transatlantic relationship**
An urgent priority should be a closer partnership on both transatlantic and global issues between the Community and the incoming Clinton Administration.