

- 46 The EU had wanted 'good governance' to be included in the Cotonou Agreement as an 'essential element' whereby its violation could lead to an EU suspension of aid. It was eventually accepted as a 'fundamental element', which meant no automatic right of suspension but that serious cases of corruption might lead to that through a consultation process. ECDPM (2001) 'Cotonou Infokit: Innovations in the Cotonou Agreement', [http://www.oneworld.org/ecdpm/en/cotonou/04\\_gb.htm](http://www.oneworld.org/ecdpm/en/cotonou/04_gb.htm).
- 47 The Petersberg tasks comprise humanitarian and rescue tasks; peacekeeping tasks; and tasks of combat forces in crisis management, including peacemaking.
- 48 'Joint Declaration on European Defence', 3–4 December 1998, [www.fco.gov.uk](http://www.fco.gov.uk).
- 49 Duke, S. (2002) 'CESDP and the EU Response to 11 September: Identifying the Weakest Link' *European Foreign Affairs Review* 7 p. 164.
- 50 Nye Jr., J.S. (2002) *The Paradox of American Power*, Oxford: Oxford University Press.
- 51 European Commission, Staff Working Document: Follow-up to the International Conference on Financing for Development (Monterrey – 2002), p. 11.

## The post-Cold War EU–US security relationship

No single security relationship has ever been more important for the EC/EU than that with the US. It was the midwife to integration and the heartbeat of Western Cold War resistance to the Soviet threat. It is rooted in shared historical experiences, liberal democratic values and commitment to market economies and the rule of law. Ingrained habits of co-operation, dense transatlantic interdependence and the pivotal position of the EU and US in developing global governance guarantee its continuing importance. And its well-being is tended by a myriad of transatlantic connections: direct EU–US contacts, bilateral contacts between EU member states and the US, contacts within multilateral fora, the accumulative impact of transnational groups, educational and cultural exchanges, and so forth.

Yet prognoses of the relationship's post-Cold War health have ranged from the optimistic through to warnings of inevitable and even terminal decline.<sup>1</sup> This chapter assesses why this is the case. It begins by examining continued security interdependence and mutual political will to consolidate and institutionalise transatlantic security co-operation. It then assesses factors underpinning impressions of transatlantic drift in terms of EU and US visions of the post-Cold War order, their roles within it, and their preferred methods for developing international security. Finally it addresses two key aspects of the security relationship that have witnessed co-operation but also friction, namely the debate about burden-sharing and the development of European Security and Defence Identity (ESDI) and the September 11 terrorist attacks on the World Trade Centre and the Pentagon.

### Managing the EU–US security relationship

Any investigation of EU–US security relations should recognise their interdependence, determined efforts to manage their relationship constructively

and their collectively dominant position in the international system. British Prime Minister Blair once called their drawing together 'the single most urgent priority for the new international order' and warned that 'bad guys' celebrate when they do not.<sup>2</sup> The EU and US together are economically and militarily preponderant. They form the bedrock of global governance, having largely initiated and dominated the world's principal multilateral fora, including the UN, NATO, the G8, IMF and the WTO. They share a value-laden relationship and a belief that exporting the values therein provides the basis for developing elsewhere peace and security, an assumption rooted in democratic peace theory.<sup>3</sup>

The continued post-Cold War importance of the transatlantic relationship was quickly elaborated by President George H. Bush, his famous 'beef hormone and pasta' speech portraying the two sides as locked into competitive co-operation. Apprehension and opportunity underscored American interest in renegotiating the EC-US relationship. It was important to keep the EC engaged. Potential European introspection played on lingering fears from the Reagan administration of a Fortress Europe and threatened to leave the US burdened with intolerable and unsustainable international commitments. Conversely, it was important to guard against possible EC 'over-assertion' upon the world stage, fears encouraged by its increasing international influence and willingness to challenge US leadership during the 1980s. EC influence seemed destined to grow, especially with a reunified Germany at its heart, and US ability to command an informal seat at the EC table was liable to weaken with the relative downgrading of mutual defence considerations. Moreover, further EC enlargement potentially threatened to incur the US additional *de facto* security guarantees through a process over which it had no control. New EU members would be able to join the WEU, and although they might choose not, or be unable, to join NATO, they could secure indirect NATO protection on account of guarantees to EU states who were members of WEU and NATO.

The flip side of US apprehension was possible co-option of the EC in sharing the security burdens of international leadership and the construction of a new world order. Together the US, the EC and its member states were strongly placed to adapt established institutions to the post-Cold War security environment. Approximate EC-US economic parity meant that there was no reason why the US should continue to bear disproportionate burdens, especially as Europe's hard security deficiencies were unlikely to be exposed disastrously in the absence of the Soviet threat. Propitiously, too, the EC seemed poised to become a more capable partner as twin intergovernmental conferences prepared the way for EMU and potentially enhanced EC powers in security issues such as non-proliferation, disarmament, terrorism, and illegal immigration.

EC considerations broadly mirrored those of the US. The EC urgently needed continued US engagement in international security generally and in Europe especially. The end of the Cold War reduced neither EC dependence on US military muscle nor, amid pessimistic warnings of Europe's going 'back

to the future', the importance of America's stabilising European presence.<sup>4</sup> Concomitantly, though, it did weaken the rationale for both continued US large-scale peacetime military commitments to Europe and NATO – the principal vehicle of American European influence.<sup>5</sup> Farther afield a US withdrawal to neo-isolationism could bequeath destabilising vacuums of power, undermine the effectiveness of multilateral organisations and increase pressure on the EU in areas such as development policy as America slashed foreign aid and non-military programmes.

The US Congress, Bush's presidential election defeat in 1992 despite successful prosecution of the Gulf War and Clinton's subsequent alleged initial neglect of foreign policy all demonstrated pressure for a rationalisation of American post-Cold War commitments. Yet the EU also faced a danger that in the emergent "uni-multipolar" world<sup>6</sup> an internationalist US would exploit its status as sole remaining superpower to fashion and dominate a new order of its own choosing. Herein it might act more unilaterally and to the detriment of EU interests. The lifting of Cold War constraints, US unilateral intervention in Panama in 1989 and continued American propensity to threaten and/or impose unilateral economic sanctions encouraged these fears.<sup>7</sup> An arrogant use of power by an internationalist America might be as destabilising as a withdrawal to neo-isolationism. It could undermine the principled multilateralism to which Europe was committed and provoke a backlash against American neo-imperialism.<sup>8</sup> It could also lead the US to cast the EU in roles that it was not prepared to accept, such as being consigned in US strategy to regional power status or as America's deputy in global security management. European Commission Vice-President Leon Brittan actually warned in September 1998 that Washington needed greater recognition 'that co-operation with the European Union does not mean simply signing up the European Union to endorse, execute, and sometimes finance, United States foreign policy'.<sup>9</sup>

Both sides consequently recognised their continued security interdependence and sought to manage the other's behaviour through what might be termed 'co-operative containment'. EU-US security relations needed renegotiation in line with new conditions, their solidarity needed public reaffirmation, and modalities were needed to improve consultation and reduce the risk of either side engaging in actions that might surprise or unduly antagonise the other. In 1989 the Bush administration, conscious also of the need for a gesture of continued American engagement to offset European doubts about reunifying Germany, took the initiative. Bush met Commission President Jacques Delors five times during 1989, suggested closer EC-US consultative links in May that year and accorded the EC increasing recognition as a potential full partner.<sup>10</sup> Hence the Commission's delegation to Washington was upgraded to full diplomatic status and the then G7 approved in July the Commission having responsibility for co-ordinating aid to Poland and Hungary. In December 1989 US Secretary of State James Baker also made a key speech in which he called for a 'New Atlanticism' and stronger EC-US institutional and consultative links, possibly in the form of a treaty.<sup>11</sup>

The EC responded positively and in February 1990 the Irish EC presidency and the Bush administration agreed the inauguration of biannual meetings between the US President and the Presidents of the European Council and of the Commission. Biannual meetings were also provided for between the US Secretary of State, EC Foreign Ministers and Commission Representatives. In addition, there would be biannual cabinet-level meetings between the Secretary of State and the presidency Foreign Minister/or the troika, and *ad hoc* consultations where necessary. Further encouraged by US rhetoric, such as Robert Zoellick's call for an EC-US 'alliance of values',<sup>12</sup> the EC subsequently endeavoured to accord these closer institutional links greater visibility and to locate them within a wider framework. In summer 1990 the Italian presidency advanced the basis for a transatlantic declaration and on 20 November 1990 the Declaration on EC-US Relations was adopted.

The Declaration stopped short of the possible treaty mooted by Baker and has been widely condemned for simply repeating 'a great deal of familiar poetry' and being 'long on rhetoric and short on substance'.<sup>13</sup> Nevertheless it reaffirmed the salience of shared values, the Declaration's common objectives being remarkably similar to those subsequently adopted within CFSP in the TEU. It signalled mutual political will to renegotiate progressively the EC-US relationship, something epitomised by the inclusion and subsequent exercise of an evolutionary clause.<sup>14</sup> It marked an encouraging public statement of transatlantic solidarity and formalised contacts between the European Parliament and Congress, which had begun in 1972 and were potentially increasingly important as both institutions secured greater external affairs influence in the Cold War's aftermath. The Declaration even raised the prospect of genuine EC-US security partnership, formally recognising 'the accelerating process by which the European Community is acquiring its own identity in economic and monetary matters, in foreign policy and in the domain of security'.<sup>15</sup>

Limitations of the Declaration soon became evident though. Its demonstration of transatlantic solidarity was quickly overshadowed by the Gulf War and undermined by EC-US differences prompting the collapse of the GATT Uruguay Round in December 1990. Its procedures produced at best mixed results, there being a lack of co-ordination between different bureaucratic levels of dialogue and insufficient follow-through from EC/EU-US summits. It also seemed unable to stem transatlantic drift. EC/EU relative impotence to deal with spiralling crisis in the Balkans revealed a damaging 'capabilities-expectation gap' and undermined its claim to transatlantic security partnership.<sup>16</sup> Meanwhile Clinton's election accelerated US strategic concern shifting from Europe to Asia and, at least initially, marked a switch from the internationalism of the Bush administration towards a more introspective and domestically orientated agenda.

In November 1992 Germany's Chancellor, Helmut Kohl, advocated a more comprehensive transatlantic structure to improve continuity between summits, deepen the level of consultation (thereby helping lock the US into Europe) and provide for greater practical collaboration. The EU-US Summit in July 1994

approved three working groups, comprising representatives of the US, the Commission and the EU presidency, to examine stabilisation of Central and Eastern Europe, CFSP and international crime, including nuclear smuggling and drugs trafficking. Despite these groups running into problems, owing not least to internal EU competency battles and uncertainty about how much information to share with the US, work continued on defining a broad framework for EU-US co-operation.

Co-ordination was increasingly necessary to combat transnational security threats, avoid duplication and possibly transfer onerous responsibilities from one party to the other. Also, a Spanish non-paper in July 1995 highlighted possible transatlantic drift in the absence of a common threat, mutual introspection, unpredictable and possible unilateral leanings of US foreign policy, and demographic changes in the US that weakened American affiliation with Europe.<sup>17</sup> Furthermore there evolved a timely coincidence of interest. The EU saw opportunities to recover lost ground as a security partner, raise its external global profile, build American support for the nascent ESDI and further embroil the US in Balkan security and reconstruction. The Clinton administration felt that transatlantic structures needed post-TEU adaptation, focused more on foreign policy once its domestic agenda was circumscribed by losing both the House and Senate in November 1994, and wanted the EU to take a leading role in implementing the Dayton Peace Accords and Balkan reconstruction.

The product was a New Transatlantic Agenda (NTA) and an accompanying Joint Action Plan (JAP), developed by a Senior Level Group created at the June 1995 EU-US Washington Summit and adopted at the EU-US Madrid Summit on 3 December 1995. Hailed as launching 'an era of unprecedented co-operation on a wide range of political, economic and civil society issues',<sup>18</sup> the NTA reflected considerable political will, especially given distractions of mid-term US elections scheduled for 1996 and the EU's IGC preparation for the Amsterdam Treaty. It built on the 1990 Declaration to improve dialogue and co-ordination and sought to upgrade interactions from consultation to collaboration. EU-US relations were placed firmly within a global framework and an evolutionary clause provided for subsequent adaptation. Improved dialogue and continuity was provided for through a Senior Level Group comprising sub-cabinet-level officials, and a NTA Task Force, comprising numerous working level officials, was charged with monitoring and co-ordinating progress in designated areas. These areas were clustered around four themes - 'Promoting peace and stability, democracy and development around the world; Responding to global challenges; Contributing to the expansion of world trade and closer economic relations; Building bridges across the Atlantic'.<sup>19</sup> The JAP developed numerous specific short-term and medium-term EU-US actions designed to fulfil objectives contained within the four themes.<sup>20</sup>

Four aspects of the NTA and JAP were particularly interesting for transatlantic security relations. First, the Clinton administration had renewed the American invitation to the EU to become a global security partner. For instance,

they were to exercise joint leadership in the consolidation of democracy in Russia and Central Europe and in the reconstruction of Bosnia and Herzegovina, to promote the Middle East peace process and to develop co-operative efforts to combat transnational threats including international crime and narcotics. Second, the NTA adopted a broad conceptualisation of security that explicitly recognised links between security and economic transformation and liberalisation and that cut across the EU's pillared activities, thereby also lending momentum for further EU institutional reform. Thus the EU and US were to act jointly in preventative diplomacy, provision of humanitarian assistance and promotion of multilateral free trade. Third, the NTA effectively developed a joint transatlantic security agenda, with the JAP delineating specific measures to address this. As US Ambassador to the EU Stuart Eizenstat concluded, the NTA was 'the first time we have dealt comprehensively with the EU, not simply as a trade and economic organization, but as a partner in a whole array of foreign policy and diplomatic initiatives'.<sup>21</sup> Fourth, the NTA acknowledged that effective security co-operation and the achievement of security objectives rested not only in the hands of national governments and the EU but also in elements such as international regimes, NGOs, lobbyists and interest groups.<sup>22</sup> Similarly, recognition was given to the relationship between public opinion and sustainable security co-operation, especially given the so-called CNN factor and the blurring of the foreign and domestic realms of policy.<sup>23</sup> Hence the People-to-People Chapter sought to 'educate' American and European parliamentarians in order to overcome potential opposition to closer EU-US co-operation that cut across vested and/or political interests and to facilitate renewed Atlanticism in the face of demographic and generational change.<sup>24</sup>

### Understanding transatlantic security drift

The NTA remains the principal framework for an EU-US bilateral relationship that enjoys consultations of an intensity, frequency and breadth 'unprecedented in the diplomatic relations of either partner and in the history of diplomacy writ large'.<sup>25</sup> It is a relationship rooted in decades of close collaboration, shared values and profound and ongoing interdependence. That it remains of paramount importance to both partners is amply demonstrated by the energy expended in its post-Cold War renegotiation and the political will vested in the institutionalisation of dialogue and co-operation. And this NTA co-operation continues to be fine-tuned. At the Gothenburg Summit in June 2001 six strategic themes were set out that apparently marked 'a new chapter in the EU-US relationship, characterised by clear and sustainable political priorities and more streamlined, political and results-orientated methods of co-operation'.<sup>26</sup>

Conclusions of transatlantic drift, or worse, thus seemingly strike a discordant note. Yet so often have these warnings been sounded, on both sides of the Atlantic, that they should be understood and not dismissed. After all,

post-WW2 transatlantic relations developed and operated within a unique international system and its loss demanded key re-evaluations by the EU and the US of themselves and of their relationship. What form should the new world order promised by President Bush take and what roles should the EU and US perform in its creation? What security issues should be prioritised? What means should be used to secure desired ends?

Within this combination of mission, priorities and means lie many of what might broadly be called 'attitudinal factors' that have complicated post-Cold War transatlantic security relations. For the EU the whole notion of mission is problematic. It implies a relatively chaotic conception of what the EU is, where it is headed, and what its purpose is. Member states might agree on general issues such as the EU's importance in stabilising Central and Eastern Europe, promoting democracy and human rights, and addressing security threats from transnational crime. Yet there is frequent discord about how the EU should perform these security functions and what its priorities are, difficulties that are exacerbated by questions of legal competence, sovereignty and the post-Cold War regionalisation of member states' security concerns. There is even less clarity on bigger issues, as the Convention on the Future of the European Union demonstrates. Just how far should or can the EU federalise? Should it remain a civilian power or become a meaningful military actor too? Should its security focus remain in Europe and its contiguous areas such as the Maghreb, or should it join the US as a full partner in global security management?

It is not so much that the EU lacks vision but that it has multiple and competing visions, which inevitably poses problems for itself and for its partners. Also, different member state histories and regional security concerns tend to reduce EU security consensus in proportion to the distance an issue is away from Western Europe. One consequence has traditionally been a parochial EU security focus and the dedication of enormous energy and resources to its own internal grand design, as an integration project in the making. This is not necessarily wrong. Tying reunified Germany into deeper integration through successive treaties, embracing Austria, Sweden and Finland in the 1995 enlargement and preparing carefully for the pending substantial new eastern enlargement have been crucial strategies in stabilising post-Cold War Europe. Likewise institutional reform, initiatives such as CESDP and the evolution of clearer lines of responsibility and competence should facilitate future transatlantic dialogue, policy consistency and a sense of security partnership.

For the present, however, security co-operation with the EU remains a constantly moving and frustrating target. This is obvious in terms of shifting institutions and competencies. No sooner does the US work out who has responsibility for what aspect of EU security, and what is necessary to translate dialogue into meaningful action, than the EU engages in another internal reform. This is an increasing problem given that the Treaties of Maastricht, Amsterdam and Nice occurred within a decade whilst the three previous treaty revisions spanned over thirty years. EU security postures, too, can be notoriously unpredictable and inconsistent owing to changing memberships

and especially to the 'melting pot' of at present fifteen different national interests coupled with the impact of the EC institutions, policy linkage and domestic politics. Germany's unexpectedly strong stance in summer 2002 against possible US military intervention in Iraq was widely attributed to Chancellor Schröder's cynical manipulation of German anti-Americanism and pacifism to win re-election in September that year. Likewise, President Chirac's interest in hosting a conference of African nations in February 2003 meant that the EU had to trade Robert Mugabe's presence in Paris for subsequent French agreement to renew economic sanctions against his repressive regime in Zimbabwe.

The EU's traditional parochialism and its multiple voices also mean a lack of self-awareness of its global role and limited ability to articulate its interests clearly and consistently. In turn, this tends to generate structures and political will insufficient to translate EU economic power into political and security influence, with worrisome implications for EU-US security relations. The US tends to be both frustrated that the EU continues to 'punch below its weight' in international security and critical of free-riding on American global contributions, especially in terms of hard security. Even EU Commissioner for External Relations Chris Patten conceded in December 2002 the damaging effects on transatlantic relations of 'the gulf between our rhetoric and the reality'.<sup>27</sup> Increasingly the EU needs to develop its own world-view and strategy and the means to put it into effect as prerequisite to bridging this growing transatlantic divide and constructing a new security partnership.<sup>28</sup>

This is not to say that in terms of global mission/vision the EU always contrasts negatively with the US. The articulation and development of US foreign policy has itself suffered increasingly in recent years from the impact of domestic constituencies and from the multiplication of its own voices. Of the former, US policy towards Israel and the Middle East peace process is the most obvious and enduring example. As for the latter, there has been a diffusion of responsibility in Washington as a consequence of the blurring of foreign and domestic, and of security and non-security, issues. The US Congress, with its own many voices and vested interests, has also seized a growing role in US foreign policy, testament to which is an expanding catalogue of incidences where it has either substantially amended or even overturned the foreign policy of the incumbent US President. In December 2000 EU Trade Commissioner Pascal Lamy, in reference to Kissinger's 1970s barbed question of who in Europe should be called in the event of a crisis, delighted in telling the American Enterprise Institute that 'the phone numbers are multiplying' in Washington too.<sup>29</sup>

However, the US does have a clear sense of its place in the world, the willingness/ability to articulate its interests, and the capability to act in their defence and promotion. The end of the Cold War created uncertainty in international relations but its passing was not so traumatic as to question America's self-perception as leader of the civilised world. As President Bill Clinton declared in his inaugural speech on 20 January 1993, '[t]oday, as an old order passes, the new world is more free but less stable. Communism's collapse has called forth old animosities and new dangers. *Clearly America must continue*

*to lead the world we did so much to make.*'<sup>30</sup> Imbued with political traditions of exceptionalism and manifest destiny, the US mission was to propagate its values, to be a civilising force in world affairs and to facilitate an international order broadly in reflection of its own image. Imaginative would-be substitutes for containment doctrine came and went on a regular basis amid a sustained debate about US strategic interests and what relative burden of leadership it should bear. George H. Bush's new world order was born in the 1990/91 Gulf War but passed away with Operation Restore Hope in Somalia in December 1992. Clinton's democratic enlargement, a doctrine steeped in the inevitable spread of democracy and free markets assisted by US zeal, largely failed to survive Bosnia. Presently the George W. Bush administration claims to have formulated 'a new rationale for engagement' and, in the doctrine of pre-emption, to have buried America's caricature as 'the reluctant sheriff'.<sup>31</sup>

Transatlantic security tensions are also explained by the Cold War's demise ending the EU-US shared threat perception and their coincidence of interests in the former maintaining a Eurocentric security focus while the latter, though prioritising European security, led the free world in global containment. There evolved a 'creeping divergence of strategic interest' that fuelled different security expectations and priorities, both in type and geography. This was reflected at the extreme in the contrast between continued EU commitment to developing African security through humanitarian, aid and trade measures and Bush's declaration during his 2000 election campaign that Africa 'does not fit into our national strategic interests'.<sup>32</sup> The most significant dislocation of EU and US strategic priorities, however, was the EU's continued Eurocentric preoccupations and America's progressive de-prioritisation of Europe.<sup>33</sup>

The EU became consumed in the 1990s by successive Balkans crises, instability in Central and Eastern Europe and the need for constructive dialogue with Russia. Although the US was sucked into the Balkans mire, its involvement was reluctant, limited and marked by renewed criticism of Europe's inability or unwillingness to burden-share adequately, even in its own backyard. US strategic concern actually shifted from Europe to the Middle East and, especially, Asia.<sup>34</sup> The failure of surrogate states during the Cold War to guarantee Middle Eastern security led the US to become a regional hegemon. It afterwards remained locked into Middle Eastern engagement as a consequence of its commitment to Israel, oil supplies, the legacies of the 1990/91 Gulf War and, especially, because the region hosted a number of states and terrorist organisations antipathetic to the US. As for Asia, US strategists worried particularly about WMD proliferation, the nuclear ambitions and destabilising impact of North Korea, and the related 'China question', owing not least to the Taiwan Straits and China's nuclear weapons programme.

Entwined with this gradual strategic divergence was EU-US prioritisation of different security concerns. Geography, deepening integration, processes of enlargement and traditional security parochialism all led the EU to focus foremost on 'door-step' issues. Yugoslavia's disintegration was an immediate and shocking demonstration of a new trend toward ethno-nationalist and

intra-state conflict, of the problems of 'failed states', and of the radically different responses required to tackle these types of threat compared to those of the Cold War. Spill-over effects of regional conflict, such as large-scale migration and asylum claims, concentrated EU minds on developing common procedures and an external dimension to JHA issues. This was further underpinned by the combination of escalating transnational organised crime and human trafficking and by potential new national vulnerabilities to these threats owing to the EU's SEM drive for an internally borderless Europe. The EU also emphasised environmental degradation, due in part to its own embrace of sustainable development, a concept first coined by the 1987 Brundtland Commission but made pressing by its contiguity to the former Eastern bloc, where environmental concerns had been systematically neglected for decades.

The US faced few of these immediate concerns. North America was geographically remote from Europe's regional environmental concerns, faced no likelihood of ethno-nationalist conflict within its borders and had none of the EU's complications of being 'a project in the making'. On the contrary, the US had the full range of tools for maintaining internal law and order and unrivalled power to defend its interests abroad, even to the point that its global position was stronger than at any time since WW2. This owed in part to the unexpected weaknesses of rivals, notably the USSR's collapse, the economic travails of Japan and the relative failure of the EU to translate economic power into political influence. It also owed to US post-Cold War performance confounding declinist predictions. Its military might and ability to project power globally became unprecedented and its economy remained the heartbeat of international capitalism. From 1993 the US actually enjoyed an amazing 107 consecutive months of economic growth and under the Clinton administration the budget deficit was erased for the first time since 1969.<sup>35</sup>

In consequence America's principal security concerns derived from a combination of resentment engendered by its policies and hyperpower status and technological development that rendered sovereign borders ever less defensible and the US potentially vulnerable from afar. Admittedly, the Clinton administration in particular identified the drugs trade as a threat to US societal security and launched a sustained, if inconclusive, counter-drugs offensive. Nevertheless, US foreign policy concentrated primarily on strategic threats, as evidenced in the 2001 Quadrennial Defense Review, and global challenges to American national security. Topping the bill were the interrelated threats of WMD proliferation and rogue states. The September 11 terrorist attacks subsequently made explicit the national security linkage between WMD, rogue states and terrorist organisations. Thereafter the premier US security concern became countering what Bush called the 'perilous crossroads of radicalism and technology'<sup>36</sup> in a world where destructive power had been privatised and the enemy was often difficult to identify and locate.

One final and very important attitudinal factor contributing to EU-US friction is the evolution of different security discourses either side of the Atlantic. These reflect different security traditions, histories and structures, are intimately

entwined with preferred approaches to managing international security and, broadly speaking, represent a clash between preferences for multilateral and unilateral action and between soft and hard tools of security. Multilateralism has become the dominant currency of public discourse in post-WW2 Europe. Multilateral institutions and a multinational mode of thought have provided Europe with an antidote to its historical national antipathy, so much so that in some countries multilateralism became a moral endeavour and the basis for a new identity, especially in West Germany. The EU itself evolved from multilateral principles and contributed to the development of a Kantian-styled sub-system regulated by laws, rules, norms and multilateral consultation and co-operation. Moreover, to act effectively in international security the EU must first build, and then maintain, consensus among its members and demonstrate its continued benefits as a vehicle to protect national interests and to institutionalise their power in the face of globalisation and their own relative decline.

The EU consequently prefers the non-combative, consensual language of security challenges and talks of collective endeavours such as promoting global governance, managing globalisation, projecting stability and developing conflict prevention. In contrast, the US tends toward more adversarial language of security threats and talks of protecting its national sovereignty and interests, interventionism, forced disarmament and, most recently, of global war upon terrorism. The US has no historical reason to fear its own nationalism and no imperative to constrain voluntarily its sovereignty within supranational structures and multilateral fora. As a post-Cold War hyperpower, with its historical national traditions intact and its power uniquely unrivalled, the US is free to pick and choose between multilateral and unilateral methods and actions. Moreover, US administrations face a more direct linkage between public opinion and overseas action, and painting the world in terms of good and evil and appealing to the defence of American values and national interests is a tried and trusted tool for generating popular support.

Of course the debate is more nuanced than this. EU states do engage in action outside multilateral frameworks and in dispute with one another. Consider French unilateral action in Rwanda and Algeria, Greek flaunting of EU policy towards Macedonia, German unilateral recognition of Croatia, and controversial British support for both renewed US military interventionism in Iraq in 2003 and for Clinton's Cruise missiles attacks against 'terrorist' sites in Afghanistan and Sudan in reprisal for the bombing of American embassies in Africa. Likewise, the inconclusive debate in the US about the UN indicates ongoing American disagreement about international organisations and the appropriate balance between multilateralism and unilateralism.<sup>37</sup> Furthermore, the US approach is little different from its Cold War behaviour, albeit that Congress's growing foreign policy impact and the election of George W. Bush have recently encouraged greater unilateralism.<sup>38</sup>

Nevertheless, the post-Cold War context is much different and mutual transatlantic annoyance has developed as the EU pushes its multilateral agenda and the US operates on a basis of 'internationalism *à la carte*',<sup>39</sup> picking and

choosing those international laws and conventions that best suit its interests. Europeans have become more fearful and more critical of the effects of US policy. Commission spokesmen have called US unilateralist tendencies 'profoundly misguided'.<sup>40</sup> Likewise, Chancellor Schröder has declared an 'undeniable' danger of US unilateralism<sup>41</sup> and former French Foreign Minister Hubert Védrine declared that 'France cannot accept a politically unipolar world . . . nor the unilateralism of a single hyper-power'.<sup>42</sup> Americans, unsurprisingly, find such criticism difficult to accept. Critics of the EU detect sinister motives behind its 'almost cultlike worship of multilateralism'.<sup>43</sup> Perhaps jealousy of US success and power leads it to try to constrain American sovereignty? Perhaps, too, multilateralism is the European way of avoiding rightful responsibilities whilst simultaneously free-riding on American commitments to international security and sniping at American leadership? Even Europeans sensitive to American opinion have recognised the dangers inherent in such sentiment. For instance, Blair pledged in April 2002 to work 'side-by-side' America and '[n]o grandstanding, no offering implausible but impractical advice from the comfort of the touchline, no wishing away the hard choices on terrorism and WMD, or making peace in the Middle East, but working together'.<sup>44</sup> Also US officials have repeatedly, and with some justification, argued that America is profoundly multilateralist. It was the principal architect of many of the world's key multilateral bodies, retains a critical role within them and has often provided the leadership necessary to make them effective. Even the current Bush administration has continued US funding of numerous multilateral organisations, patched things up with the UN over outstanding American financial contributions and embraced a post-September 11 strategy that combines the so-called "posse model" of forming coalitions of the willing with the "police force" model of using standing institutions to win the peace'.<sup>45</sup>

Problems come, in American eyes at least, when European multilateralism seemingly elevates process above policy and subsumes purpose to the quest for consensus. Where as a consequence Americans seek to provide leadership to make multilateralism effective, they incur criticism for riding 'roughshod' over others. Where they disengage or disagree with multilateral initiatives they are accused of unilateralism. As a frustrated US representative to the Conference on Disarmament (CD) declared in February 2003: 'if multilateralism of the type we have witnessed here were to persist within the CD and spread to other multilateral institutions, we would all soon be unilateralists, or at least something other than multilateralists'.<sup>46</sup> Moreover, EU-US officials have exacerbated matters through hubris and mutual moralistic preaching. Americans detect in EU attitudes the merging of multilateralism 'with new forms of self-righteous moralistic nationalism'.<sup>47</sup> Conversely Europeans see the arrogance of American power and an irksome exceptionalism that espouses the supremacy of the American model over the European. Madeleine Albright, then US Secretary of State, epitomised this when asked to explain America's relative isolation in Operation Desert Fox against Iraq in 1998: 'it is because we are America, we are the indispensable nation, we stand tall - we see further into the future'.<sup>48</sup>

The rights and wrongs of this debate can be, have been and are being argued back and forth with increasing bitterness. The most important lesson for transatlantic security relations is that this argument is about more than tactics. It is about values. It is about the importance of rules and norms in managing international affairs. It is about how to enforce those rules and to inculcate the spread of norms. It is even, despite wide agreement on the importance of democracy, rights of the individual, the rule of law and so forth, about exactly what values to embed in the development of a system of global governance. For instance, although united in capitalism, there remain deep EU-US differences about the right mixture of free market and welfare state, of individual freedom and social solidarity.

The danger of transatlantic dislocation in how to develop global governance is reflected in increasing EU-US disagreements over multilateral security initiatives. The EU was alarmed by the Bush administration's abrogation of the anti-ballistic missile treaty and its revived pursuit of National Missile Defence (NMD). They disagreed, too, on the establishment of an International Criminal Court (ICC) empowered to try political leaders and military personnel charged with crimes against humanity. On 11 June 2001 the EU adopted a common position in support of it.<sup>49</sup> The Bush administration, though, revoked Clinton's conditional signature of the Rome Convention and has since continued to oppose the ICC - despite this aligning America with states Bush cited within his infamous 'axis of evil'.<sup>50</sup> Similar EU-US positions developed over the 1997 Ottawa Convention for phasing out the use of anti-personnel landmines (APLMs), the Biological and Toxin Weapon Convention, the Kyoto Protocol on global warming and the CTBT. Indeed, the US Senate rejected the latter and has since been joined in its opposition by the Bush administration, regardless of an EU *démarche* to encourage ratification in May 2001.<sup>51</sup> EU-US disagreement about multilateral security initiatives even spills over into, and threatens, areas of formerly agreed multilateral action. For instance, in 2002 Bush administration opposition to the ICC led it to threaten to veto the UN mission in Bosnia unless the Security Council gave US troops prior exemption from possible prosecution.<sup>52</sup>

Finally the danger of transatlantic dislocation carries extra weight owing to divergent trends in preferred tools of international security management. As a multilateral and hitherto non-military actor, the EU favours by choice and default soft security measures. It seeks to address unsatisfactory international behaviour and 'failing states' by exporting its own values of reconciliation and encouraging reform through constructive dialogue and economic incentive. Thus it has a policy of engagement with states such as Iran, North Korea and Cuba. It promotes regional co-operation through initiatives such as the Euro-Mediterranean Partnership. It provides large-scale development assistance, already four to five times as much as the US and with more to come in line with commitments made in March 2002 at the UN Monterrey Conference on Financing for Development.<sup>53</sup> It has also accepted the lion's share of the cost and responsibility for nation-building in the wake of US-led military interventions in the Balkans and Afghanistan.

The US approach is different, often emphasising its martial supremacy and military tools of security. In 2002 US defence spending exceeded that of the next fifteen leading countries combined.<sup>54</sup> Meanwhile Congress slashed the budget for multilateral development banks by some 40 per cent from 1995, and the so-called 150 Account, the percentage of the US federal budget devoted to international affairs excluding defence expenditure, steadily declined from 4 per cent in the 1960s to just 1 per cent in the 1990s.<sup>55</sup> Even when Bush promised prior to the Monterrey Conference to reverse the downward trend in the US foreign aid budget, appropriations looked meagre when set against a simultaneous proposed \$48 billion hike in defence spending.<sup>56</sup> The US also often uses its formidable economic power to try to coerce recalcitrant states, and sometimes their trading partners, into line. For instance, during the 1990s Congress passed the Helms-Burton and D'Amato legislation with extra-territorial provisions that imposed punitive sanctions not only on Cuba, Libya and Iran but potentially also on European companies trading with these nations.<sup>57</sup>

The product of all this has too often been transatlantic frustration and sub-optimal security outcomes. It is all too easy for Americans to see European 'engagement' of countries such as Cuba and Iran as subterfuge for preferencing their economic interests over principled strategic choices. Conversely Europeans find it easy to blame US pro-Israeli bias for stalemate in the Middle East peace process and to detect in America's combative approach to international security causes of, rather than solutions to, instability. Also, in the realm of post-Cold War interventionism there has developed a *de facto* division of labour, the US providing the overwhelming contribution to military engagements, especially air power, and the EU, put crudely, being left to sweep up the mess.<sup>58</sup> This is unlikely to be a sustainable state of affairs. Past interventions have witnessed acute EU-US tension, such as the question of deploying ground troops to active combat in Kosovo. The EU is unlikely to follow the US lead blindly, as evidenced by the 2002/03 transatlantic crisis over extending the war against terrorism to military intervention in Iraq in consequence of its failure to abide by UN resolutions. Furthermore, the creeping divergence of strategic interests promises that the US will not always want to get involved in European crises any more than the EU will want always to accompany the US. It has even been suggested that US commitment to Bosnia in 1995 was the product of confusion rather than of intent due to an earlier decision that, if necessary, NATO would cover the withdrawal of the UN Protection Force (UNPROFOR).<sup>59</sup>

### Co-operation and discord in transatlantic security management

On the one hand, then, EU-US security co-operation is deeply rooted in shared values and common interests, and considerable political determination

remains to maintain and further institutionalise that co-operation. On the other, there is a range of factors that have complicated post-Cold War EU-US co-operation. It is therefore instructive to examine two interrelated aspects of EU-US security interaction in practice: burden-sharing and institutional reform, and the war against terrorism.

An enduring feature of EU-US security relations has been the interlinked debate about burden-sharing, institutional development and EU contributions to military-related activities. The White House has consistently accorded ESDI/CESDP qualified support, welcoming potential greater European contributions to aspects of hard security but remaining reluctant to share leadership and suspicious of possible dislocation between NATO and CESDP. The EU has repeatedly declared its intent to burden-share and has made significant institutional development towards a limited hard security capacity. Its best efforts, however, have been compromised by the constraints of other EU policies, notably EMU, and member state reluctance either to devote necessary resources to military expenditure or to abandon national champions in key aspects of the defence market.

In principle, post-Cold War developments portended a mutually beneficial sharing of burdens and a flexibility of response potentially capable of offsetting the gradual divergence of EU-US strategic interest. In terms of combined defence expenditure and arms production there is no single power, even combination of powers, capable of challenging EU-US supremacy. In 2001 the EU and US accounted for 56.8 per cent of total global defence spending. The US, UK and France together dominated global arms deliveries with a 69 per cent share of the market.<sup>60</sup> Moreover, defence material supply improvements were made. For example, on the European side the Joint Armaments Co-operation Structure (OCCAR) encouraged common procurement practices. New ventures were undertaken, such as the formation in 2001 of the MBDA Missiles company that brought together the missile interests of BAE Systems, the European Aeronautic Defence and Space Company (EADS) and Finmeccanica of Italy. The European defence industry underwent rapid consolidation to a point where two giant conglomerates, BAE Systems and EADS, dominate many aspects.<sup>61</sup> And there developed strong potential for transatlantic defence industry co-operation and consolidation, especially given surplus capacity and considerations of economies of scale, inter-operability and dual use technology flows. Indeed, BAE Systems introduced many of the safeguards required by Congress for possible transatlantic mergers when it acquired Tracor.

EU initiatives also augured well for transatlantic burden-sharing and institutional synergy, most notably the Amsterdam Treaty's inclusion of Petersberg responsibilities and the ambitious geographic scope of the subsequent EURRF. With an operational radius of 4,000 km from Brussels, potential EURRF deployment incorporates north-west Africa, the Middle East (including much of Iraq, Palestine, Israel and even parts of Iran), Central and Eastern Europe (including the Balkans), western Russia and the Caucasus (including Georgia, Chechnya, Armenia and Azerbaijan).<sup>62</sup> The Helsinki Headline Goals then set



the benchmark for securing EU military contributions, which have subsequently been monitored and for which further measures have been recommended. Also substantive progress has been made in developing modalities for institutional synergy between the EURRF and NATO and for the potential involvement of non-NATO, non-EU nations in EURRF actions. Furthermore, determined and repeated efforts have been made to assuage American concerns about the EURRF potentially rivalling NATO or undermining its effectiveness through the diversion or duplication of resources. Article 17 of the Nice Treaty respects member state defence commitments to NATO and declares EU commitment to compatibility between NATO and CESDP.<sup>63</sup> National leaders, especially British, have repeatedly emphasised, too, that the EURRF complements NATO and would only seek to act where NATO as a whole chooses not to.<sup>64</sup>

All of this has been made possible by EU member states undertaking significant reforms of security and defence policy, prompted especially by the end of the Cold War and consequent fears of US downsizing of its European security commitment. Herein Britain and Germany have been particularly important as the leading EU Atlanticist and economic power respectively. The genesis of the EURRF resides in the Anglo-French rapprochement at St Malo where British acceptance of CESDP as being conceptually compatible with NATO constituted something of a 'revolution in military affairs'.<sup>65</sup> After all, Britain had hitherto opposed consistently the absorption of the WEU into the EU as inconsistent with maintaining a strong NATO alliance. Margaret Thatcher's condemnation of Blair's commitment to the EURRF as 'an act of monumental folly' taken 'to satisfy political vanity'<sup>66</sup> summed up the clash between new and old British thinking. As for Germany, its leaders repeatedly acknowledged the need to make commitments more commensurate with German economic weight<sup>67</sup> and slowly reconceptualised its civilian power status. Incremental increases in German international military commitments began in 1991 with the deployment of minesweepers to the Persian Gulf and accelerated once the Federal Constitutional Court ruled in July 1994 that there was no legal prohibition on German military involvement in all manner of crisis and peace enforcement scenarios. Participation in the 1999 Kosovo War in particular, though carefully justified by Schröder in terms of humanitarian intervention,<sup>68</sup> was of great symbolic importance given a strong historically driven desire to avoid deployments in areas occupied by the *Wehrmacht* during WW2.<sup>69</sup>

The EU and US thus had/have built strong foundations for a complementary and flexible post-Cold War partnership in military-related operations. Yet this potential remains largely unrealised and the US continues to doubt both the long-term compatibility of the EURRF and NATO and European willingness to match institutional development with capability improvement. The so-called Dobbins Démarche<sup>70</sup> of February 1991 stated the George H. Bush administration's opposition to WEU development outside NATO, which Commission President Delors reformulated in terms of three US demands in the development of a European defence capability. There should be 'no internal bloc, continued globality of the Allied response, no weakening of command structures'.<sup>71</sup> Eight

years later, Clinton's Secretary of State Madeleine Albright virtually repeated this, warning against the so-called 'three Ds' of de-linking, duplication and discrimination.<sup>72</sup> And the current Bush administration has reiterated the message, Secretary of Defence Rumsfeld cautioning in February 2001 that '[a]ctions that could reduce NATO's effectiveness by confusing duplication or by perturbing the transatlantic link would not be positive' and risked injecting instability into an enormously important alliance.<sup>73</sup> Moreover, the impact of European reassurances about EURRF-NATO compatibility has been undermined by severe transatlantic difference over Iraq and by the different security dispositions of EU member states. France has been particularly problematic in this respect, Hubert Védrine speaking repeatedly of an autonomous European defence pillar and French Chief of Defence Staff General Jean-Pierre Kelche reportedly declaring in March 2001 both that the European defence project would remain independent of NATO and that the latter would not be given right of first refusal in a crisis situation.<sup>74</sup>

The US has just as consistently urged Europe to spend more, and more wisely, on defence. Europe is not being asked to match American defence spending. Nor is transatlantic partnership necessarily compromised by EU concentration on Petersberg tasks while the US ploughs ahead with full spectrum dominance, defined in Joint Vision 2020, the Pentagon's principal conceptual planning document, as 'the ability of US forces, operating unilaterally or in combination with multinational and interagency partners, to defeat any adversary and to control any situation across the full range of military operations'.<sup>75</sup> Nevertheless, collective EU-US military dominance conceals striking imbalances within their relationship. In 2001 the EU combined spent just 47.3 per cent of what America did alone on defence, or in terms of GDP an average 1.75 per cent compared to 3.2 per cent.<sup>76</sup> This imbalance constitutes part of a long-standing post-Cold War trend as EU member states sought to deliver a peace dividend, absorb increasing costs of maintaining the European social model and, predominantly, became fiscally constrained by EMU convergence criteria and the Stability and Growth Pact. Its impact is further exacerbated by low spend within the EU not corresponding to country size or economic wealth. Germany has been a particular target of American criticism, US Secretary of Defence William Cohen declaring in December 1999 that German policy had a 'profound and lasting impact' on the capabilities of itself and of NATO as a whole.<sup>77</sup> Between 1975 and 1979 Germany spent 3.4 per cent of its GDP on defence. In 1995 this had declined to 1.7 per cent, by 2001 to 1.5 per cent, and further reductions are planned in line with Schröder's commitment to a balanced budget by 2006, Finance Minister Hans Eichel's austerity programme, and high levels of German taxation and public debt.<sup>78</sup>

As for quality of defence spending, the US has begun cancelling old-style systems, such as the Crusader heavy artillery programme in May 2002, but Europe generally, and Germany particularly,<sup>79</sup> has been slow to re-orientate force structures and procurement to systems capable of addressing post-Cold War conditions and asymmetric threats. The impact of EU national defence

spending is further limited owing to duplication, entrenched inefficiencies and, in countries such as Greece and Germany, expensive conscription policies.<sup>80</sup> The real military capability of EU member states is estimated to be approximately 10 per cent of America's.<sup>81</sup> Europe's consequent problems were reflected in the difficulty European NATO members had to muster from nearly 2 million military personnel just 40,000 troops for Kosovo and to maintain thereafter 50,000 peacekeepers in the wider Balkans.<sup>82</sup> They are reflected, too, in growing divisions within EU national capabilities and between the EU and the US. In the critical area of research and development (R&D) Anglo-French spending of £29 billion is more than double the collective spending of all other EU members. This is still far below the US, which spends three times as much on R&D of new weapons as the rest of NATO combined.<sup>83</sup> Even by its own standards, the EU has failed to translate targets into reality. Its Capability Improvement Conference in November 2001 found that only five of fifty-five previously identified major deficiencies had been resolved, and crucial collaborative military procurement programmes, such as the €18 billion A400M air transport project, have been repeatedly plagued by funding crises.<sup>84</sup>

It is thus with justification that some American commentators greeted with derision the EU's declaration of the EURRF as operational at its Laeken Summit in December 2001.<sup>85</sup> Many observers actually estimate that it will be at least 2012 before the EU will be capable of fulfilling the Petersberg tasks.<sup>86</sup> However, US equivocation about CESDP and apparent double standards feed transatlantic recrimination. First, US initiatives within NATO have sometimes been as much about controlling as facilitating CESDP. Most recently, in November 2002, the Bush administration potentially arrested the momentum behind the EURRF by pushing through at NATO's Prague Summit the creation of a 20,000-man Rapid Response Force capable of going 'any time, anywhere, at very short notice'.<sup>87</sup> The Clinton administration was generally more supportive, embracing the idea of an ESDI and announcing in 1993 the Combined Joint Task Force (CJTF) initiative,<sup>88</sup> which NATO endorsed in its 1999 Alliance Strategic Concept as serving to reinforce the transatlantic relationship. Nevertheless, with its central premise of separable but not separate forces, the CJTF clearly sought to head off an autonomous European military capability and to allow the US to burden-share without surrendering leadership – not least because Europe would effectively have to borrow key US assets in a military intervention.

Second, US preferential relationships, particularly with Britain, potentially constrain CESDP and European defence development. EU members with Atlanticist security orientations are naturally sensitive to Washington's line on the EURRF and NATO primacy. The Anglo-American relationship has particular impact in defence-related issues and British companies have long benefited from preferential access to US technology. This impacts on the willingness of British defence companies to collaborate in multinational European projects for fear of losing privileged access to American R&D and markets. BAE, for instance, sells more to the US Defence Department than to the British Ministry

of Defence. It also leads the British government to a fine balancing act between Anglo-American and Anglo-European defence collaboration. Hence the Blair government committed Britain to the A400M project but also joined the US in January 2001 in co-operating on the Joint Strike Fighter aircraft and working towards a joint defence export controls regime, thus reinforcing the special relationship. Furthermore, American initiatives with which some EU members disagree, notably NMD and renewed military intervention against Iraq, potentially threaten CESDP by disrupting the Anglo-French rapprochement underpinning the EURRF and by weakening Britain's ability to perform its self-designated transatlantic bridging function.<sup>89</sup>

Third, the US has repeatedly criticised a growing transatlantic technology gap but has been inconsistent in its efforts to mitigate this. Its argument, supported by the European Commission,<sup>90</sup> that the European defence industry should be included in SEM regulations sits awkwardly with its own subsidies of the American defence industry. For instance, the Clinton administration gave direct assistance of \$16.5 billion to assist post-Cold War reconfiguration, including \$1.3 billion within the Technology Reinvestment Programme designed to promote dual use technologies.<sup>91</sup> Similar inconsistency marks US efforts to facilitate transatlantic technology exchange. On 24 May 2000 Madeleine Albright announced the Defense Trade Security Initiative aimed at improving US technology and arms transfers to America's closest allies. Yet the US defence market remains a 'fortress' owing to various levels of protection from FDI, joint ventures, and exports to third parties.<sup>92</sup> Protectionist measures include the Buy American Act, the Arms Export Control Act, the International Traffic in Arms Regulations and the Committee on Foreign Investment in the United States. This has also helped shape post-Cold War consolidation within, rather than between, the US and EU defence industries, again potentially encouraging trade restrictions and technology and compatibility gaps. Furthermore, US interests simultaneously warned of possible discrimination against American military producers in European markets as a consequence of EURRF-promoted improvements in European arms procurement co-ordination<sup>93</sup> and manoeuvred for potential hostile take-overs of vulnerable European companies, which risks the latter becoming subsidiaries and further widening the technology gap.<sup>94</sup>

Turning to EU-US security relations and the September 11 terrorist attacks, these evidenced a similar mixture of co-operation, disagreement and lost opportunity. Initial transatlantic solidarity was impressive. NATO invoked Article V for the first time in its history, EU flags flew at half-mast in Brussels and 14 September was declared a day of mourning across Europe. An extraordinary European Council on 21 September pledged total support for the American people. The EU General Affairs Council subsequently affirmed 'full solidarity with the US' and invoked a value-based transatlantic relationship in its castigation of the September 11 atrocities as 'an assault on our open, democratic, tolerant and multicultural societies'.<sup>95</sup> National leaders and EU commissioners repeatedly underscored the incontrovertible message of European sympathy and support for America and its people.<sup>96</sup>

Evidence of prospective enhanced EU-US co-operation came quickly. On 20 September the EU and US issued a joint ministerial statement pledging efforts to 'work in partnership' on a 'world-wide' scale to combat terrorism.<sup>97</sup> Areas targeted within this effort included aviation and other transport security, police and judicial co-operation, export controls and non-proliferation, financial sanctions, border controls and exchange of electronic data. The following day the European Council agreed an Action Plan comprising seventy-nine measures to help combat terrorism, many under the auspices of JHA. Amongst the most important initiatives were commitment to the introduction of a common EU-wide arrest warrant no later than January 2004, regulations relating to enhanced interagency co-operation, a common definition of terrorist acts and groups, and a framework decision on freezing terrorist assets. In December 2001 the EU adopted a common position, a framework regulation and an implementing decision that further augmented its legal and administrative ability to combat terrorism. For instance, the EU listed individuals, groups and entities agreed to be terrorists or terrorist-related and committed itself to freezing financial assets.<sup>98</sup> Six months later the Seville European Council resolved to integrate border protection further, including measures to combat illegal immigration and cross-border crime, to move towards a common asylum policy and for national border forces to conduct joint operations at EU borders by the end of 2002.

The EU complemented measures to augment its counter-terrorist capabilities with steps to facilitate direct transatlantic co-operation and co-ordination. In December 2001 the European Council adopted the decision to create Eurojust, to which the US has already provided a liaison magistrate. Efforts were also made to boost Europol, including a call for better information pooling by member states and the creation of a dedicated anti-terrorism group authorised to collaborate directly with the US. On 6 December 2001 Europol duly concluded a co-operation agreement with the US to share best practice and strategic information in criminal matters. Liaison officers began to be accredited, dialogue improved and intelligence sharing was promoted. Information was exchanged on travel documents and migration issues to boost border security.<sup>99</sup>

The EU also worked in tandem with the US through established bilateral channels, notably the NTA, and in multilateral fora. Commission proposals for common EU procedures for employee identification, access to airport areas, passenger control and luggage inspection emerged in conjunction with EU-US work on aviation security and joint pressure in February 2002 for the establishment and implementation of an International Civil Aviation Organisation security audit programme. In line with UN Resolution 1373 the EU and US developed measures to fight funding of terrorist organisations, such as their successful joint championship in October 2001 of the Financial Action Task Force (FATF) against money laundering specifically embracing terrorist activity within its remit.<sup>100</sup> And in the wake of military intervention in Afghanistan, the EU and US were prominent collaborators at the UN-backed Bonn Conference.

As of 25 September 2002, the US had disbursed \$350 million of humanitarian and reconstruction assistance to Afghanistan, and the EU \$432 million.<sup>101</sup>

Furthermore, the EU and its member states brought substantial collective and national assets to bear in the construction of an American-led coalition against terrorism and in encouraging a holistic approach that addressed the sources as well as the symptoms of radical discontent. The Commission's comprehensive strategy included 'the undemocratic behaviour of governments, as well as an unacceptable divide between the rich and the poor; environmental degradation, and crime, corruption, drugs and health issues'.<sup>102</sup> Within this, it pushed for a reinvigoration of the Middle East peace process with a view to creating a Palestinian state and guaranteeing Israel's territorial integrity within recognised borders. It stressed, too, the importance of legitimising action against terrorism and the integration of all countries into a fair world system of security, development and prosperity.

Herein EC and national officials co-operated with the US in steering retaliatory action through the aegis of the UN and in intensive diplomatic efforts to assuage Islamic fears of a potential 'clash of civilisations'. CFSP leaders in various combinations engaged in extensive shuttle diplomacy to key countries in the Middle East, Central and South Asia, Turkey, Russia and the Mediterranean. For instance, the troika format of External Relations Commissioner Patten, High Representative for CFSP Javier Solana, Belgian Minister of Foreign Affairs Louis Michel (holding the EU presidency) and Spanish Minister of Foreign Affairs Josep Piqué (incoming EU presidency) undertook a ten-day tour of principal Islamic capitals. The message was of engagement, of the need to curtail the activities of terrorists, and of reassurance that the response to September 11 would not be targeted against Islam. Of EU national leaders British Prime Minister Blair was particularly prominent in recruiting support for the coalition against terror and in maintaining its ephemeral basis, so much so that the *Sunday Herald* crowned him, rather than Bush, as 'King of the Coalition'.<sup>103</sup> For instance, Blair appeared on al-Jazeera television to rebut Osama bin Laden's claim that the West was mounting a war on Islam and first laid out the alleged evidence tying bin Laden and the al-Qa'ida organisation to the September 11 attacks.

Process and policy injected renewed impetus into the transatlantic security partnership and delivered tangible results. American officials characterised EU-US co-operation against terrorism as "extremely" good<sup>104</sup> and were impressed by the unusual speed and decisiveness of cross-pillar EU action. As US Principal Deputy Assistant Secretary of State for European and Eurasian Affairs Charles P. Ries commented, '[f]or old EU hands, the European Union's response was breathtaking in its speed and ambition'.<sup>105</sup> Europe froze terrorist assets worth some \$35 million within six months of September 11.<sup>106</sup> European authorities arrested over 300 people with suspected links to al-Qa'ida between September 2001 and July 2002 and the EU and US progressively harmonised their lists of illegal terrorist organisations. Leading EU member states were also at the forefront of NATO's positive response to the US request for its support

on 4 October 2001. NATO assistance eventually included enhanced intelligence sharing, blanket overflight rights for US and Allied aircraft, access to ports and airfields within NATO territory, deployment of the Standing Naval Force Mediterranean to the eastern Mediterranean, and Operation Eagle Assist that freed American assets for action in Afghanistan by redeploying NATO AWACS aircraft to patrol US skies.<sup>107</sup>

The EU response to September 11 was thus encouraging for the transatlantic security relationship and conformed to the wider pattern of its 'co-operative containment' of the US. For all the progress made, however, there remained serious difficulties. As might be expected, structural problems continued to frustrate. Within JHA the rotating presidency led to inconsistency and decisions were slowed by the need for unanimity – such as Italy's initial hold-out against the common arrest warrant. Negotiations were complicated, too, by the fragmented JHA working structure that incorporates four principal levels and composes numerous EC and national officials. American officials criticised, for example, the EU's cumbersome clearing-house process for submitting and considering terrorist names for designation.

EU problems were more pronounced in CFSP. September 11 induced a limited renationalisation of member states' foreign and security policy, which Washington encouraged by predominantly circumventing the CFSP apparatus and instead dealing direct with national capitals. Numerous EU divisions quickly developed. First, the 'Big Three' of Britain, France and Germany seemingly sought a much-resented *directoire*. This was epitomised by their highly publicised mini-summit preceding the Ghent European Council on 19 October 2001 and by the gate-crashing of a similar attempt on 5 November by Aznar, Berlusconi, Solana, Kok and Verhofstadt. Second, probable military action in Afghanistan refocused attention on the weaknesses of CESDP and on broad groupings of EU countries as 'pacifist', 'neutralist' and 'militarist'.<sup>108</sup> Third, the response to September 11 re-opened 'Atlanticist' and 'Europeanist' divisions previously subsumed within the St Malo process. Blair's leadership style in particular indicated a reversion to 'a brand of unconditional Atlanticism which many in Europe (and even in Britain) had assumed to be anachronistic after Kosovo, the missile controversy and the Bush administration's generalised penchant for unilateralism'.<sup>109</sup>

EU-US value differences hindered transatlantic security co-operation too. On 12 October 2001 the US Congress approved the Patriot Act, which conferred upon the government significant enhanced powers, including the right to intercept e-mail, tap telephones and investigate bank accounts. This exacerbated existing differences between the EU and US over data protection and privacy rights and impacted negatively on the exchange of information potentially important in combating terrorism. Also, on 13 November 2001 a US presidential directive established military courts to deal with suspected terrorists with provision for the President to decide who was tried and, without jury, to order sentences up to and including the death penalty. This further contributed to European reluctance to share information with the US and to facilitate

extradition proceedings, especially in light of established transatlantic differences over the death penalty. A major disagreement developed, too, over US treatment of al-Qa'ida prisoners, who were detained without trial in Cuba at Camp X-Ray in Guantanamo Bay and denied prisoner of war rights by being designated 'unlawful combatants'. The Commission and European governments protested against their treatment and the then UN Commissioner for Human Rights, Mary Robinson, brusquely reminded the US that 'there are international legal obligations that should be respected'.<sup>110</sup>

Perhaps most worrisome for future transatlantic security co-operation was that September 11 reactions reflected and heightened long-standing EU-US differences. Symptomatic of this was American annoyance at the EU's reluctance to designate the social and religious arms of Hamas and Hezbollah as terrorist entities, a difference traceable to EU Palestinian sympathies, policies of engagement rather than confrontation and determination to resurrect the Middle East peace process. More damaging still were widespread European fears that the Bush administration would act unilaterally and react disproportionately to the terrorist attacks. Hubert Védrine quickly cautioned against falling into 'the monstrous trap' set by terrorists of pitting the West against Islam,<sup>111</sup> and the EU troika warned that disproportionate action risked further destabilisation and jeopardised public support. The troika also specifically declared that '[o]ur message to the United States is that only a multilateral approach can reinforce their security, can guarantee ours'.<sup>112</sup> Indeed, so fast were European pledges of post-September 11 solidarity followed by frantic diplomatic manoeuvring that qualified this rhetorical support that as early as 22 September 2001 some American commentators considered only the Anglo-American alliance to have stood firm.<sup>113</sup>

European manoeuvring reflected simultaneous unease about Bush administration policy towards Afghanistan and hopes of engaging it in multilateralism. The real issue, though, was what would come after Afghanistan, there being a clear UN mandate for action against the al-Qa'ida network and the repressive Taliban regime.<sup>114</sup> Three developments were particularly problematic for EU-US and intra-European security relations. First, the Bush administration evolved a doctrine of pre-emptive self-defence and *de facto* reconceptualised sovereignty as potentially contingent upon factors such as not supporting terrorism.<sup>115</sup> This made likely further, potentially destabilising US intervention in the internal affairs of states unspecified and posed critical questions about international law, itself the bedrock of EU governance and multilateralism. Humanitarian intervention in Kosovo had pushed the boundaries of international legal respect for sovereign borders, but it remained contentious that sovereignty might be effectively further qualified not by the UN but by US national security policy.<sup>116</sup> Second, the Bush administration claimed an expansive mandate for military action by conflating combating WMD proliferation with its war on terrorism. Even before September 11 the US had a list of seven countries it regarded as sponsors of terrorism – Cuba, Libya, North Korea, Iran, Iraq, Sudan and Syria – and at least twenty-five countries that either

possessed or were trying to develop or acquire WMD and/or the capability to deliver them. Third, September 11 reinforced fears of US readiness where necessary to act outside multilateral fora and to override the opinions of coalition partners. For instance, the US chose not to use NATO as a command framework for Operation Enduring Freedom in Afghanistan, instead conducting a largely unilateral war assisted by anti-Taliban militia groups and select contributions from close allies, notably British special forces. According to US Secretary of Defence Donald Rumsfeld, coalitions of the willing were important but wars could not be fought by committee: '[t]he mission must determine the coalition, and the coalition must not determine the mission. If it does, the mission will be dumbed down to the lowest common denominator, and we can't afford that.'<sup>117</sup>

All of these problems have become manifest in the ongoing Iraq crisis, the most serious transatlantic security rift in the post-Cold War era, perhaps even in a generation.<sup>118</sup> Post-Afghanistan the Bush administration quickly locked Saddam Hussein's Iraq in its sights as the next target in its conflated mission against international terrorism and WMD. On 12 September 2002 Bush spoke to the UN General Assembly and put American Iraq policy firmly in a multilateral context. The Security Council subsequently approved Resolution 1441 unanimously on 8 November for the reintroduction of weapons inspectors and possible enforcement if Iraq were found to be in breach of its UN obligations. The EU, however, rapidly divided on questions of how much time weapons inspectors should be allowed, what would constitute an Iraqi breach of their UN obligations, and, in the event that this occurred, whether a further UN mandate were necessary for enforcement action.

In the ensuing crisis Britain and Spain stood firmly by the US. The Bush administration, perhaps partially in recognition of Blair's attempts to bridge the transatlantic divide and the domestic political risks both he and José María Aznar were taking, allowed some time for a possible second UN resolution despite its insistence that this was not necessary. This transatlantic solidarity was in stark contrast to the positions taken, for instance, by Germany and France. Schröder pledged in September 2002 that Germany would not commit forces against Iraq even if given UN Security Council authorisation to do so.<sup>119</sup> France was less deterministic but insisted that considerably more time should be given to weapons inspectors and that a second UN Security Council resolution be obtained. In March 2003 the Bush administration's patience ran out amid transatlantic deadlock and the seeming impossibility of securing a further Security Council resolution. With British armed support, the US intervened militarily in Iraq to topple Saddam Hussein's regime. The action was successful in this respect, and at the time of writing it looks possible that an increased UN role in 'winning the peace' in Iraq might be negotiated sufficient to patch over deep transatlantic divisions. Nevertheless the crisis strained badly EU-US relations and reaffirmed the impressions of American unilateralism and of EU inability to forge a common position in times of crisis. As Poul Nielson, Commissioner for Development and Humanitarian Aid, conceded before the

European Parliament on 12 February 2003, 'the EU looks weaker and more divided than ever' and this owes to far more than 'some minor institutional inadequacies in the architecture of the EU'.<sup>120</sup>

## Conclusion

The EU's security relationship with the US remains quantitatively and qualitatively its most important. Both sides have sought to work together in multilateral fora and to institutionalise their co-operation, first through the Transatlantic Declaration and then the NTA. Post-Cold War events have reaffirmed the binding power of shared values and EU-US capacity for co-ordinated action and combined global influence. EU claims to genuine security partnership have been boosted by the expansion of the security agenda and deepening and widening integration. Indeed, the September 11 atrocities have been cited as 'transform[ing] the transatlantic partnership into a virtual partnership of equals, attesting to the increased credibility of the EU'.<sup>121</sup>

Yet, in 2003, many commentators portray transatlantic relations at their lowest ebb since the Cold War, possibly since WW2.<sup>122</sup> Severe divisions over Iraq dominate the headlines but problems run deeper. Foremost are key attitudinal differences, rooted in different historical experiences and contemporary capabilities, which guide EU and US approaches to international security management. Consequent transatlantic tensions have often been most acute over military interventionism and burden-sharing. Here the EU most fears US unilateralism and its own relative impotence. Conversely, the US repeatedly criticises EU failure to translate CESDP rhetoric into a NATO-compatible reality, too often sees its multilateralism as a pretext for obstruction or free-riding, and underplays its soft security contributions.

Does this justify predictions of pending transatlantic divorce? Not really, for there is too much that binds the EU and US together, both within their security relationship and beyond. Nevertheless, their post-Cold War security relationship remains in a process of renegotiation, and in the struggle to contain each other co-operatively the *sui generis* EU is often proving a poor match for the US hyperpower. Where sovereignty has been pooled the EU has been better able to counter American security-related action with which it disagreed, notably extra-territorial sanctions. However, the predominantly intergovernmental JHA and CFSP pillars have frustrated the US and been unable to provide the co-ordinated EU action necessary to curb American unilateralism. Moreover, EU failure to invest sufficiently in defence expenditure has fostered a transatlantic technology gap, especially in integrated C<sub>4</sub>I (Command and Control, Communications, Computers and Intelligence) systems, that not only costs the EU credibility in American eyes but that also potentially so undermines inter-operability that US unilateralism may not only be encouraged

but eventually become unavoidable.<sup>123</sup> As NATO Secretary General Lord Robertson warned in January 2002, Europe 'remains a military pygmy' and '[u]nless the Europeans do better militarily in NATO and the EU, their influence in the Euro-Atlantic area and more widely will remain limited'.<sup>124</sup>

## Notes

- 1 J.S. Nye Jr. has talked of 'episodic bickering, as opposed to divorce', S.M. Walt of 'drift' and W. Pfaff of 'eventual but nonetheless inevitable end to the alliance'. In contrast, A.J. Blinken has argued that 'The "crisis" in U.S.-European relations is largely a myth manufactured by elites - politicians, intellectuals, and the media - whose views clash with those of the people they purport to represent'. Nye Jr., J.S. (2000) 'The US and Europe: Continental Drift?' *International Affairs* 76 (1) p. 59; Walt, S.M. (1998/99) 'The Ties That Fray: Why America and Europe are Drifting Apart' *The National Interest* 54 pp. 3-11; Pfaff, W. (2000) 'The US Campaign is Skirting Key Foreign Policy Issues' *International Herald Tribune*, 15 January 2000; Blinken, A.J. (2001) 'The False Crisis Over the Atlantic' *Foreign Affairs* 80 (3) pp. 35-48. See also Newhouse, J. (1997) *Europe Adrift*, New York: Pantheon; Gordon, P.H. (1996) 'Recasting the Atlantic Alliance' *Survival* 38 (1) pp. 32-57; Lieber, R.J. (2000) 'No Transatlantic Divorce in the Offing' *Orbis* 44 (4), pp. 571-84.
- 2 Speech by Prime Minister Blair at the Lord Mayor's Banquet, 22 November 1999, [www.fco.gov](http://www.fco.gov); transcript of Bush-Blair press conference at Halton House, 19 July 2001, [www.fco.gov](http://www.fco.gov).
- 3 For a forceful exposition of democratic peace theory in the context of US foreign policy see Christopher, W. (1995) 'America's Leadership: America's Opportunity' *Foreign Policy* 98 p. 8.
- 4 Mearsheimer, J. (1990) 'Back to the Future: Instability in Europe after the Cold War' *International Security* 15 (3), pp. 5-57.
- 5 For examples of the debate about NATO and its future see Solomon, G.B. (1998) *The NATO Enlargement Debate, 1990-97: Blessings of Liberty*, Westport, Conn.: Praeger; Carpenter, T.G. (ed.) (1995) *The Future of NATO*, London and Portland, Oreg.: Frank Cass & Co.; Papacosma, S.V. and Heiss, M.A. (eds) (1995) *NATO in the Post-Cold War Era: Does it Have a Future?*, New York: St Martin's Press; (1994) 'The Future of NATO' Special Edition of the *Journal of Strategic Studies* 17 (4); Sloan, S.R. (1995) 'US Perspectives on NATO's Future' *International Affairs* 71 (2) pp. 217-32; McCalla, R.B. (1996) 'NATO's Persistence After the Cold War' *International Organization* 50 (3) pp. 445-75.
- 6 Huntington, S.P. (1991) 'America's Changing Strategic Interests' *Survival* 33 (1) p. 6. For discussion of post-Cold War unipolarity see Mastanduno, M. (1997) 'Preserving the Unipolar Moment: Realist Theories and US Grand Strategy After the Cold War' *International Security* 21 pp. 44-98; Krauthammer, C. (1990/91) 'The Unipolar Moment' *Foreign Affairs* 70 pp. 23-33; Wohlforth, W. (1999) 'The Stability of a Unipolar World' *International Security* 24 pp. 5-41.
- 7 Since 1993 the US has either imposed or threatened unilateral economic sanctions sixty times on thirty-five nations that comprise 40 per cent of the world's population. Maynes, C.W. (1999) 'US Unilateralism and its Dangers' *Review of International Studies* 25 (3) p. 517.
- 8 Berger, S. (2000) 'A Foreign Policy for a Global Age' *Foreign Affairs* 79 (6) pp. 22-39; Joffe, J. (Summer 2001) 'Who's Afraid of Mr Big?' *The National Interest*, <http://www.nationalinterest.org/>.
- 9 Brittan, L. (1998) 'Europe and the United States: New Challenges, New Opportunities', speech given to the Foreign Policy Association, New York, September 1998, <http://www.eurunion.org/news/speeches/1998/1998index.htm>.
- 10 Tarnoff, P. (1990) 'America's New Special Relationships' *Foreign Affairs* 69 (3) pp. 67-80.
- 11 Baker, J. (1989) 'A New Europe, A New Atlanticism: Architecture for a New Era', Berlin Press Club, 12 December 1989, US Department of State, Current Policy, no. 1233 (December 1989).
- 12 Zoellick, R. (1990) 'The New Europe in a New Age: Insular, Itinerant or International? Prospects for an Alliance of Values', US State Department Dispatch, 24 September 1990.
- 13 Gardner, A.L. (1999) *A New Era in US-EU Relations: The Clinton Administration and the New Transatlantic Agenda*, Aldershot: Ashgate, p. 10; Dirian, D. (1999) *Ever Closer Union?*, Basingstoke: Macmillan, p. 537.
- 14 For example, in 1991 it was agreed to institutionalise consultations in certain third country capitals between US ambassadors and troika heads of mission.
- 15 Declaration on US-EC Relations, <http://www.useu.be/TransAtlantic/transdec.html>.
- 16 The oft-used expression 'capability-expectation gap' was first conceptualised by Hill, C. (1993) 'The Capability-Expectation Gap, or Conceptualizing Europe' *Journal of Common Market Studies* 31 (3) pp. 305-28. See also Hill, C. (1998) 'Closing the Capability-Expectations Gap?' in *A Common Foreign and Security Policy for Europe? Competing Visions of the CFSP*, Petersen, J. and Sjursen, H. (eds), London: Routledge, pp. 18-38.
- 17 Frellesen, T. (2001) 'Processes and Procedures in EU-US Foreign Policy Cooperation: From the Transatlantic Declaration to the New Transatlantic Agenda' in *Ever Closer Partnership: Policy-making in EU-US Relations*, Philippart, E. and Winand, P. (eds), New York and Oxford: Peter Lang, p. 332.
- 18 Chris Patten, cited in 'The New Transatlantic Agenda', <http://europa.eu.int/comm/external-relations/us/new-transatlantic>, May 2001.
- 19 'Transatlantic Relations - The EU-US Partnership', <http://www.useu.be/TransAtlantic/Index.html>.
- 20 For the JAP see 'Joint EU-US Action Plan', <http://europa.eu.int/comm/external-relations/us/action-plan>.
- 21 Ambassador Eizenstat, cited in Frellesen, 'Processes and Procedures in EU-US Foreign Policy Cooperation', p. 333.
- 22 For the role of NGOs in EU external relations see, for instance, Mackie, J. (2001) 'Bringing Civil Society into Foreign and Security Policy', *European Policy*

- Centre, 28 February 2001, <http://www.theepc.be/challenge/topdetail.asp?SEC=documents&S>.
- 23 The CNN effect encapsulates the idea that a press endowed with real-time communications technology and liberated by the post-Cold War dissolution of bipartisan foreign policy consensus is partially able to drive US and EU responses to world events. Although the debate about the power of media in the post-Cold War real-time world remains inconclusive, it has undoubtedly complicated foreign policy making. For an interesting discussion of this, and a guide to further reading, see Robinson, P. (1999) 'The CNN Effect: Can the News Media Drive Foreign Policy?' *Review of International Studies* 25 (2) pp. 301-9.
- 24 This educational aspect of the NTA was strengthened in 1998 by the Transatlantic Donors Dialogue and Transatlantic Information Exchange Service to facilitate people-to-people projects and by the European Commission's programme of EU Centres in the US, designed to promote American interest in, and provide information about, European integration.
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- 27 Patten, C. (2002) 'EU-US: The Indispensable Partnership', 3 December 2002, [http://europa.eu.int/comm/external\\_relations/news/patten/sp\\_wdr](http://europa.eu.int/comm/external_relations/news/patten/sp_wdr).
- 28 Kohnstamm, M. (2003) 'The Europe We Need', 13 February 2003, <http://www.theepc.be/europe>; Heisbourg, F. (2000) 'Europe's Strategic Ambitions: The Limits of Ambiguity' *Survival* 42 (2) pp. 5-15; Lindley-French, J. (2002) 'In the Shade of Locarno? Why European Defence is Failing' *International Affairs* 78 (4) pp. 789-811; Ludlow, P. (2001) 'Wanted: A Global Partner' *Washington Quarterly* 24 (3) p. 171.
- 29 Speech by EU Trade Commissioner Pascal Lamy to the American Enterprise Institute, 18 December 2000, <http://www.eurunion.org/news/speeches/2000/2000index.htm>.
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- 32 Cited in Everts, S. (2001) 'Unilateral America, Lightweight Europe?', Center for European Reform, Working Paper, p. 15.
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- 34 A survey published in winter 1999 of US Conservative expert opinion ranked East Asia as America's number one regional priority both today (35.4 per cent) and 2010 (48.8 per cent). Noonan, M.P. (1999) 'Conservative Opinions on U.S. Foreign Policy' *Orbis* 3 (4) pp. 628 and 632.
- 35 Cox, M. (2002) 'American Power Before and After 11 September: Dizzy With Success?' *International Affairs* 78 (2) p. 266.
- 36 Cited by Haass, 'US Engagement based on Cooperation, Consultation'.
- 37 For instance, in September 2000 Clinton declared to the UN General Assembly that 'those in my country who believe that we can do without the UN or impose our will upon it, misread history and misunderstand the future'. Just months previously US Senator Jesse Helms assured in the same building that 'a United Nations that insists upon trying to impose a utopian vision upon America and the world will collapse under its own weight'. The US was also heavy-handed in its prevention of Boutros Boutros-Ghali from having a second term as UN Secretary-General. Quotes from (November/December 2000) 'Start the Millennium Without U.S.' *Foreign Policy*, p.82.
- 38 For the impact of Congress see Calleo, D.P. (2001) 'Imperial America and its Republican Constitution' in *The New Transatlantic Agenda: Facing the Challenges of Global Governance*, Gardner, H. and Stefanova, R. (eds), Aldershot: Ashgate, pp. 7-16; Pfaff, W. (1997) 'US Ambitions Outstrip Its Domestic Appetite' *International Herald Tribune*, 10 July 1997; Everts, 'Unilateral America, Lightweight Europe?', p. 7; Auerswald, D.P. (2001) 'The President, Congress and American Missile Defence Policy' *Defence Studies* 1 (2) pp. 57-82.
- 39 Spiro, P.J. (2000) 'The New Sovereignists: American Exceptionalism and Its False Prophets' *Foreign Affairs* 79 (6) pp. 9-15.
- 40 Patten, C. (2002) 'Jaw-Jaw, not War-War', <http://news.ft.com/ft/gx.cgi/ftc?pagename=View&c=Article&cid=FT33CZ00PXC&live=true>.
- 41 Cited in Whitney, C.R. (1999) 'NATO at 50: With Nations at Odds, Is it a Misalliance?' *New York Times*, 15 February 1999, p. 7.
- 42 Cited in Blinken, 'The False Crisis Over the Atlantic', p. 41.
- 43 Mitchell, D.J. (2002) 'European Cult of Multilateralism', <http://www.washtimes.com/commentary/20021107>.
- 44 Waugh, P. and Brown, C. (2002) 'Hawkish Blair Tries to Calm the Doubters' *The Independent*, 8 April 2002, p. 4.
- 45 Tisdall, S. (2002) 'Bush Struggles with "Foreign Policy Stuff"' *The Guardian*, 26 April 2002, <http://www.guardian.co.uk>; Haass, 'US Engagement based on Cooperation, Consultation'. Surveys also show, even after September 11, a clear majority in American public opinion in favour of multilateralism. 'American Public Opinion and Foreign Policy' *Chicago Council on Foreign Relations*, <http://www.worldviews.org/detailreports/usreport/html>.
- 46 Rademaker (2003) 'The Commitment of the United States to Effective Multilateralism', statement to the Conference on Disarmament in Geneva, <http://www.useu.be/BackForth/Feb1303RademakerMultilateralism.html>.
- 47 Kissinger, H.A. (2002) 'NATO's Uncertain Future in a Troubled Alliance', <http://www.expandnato.org/uncertain.html>.
- 48 Albright cited by Maynes, 'US Unilateralism and its Dangers', p. 517.
- 49 Second Report from the Foreign Affairs Committee (2002) 'British-US Relations', *Response of the Secretary of State for Foreign and Commonwealth Affairs*, February 2002, London: HMSO, introduction, p. 6. For the text of the EU common position see 'European Council common position on the International Criminal Court', EC Official Journal, [www.globalpolicy.org](http://www.globalpolicy.org).

- 50 At the time of writing, those states opposed to the ICC are the US, China, Israel, Qatar, Libya, Iraq and Sudan. For more on the ICC see Schabas, W. (2001) *The International Criminal Court*, Cambridge: Cambridge University Press.
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- 52 O'Sullivan, J. (2002) 'They Don't Get the U.S.' *National Review Online*, <http://www.nationalreview.com>; Weller, M. (2002) 'Undoing the Global Constitution: UN Security Council Action on the International Criminal Court' *International Affairs* 78 (4) pp. 705-9.
- 53 The EU agreed to increase the proportion of its national income going to development assistance from an average of 0.32 per cent to 0.39 per cent, generating an extra \$20 billion between 2002 and 2006 and an extra \$7 billion a year thereafter. Brown, G. (2002) 'The UK and the United States: Realising Churchill's Vision of Interdependence', speech made by the Chancellor of the Exchequer to the British American Business Inc, New York, 19 April 2002, [www.britanusa.com](http://www.britanusa.com).
- 54 Koch, A. (2002) 'Resistance Builds to US Muscle' *Jane's Defence Weekly* 37 (6) p. 19.
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- 57 In October 2001 the UN General Assembly passed for the tenth consecutive year a vote by 167 to 3 for the end of the US embargo on Cuba. Dissenting countries were the US, Israel, and the Marshall Islands. Du Boff, R. (2001) 'Rogue Nation', <http://www.nonviolence.org>. For more on EU-US sanctions conflict see Falke, A. (2000) 'The EU-US Conflict Over Sanctions Policy: Confronting the Hegemon' *European Foreign Affairs Review* 5 pp. 139-63.
- 58 Interestingly this is exactly the sort of bargain that some members of the US Senate seemingly advocated during the Kosovo crisis: "we're contributing military muscle [the EU] should contribute the lion's share of the money" for post-war reconstruction'. Senator Gordon Smith, Chair of the Senate Subcommittee on European Affairs, cited by Peterson, J. (2001) 'Shaping, Not Making - The Impact of the American Congress on US-EU Relations' in *Ever Closer Partnership*, Philippart and Winand (eds), pp. 178-9.
- 59 Bass, W. (1998) 'The Triage of Dayton' *Foreign Affairs* 77 (5) p. 99.
- 60 Figures from International Institute for Strategic Studies (2002) *The Military Balance 2002-03*, London: Oxford University Press, pp. 332-7 and 341.
- 61 For further information see 'A Survey of the Defence Industry' *The Economist*, 20 July 2002, p. 6; Guay, T. and Callum, R. (2002) 'The Transformation and Future Prospects of Europe's Defence Industry' *International Affairs* 78 (4) pp. 757-76.

- 62 Clarke, M. and Cornish, P. (2002) 'The European Defence Project and the Prague Summit' *International Affairs* 78 (4) p. 784.
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- 66 Thatcher cited by Harris, R. (2001) 'Blair's "Ethical" Policy' *The National Interest* 63 p. 34.
- 67 For examples see Genscher cited by Gordon, P. (1994) 'The Normalization of German Foreign Policy' *Orbis* 38 (2) p. 229; Kohl, H. (1996) speech given to 33rd Conference on Security: 'Security for a United Europe', 3 February 1996; speech by Rühle V. (1995) 'Bundeswehr und Europäische Sicherheit', 23 October 1995; Vernet, D. (1999) 'Kluge Ausschöpfung begrenzter Souveränität: Die Europa-Politik der rot-grünen Koalition' *Internationale Politik* 54 p. 16.
- 68 Schröder, G. (1999) 'Germany's Foreign Policy Responsibilities in the World', speech at the German Society for Foreign Policy (DGAP) Berlin, 2 September 1999, reprinted in *Internationale Politik* 10 p. 68.
- 69 Becker, J.J. (1998) 'Asserting EU Cohesion: Common Foreign and Security Policy and the Relaunch of Europe' *European Security* 7 p. 22; Krautscheid, A. (1997) 'Contemporary German Security Policy: A View from Bonn' Discussion Papers in German Studies IGS97/8, p. 20; Van Ham, P. (1999) 'Europe's Precarious Centre: Franco-German Cooperation and the CFSP' *European Security* 8 (4) p. 12; Cole, A. (2001) *Franco-German Relations*, London: Pearson, p. 125. Other German commitments include that in May 1992 when a medical unit of 150 doctors and nurses served in Cambodia as part of the UN Transitional Authority; in 1993-94 1,700 soldiers participated in the ill-fated UNOSOM II mission in Somalia; in February 1995 the potential need to extract UNPROFOR from Bosnia secured Bonn's reluctant agreement to participate in the rescue, and German Tornados flew combat missions in Operation Deliberate Force; and involvement in the Balkans deepened in the wake of the Dayton Accords, with substantial German contributions being made to the Implementation Force (IFOR) and the Stabilisation Force (SFOR).
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- 72 Albright, M. (1999) 'The Right Balance will Secure NATO's Future' *Financial Times*, 7 December 1999. For contrasting views about the motives behind strengthening CFSP and the CESDP and their complementarity or otherwise with NATO see Bolton, J. (2000) 'The End of NATO' *World Today* 56 (6) pp. 12-14; Kupchan, C.A. (2000) 'In Defence of European Defence: An American Perspective' *Survival* 42 (2) pp. 16-32.
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- 85 See, for example, Steyn, M. (2002) 'Put Up or Shut Up: Europe Spends Zip on Defence and Sneers at America's "Warmongering"' *The Spectator*, 5 October 2002.
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- 89 Britain has long claimed this foreign policy role and the US has long held Britain's role in Europe to be a strength rather than a weakness of the Anglo-American relationship, being, in the words of former Ambassador Seitz, 'indisputably complicating' but 'indispensable' to the relationship. Seitz cited from a speech in April

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- 91 Lansford, T. (2001) 'Security and Marketshare: Bridging the Transatlantic Divide in the Defence Industry' *European Security* 10 (1) p. 9.
- 92 Moens, A. in collaboration with Domisiewicz, R. (2001) 'European and North American Trends in Defence Industry: Problems and Prospects of a Cross-Atlantic Defence Market', International Security Research and Outreach Programme, p. 7.
- 93 Eyal, J. (2000) 'Britain's European Defence Debate: Cliché after Cliché' *RUSI Newsbrief* 20 (12) p. 127; Van Ham, 'Europe's Common Defense Policy', p. 215.
- 94 Moens, 'European and North American Trends in Defence Industry', p. 12.
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## CHAPTER 5

## Friends or foes?: the EU–US economic relationship

As seen in the first two chapters, the US had a strong political and economic interest in Europe after WW2. Apart from binding the Western European countries into its own sphere of influence and having them as allies against the common threat perceived to emanate from the Soviet bloc, the US also needed prosperous markets for its own goods if it were to avoid a repeat of the inter-war recession. Marshall Aid was consequently designed partially to promote US economic interests in international free trade through pushing the Europeans into accepting trade liberalisation under the GATT. Likewise, its encouragement of Western European integration was geared to developing a large and successful European market that would be a strong trading partner for US businesses.<sup>1</sup>

The formal economic relationship between what is now the EU and the US began with the creation of the ECSC in 1952 and intensified with the introduction of the CAP in 1962 and the creation of the EEC's general customs union in 1968. The transfer of responsibility for trade policy to the ECs level in 1970, in the form of the CCP, marked a significant shift in the relationship whereby the Communities, rather than the individual member states, became the trading partner of, and therewith trade negotiator with, the US. A further marked evolution in the EC/EU–US trade relationship developed with the creation of the WTO in 1995. Thereafter they had to conduct their trade exchanges in accordance with the rules of a 'higher authority' and submit their disagreements to the legally binding judgement of the WTO Dispute Settlement Body.

Over time the ECs–US economic relationship became intense and profoundly interdependent. However, as the two entered the post-Cold War era speculation increased about a downturn in the relative balance between their economic co-operation and confrontation. This was encouraged by suggestions of geo-strategic drift slowly pulling the partners apart (see Chapter Four) and by an increasing number of bitter transatlantic trade disputes. It was also encouraged by a combination of the ECs' transition from economic supplicant

to equal partner/rival and growing US concern during the 1980s of relative American economic decline. Thus, as the EC/EU became a more self-confident and assertive international economic actor, the US became concerned, for a time at least, about both the possibilities of a 'Fortress Europe' and how to preserve American economic leadership.

With this in mind, this chapter assesses the post-Cold War EU–US economic relationship and asks what is the nature of this relationship in terms of trade, investment and other commercial activities? On the one hand, it is the most voluminous in the world, the EU–US partnership is instrumental in shaping processes of economic globalisation, and the combination of the US, EU and the latter's member states dominates the leading international financial institutions. At the same time, their economic relationship has undergone radical changes, especially in terms of the relative strengths of the two economic superpowers, and the number of post-Cold War trade disputes has increased dramatically. How, then, should the EU–US economic relationship be characterised? Are they economic partners, rivals, or does their relationship stand in a different category from any other?

### The most substantial economic partnership in the world

It is difficult to overstate the significance to the EU and US, indeed to the world, of their economic relationship. It is by far the most important bilateral economic relationship for both parties in terms of trade and FDI. The respective figures speak for themselves.<sup>2</sup> In 2002 the US was the EU's largest trading partner in goods, providing almost 18 per cent of all EU imports and accounting for nearly 24 per cent of all EU merchandise exports. The next largest exporter to the EU was China with 8.3 per cent of the total and the second largest export market for EU goods was Switzerland with 7.1 per cent of all EU merchandise sold abroad.<sup>3</sup> The American situation in 2002 was somewhat more variegated. The EU was America's second most important export market taking nearly 22 per cent of its external merchandise trade and being exceeded only by Canada, immediate neighbour of the US and partner within NAFTA, which had a market share of almost 24 per cent.<sup>4</sup> However, the EU was the US's premier source of merchandise imports with a market share of 21 per cent – considerably ahead of Canada with just over 16 per cent and of China's 12.5 per cent.<sup>5</sup>

The importance of this bilateral economic relationship is also reflected in the trade in services, which accounted in 2001 for some 36 per cent of total EU–US trade.<sup>6</sup> Herein the US is again by far the EU's most important external trading partner with a 43 per cent market share in 2001. To put this into context, the EU's second most important partner in this field was Switzerland with a share of just under 13 per cent.<sup>7</sup> US trade in services is more diverse. The US imported over 27.5 per cent of its services from Canada in 2001 compared to around

11 per cent from the EU and just over 10 per cent from Mexico. Canada was also the most important market for services exported from the US with a 19 per cent market share in 2001. Japan, Mexico and the EU occupied the following ranks with percentages of 14.7, 14.1 and 14 respectively.<sup>8</sup>

Trade figures, though, merely reflect cross-border flows of goods and services. They consequently represent only a partial measure of the extent of the EU-US economic relationship, not least because they ignore the fact that enterprises often sell their goods and services abroad through their foreign affiliates rather than export them from their home market. A more accurate picture of the EU-US commercial relationship thus has to consider other linkages too, such as capital flows – especially FDI.<sup>9</sup> Herein the EU and the US have by far the world's most important bilateral relationship. In 2001, 49 per cent of all FDI that left the EU went to the US and 69 per cent of all FDI coming into the EU originated there. Unlike the situation with some aspects of trade, the EU is definitely also the most important FDI partner of the US: 46 per cent of all US FDI went to the EU and the US received 54 per cent of all its FDI from the Union in 2001. This close relationship is underpinned even further by the FDI stocks that EU and US investors have accumulated in the respective other entity. By 2001, 62 per cent of all FDI investment inside the EU originated from the US, whilst 50 per cent of all EU FDI so far has been made in the US. From the American perspective, 61 per cent of all FDI made there has its origins in the EU, whilst 46 per cent of all FDI that had left the country by 2001 had gone to the EU.<sup>10</sup>

This unrivalled volume of bilateral trade and FDI owes in part to factors beyond direct EU-US management of their economic relationship. Businesses have developed mutual confidence over time in the other partner's stability, general commitment to trade liberalisation and value in terms of risk-adjusted returns, albeit that American criticism of 'continental corporatism' reflects disagreement about the merits of Europe's social democratic model *vis-à-vis* the free market model. Developments within each partner have also stimulated increased transatlantic trade and investment and influenced the decisions of MNCs and TNCs as to where to locate operations. For instance, the size of the EU market, the expectation of further enlargement and the comparative advantages of the single market programme have all attracted rather than deterred US inward investment into the Union.<sup>11</sup> Indeed, from 1995 to 2001 there was a seven-fold increase in American investment in Europe.<sup>12</sup> Considerations of the SEM have also been of major influence in, for example, Britain both surpassing China in 1999 to become the largest single destination for US FDI and being the base for 5,600 American companies in the European single market.<sup>13</sup>

Nevertheless, the calculations of commercial enterprises have always run side-by-side with careful transatlantic political oversight and in the immediate post-Cold War era the EU and US were persuaded by both positive and negative concerns to underpin the world's most important economic relationship with further solid structural foundations. On the one hand, both partners were aware of their complex economic interdependence and relative economic

parity, which provided opportunities for further intensification of their bilateral economic relationship and called for structures either to forestall or to manage inevitable differences as their competition and interaction increased.<sup>14</sup> On the other hand, the EU and US were each anxious to 'contain' the other in defence of their economic interests. Successive American administrations were anxious to protect US economic interests and to keep the EU open to international trade. This owed not least to predictions of US relative decline, the expensive economic legacies of Reagan's Second Cold War and fears that the SEM project would lead to an introverted and protectionist Fortress Europe. Conversely, the EU was concerned to retain its attractiveness to American businesses and FDI at a time when new, potentially high-reward commercial opportunities appeared to be developing elsewhere, especially in the Asian 'tiger states'. The EU was also wary of increased US unilateralist tendencies and the aggressive promotion of American economic interests. For instance, the Clinton administration created the National Economic Council and encouraged a National Export Strategy and the Big Emerging Markets Program in order to promote exports, and it used US trade representatives (USTR) to attack reprobate trade partners and to exact so-called voluntary export restraint agreements. It also used GATT and the WTO to negotiate favourable reductions in NTBs whilst simultaneously taking unilateral action through Section 301 legislation in the 1988 Omnibus Trade and Competitiveness Act to counter what it deemed to be unacceptable trade practices by other countries.

Not surprisingly, therefore, the 1990 Transatlantic Declaration and the 1995 New Transatlantic Agenda and its accompanying Joint Action Plan all included declarations on economic co-operation between the two entities. The JAP in particular contained quite detailed aims and objectives. Under the headline 'Contributing to the Expansion of World Trade and Closer Economic Relations', the two partners, among a number of other things, agreed to set up 'a New Transatlantic Marketplace by progressively reducing or eliminating barriers that hinder the flow of goods, services and capital' between themselves.<sup>15</sup> Although not quite the basis for a common market between the two entities, the creation of a new transatlantic marketplace (NTM) did point in such a direction. It was also enormously ambitious, for, as has been seen in respect of the EU's own development, reducing barriers to facilitate the exchange of not only goods but also services and capital is no simple task. Indeed, the EU's common market in services is still incomplete more than a decade after the SEM was officially declared established.

It is thus particularly revealing of EU-US determination to nurture and promote their bilateral economic relationship that they decided at a summit in London in May 1998 to launch the Transatlantic Economic Partnership (TEP).<sup>16</sup> This initiative was undoubtedly motivated by slow progress in the development of the NTM and by numerous continuing barriers to trade and investment.<sup>17</sup> The TEP also demonstrated, however, mutual determination to re-ignite the economic relationship, which was reflected in its containing far more detailed provisions than did the NTM on how to proceed, including

explicit target dates. Since then the TEP has admittedly progressed less quickly than hoped. In its Report on United States Barriers to Trade and Investment 2002, the European Commission stated that '[d]espite the significant cooperative efforts undertaken, a considerable number of impediments, ranging from more traditional tariff and non-tariff barriers, to differences in the legal and regulatory systems still need to be tackled'.<sup>18</sup> Still, though, there remains political and economic impetus sufficient to push ahead with the TEP, including a transatlantic marketplace. As American Under-Secretary of Commerce for International Trade Grant Aldonas was quoted as having said in April 2003, '[i]f there was ever a time when we really needed to . . . try and remove . . . obstacles to trade between the United States and Europe now is the time'.<sup>19</sup>

Clearly, then, the EU-US economic relationship is of vital importance to each partner. However, its significance is scarcely less to the wider international economy. The EU and US have by far the largest economies in the world and collectively their economic weight is awesome. A few figures help to substantiate this claim. The EU and the US are clearly the dominant players insofar as international trade in merchandise and services is concerned. Combined they secured 47 per cent of world merchandise trade and 45 per cent of world trade in services in 2002.<sup>20</sup> Their importance in terms of investment is even more striking. In the financial year 2000 they accounted for 54 per cent of total world inflows and 67 per cent of total world outflows of FDI.<sup>21</sup> Moreover, America in particular has been the driving force of the recent global economic upturn. For instance, since 1995 60 per cent of the cumulative growth in world output has come from the US, with the EU accounting for approximately a further 10 per cent.

It is also important to consider EU-US institutionalised economic power and their roles in shaping international trade and investment. Their collective influence within the leading international financial institutions is unrivalled. For example, within the G8 they constitute five of the eight member states and have added influence through the European Commission, which is present on behalf of the EU. Within the IMF the EU countries and the US enjoy a combined voting weight of 46.95 per cent,<sup>22</sup> and their position in the World Bank is not far behind, accounting for 41.99 per cent of votes.<sup>23</sup> They also each have banks that are used to advance their economic and foreign policy objectives, namely the US Export-Import Bank and the EU's European Investment Bank. One consequence of all of this is that the EU and US heavily influence the terms, conditions and amounts of, for instance, rescue packages such as that organised for Russia in the wake of its economic collapse in 1998.

Just as significantly, as the world's two largest and most technologically advanced economies, the EU and US share common problems and significantly shape the development of the global economy. For instance, both parties are pursuing what has been dubbed 'competitive liberalisation', meaning the contemporaneous pursuit of bilateral, regional and global free trade agreements. As will be seen in later chapters, the EU has developed a global web of preferential trading relationships of a variety of types and involving varying numbers

of associated partners. Indeed, this is an area in which the EU has traditionally led America. USTR Robert Zoellick observed before the subcommittee on trade of the US House of Representatives in May 2001 that globally there were 130 free trade agreements. The US was party to just two of these, one with Canada and Mexico forming NAFTA and another with Israel. In contrast, the EU had free trade or special customs agreements with twenty-seven countries, twenty of which the Union had completed within the previous ten years, and another fifteen were then being negotiated.<sup>24</sup> Since then, the US has concluded a FTA with Chile (actually a month before the EU could finalise a similar treaty<sup>25</sup>), one with Singapore,<sup>26</sup> and is in the process of pursuing bilateral deals with Bolivia, Columbia, Ecuador, Panama and Peru, five countries in southern Africa, Australia and Morocco. It has also promised to begin negotiations with the Dominican Republic and Bahrain. In the meantime, US negotiations for a FTA with Central America are almost complete and in November 2003 the next step was agreed in Miami in the development of a Free Trade Area of the Americas (FTAA). Due to come into effect by 2005, the FTAA will cover thirty-four countries with a population of 800 million people, stretch from Alaska to Patagonia and have an output of \$13-14 trillion per annum. This should also continue the post-Cold War expansion of North American exports to Latin America<sup>27</sup> and bring the US into greater contact with the EU, which already has established relationships with the Caribbean Community and Common Market (Caricom), the Central American countries, the Andean Community (CAN) and the countries of Mercosur (see Chapter Nine).

Concomitantly, the EU and US are key players in the quest for global free trade and are keen to shape this in line with their specific interests and concerns, many of which they share. For instance, the two were instrumental in launching the Doha Round of WTO trade talks, which the World Bank estimates could raise global income by \$500 billion by 2015, of which 60 per cent would go to poor countries and help pull 144 million people out of poverty.<sup>28</sup> Within this context, the EU also determinedly set part of the agenda at the WTO meeting in Cancún in September 2003 by pushing the so-called 'Singapore issues' in an attempt to negotiate global rules in competition, government procurement, transparency and trade facilitation. Moreover, the EU and US share unemployment concerns in manufacturing (2.7 million job losses in the US alone over the past three years) as well as in the white-collar sector as competition increases and companies outsource or even relocate factories abroad to where costs are cheaper. Interestingly, despite their frequent disagreements over agriculture, the EU and US are also joined by their use of agricultural protectionism. The EU has consistently found the CAP difficult to reform and adjustments are becoming simultaneously both more pressing in view of imminent enlargement and more politically difficult given an appreciating euro and the consequent relative decline in the international competitiveness of its agricultural exports. The US is likewise a major subsidiser of American agriculture. For example, it heavily protects its citrus producers and is simultaneously the world's biggest cotton exporter and biggest subsidiser of

producers – to the tune of over \$3 billion per annum. The EU and US also face major challenges upon the expiry of the Multifibre Arrangement at the end of 2004, which has for decades allowed governments to determine trade patterns in textile markets and upon which their domestic producers and preferential trading partners in the developing world often rely.

Just how great a shared challenge agricultural protectionism is to the EU and US was demonstrated by the collapse of the WTO meeting in Cancún in September 2003. There the EU and US presented a moderate programme for freeing farm trade that fell far short of previous promises on, for example, removing farm subsidies. This was strongly opposed as inadequate by a new so-called G21 bloc of developing countries, led by India, Brazil and China – a powerful voice given that the G21 represent half the world's population and two-thirds of its farmers.<sup>29</sup> The EU and US consequently face a potential stream of WTO appeals from the G21 and others about their agricultural protectionism. This is particularly likely given the imminent expiry of the so-called 'peace clause' at the end of 2003, which is an agreement negotiated during the Uruguay Round not to appeal over the dumping of farm products on condition that each country honoured its farm trade commitments.

### Trade wars and other conflicts between the EU and US

That the EU-US economic relationship is far from problem-free is demonstrated by their difficulties in reducing the obstacles to a more integrated transatlantic economic area. However, slow progress in realising the TEP is far less problematic, not to mention 'newsworthy', than the increasing number of cases where fierce EU-US economic competition has degenerated into trade wars. The actual transatlantic economic relationship between the US and the ECs as a supranational body officially began in 1970 with the commencement of the CCP.<sup>30</sup> The US, though, is not linked to the EU by way of a contractual agreement under the auspices of the CCP and is thus subject to the 'normal' external trade regime of the autonomous part of this policy. This means that the US does not enjoy treatment more favourable than any of the EU's other trading partners and that the bilateral relationship is based on respective unilateral provisions, potentially restricted only by the agreements entered into by both under GATT and later the WTO.<sup>31</sup>

Despite these organisations being mandated to avoid trade disputes, over time a number of conflicts between the ECs and the US have occurred. Initially there were only a few such disputes: just three during the entire 1960s and 1970s.<sup>32</sup> The pace quickened noticeably, though, during the 1980s when fourteen cases were fought out, only to accelerate even further following the establishment of the WTO. Between January 1995 and July 2003 there were fifty-five cases involving trade disputes between the EU or one or several of its

member states on the one hand, and the US on the other.<sup>33</sup> This trend can be explained in part by the ever-growing and increasingly complex economic ties that have evolved between the ECs and the US. Naturally, the more they deal with one another, the more potential scope for conflict there is. However, although this certainly explains the higher incidence of complaints during the 1980s, it does not fully account for the leap in trade disputes since 1995. One must therefore consider also the impact of the improved mechanisms of the WTO over the rules of GATT – in particular the introduction of a true, institutionalised appeals mechanism in the form of the organisation's DSB. Before 1995, members of GATT had no chance to appeal if and when another signatory to a given deal failed to adhere to its own promises. The DSB of the WTO changed this by providing not only a forum before which disputes could be debated but also procedures that enabled a judgement and the possibility of sanctions in cases of non-compliance.

The latter aspect especially is also responsible for another pattern in trade conflicts between the ECs and the US – the question of who complained about whom. Of the three conflicts in the 1960s, the ECs initiated the first and the US the remainder. During the 1980s, twelve of the fourteen conflicts were initiated by the US, only two by the ECs.<sup>34</sup> Since 1995, however, the EU or one of its member states has complained in twenty-six cases about the US, whilst the US, either on its own or in conjunction with other complainants, has taken action twenty-nine times against the EU or one of its members.<sup>35</sup> This clearly indicates the EU's growing confidence to use the WTO against the US. Moreover, this willingness is underpinned by changes in the general geo-political situation. Security dependence on the US during the Cold War naturally made Western Europe hesitant to confront the US. This is reflected in the fact that the Europeans initiated only three of the seventeen trade disputes before 1990. The US, on its part, addressed the relationship during this period from a position of strength and the knowledge that the relative dependency of its European partners meant that trade disagreements could be pursued without fear of too bad a deterioration in overall transatlantic political relationships. The winding down of the Cold War, however, changed the geo-strategic balance and afforded the Europeans an opportunity to emancipate themselves – at least to a degree – from the old hegemon.<sup>36</sup> The quasi-judicial system of the WTO then played its part, giving the Communities the confidence and mechanisms to challenge actively the US over those trade issues about which they disagreed. The 26 (EU vs. US) to 29 (US vs. EU) ratio of post-1995 trade disputes both reflects this post-Cold War emancipation of the EU from the US and is a much more realistic representation of their contemporary relationship in which the two entities enjoy relative economic parity.

A further interesting aspect of trade disputes between the ECs and the US concerns the issues over which the two have argued. Twenty-three of the seventy-two conflicts have been about agricultural products, and within this the US has been the complainant on eighteen occasions. This rather unbalanced picture should not come as a surprise. The US, and others, would understandably

like to break into the potentially very lucrative EU market. Obstructing this objective is the Communities' protectionist CAP. High import barriers, such as tariffs and quotas, aim at keeping prices within the EU stable at a substantially higher-than-world-price level, direct subsidies give farmers a further comparative advantage, and export subsidies compensate them for the differences between EU and world market prices.<sup>37</sup> This is primarily why widely publicised agricultural 'trade wars' have come about. As a major exporter of agricultural products the US has consistently pressed for improved access to the EU market. Meanwhile, the Union has sought to balance its commitment to liberalising international trade against the specific objectives of its CAP and its preferential trade agreements with other producers, some of which are entwined with its Development Policy programmes.

The most notorious recent example of this was the so-called 'banana war'. The EU produces only around 20 per cent of its banana consumption itself. The rest is imported, either from former colonies of some of the Union's member states in Africa and the Caribbean (so-called 'ACP bananas') or from Latin America (so-called 'dollar bananas'). The problem was that the EU's provisions on trade in bananas since the 'completion' of the SEM in 1993 quite openly discriminated between home-grown bananas, those imported from the associated ACP countries and those originating from Latin America. Home production was supported by way of subsidisation and compensation payments if and when prices fell below a certain threshold level. The ACP countries were guaranteed tariff-free access to the Union of, more or less, their entire export crop of bananas. Although the import quota for 'dollar bananas' was more than double that of the ACP countries, they were subject to a tariff of initially €100 per tonne, reduced in 1994 to €75 per tonne. Given that they could produce bananas at a much lower cost than, for instance, the ACP producers, the loss in potential trade in bananas with the EU was significant.<sup>38</sup> In 1996 the US, together with Honduras, Guatemala, Ecuador and Mexico, duly complained about elements of the European banana regime that they believed to discriminate unfairly against their interests. Honduras, Guatemala and Ecuador judged that they had insufficient access to the European market, and the US championed its TNCs, one of which, Chiquita Brands International, was especially keen to increase its access to the European market.<sup>39</sup>

The DSB of the WTO ruled in 1997 that part of the EU's import regime for bananas did indeed breach the organisation's rules. Yet this was not the end of the issue. Some EU member states were little concerned about the need to reform the offending provisions of the EU banana regime. Germany, for example, had been unhappy with the single banana regime from the onset and prior to its coming into force in 1993 was the only EU member state that imposed no trade restrictions on bananas.<sup>40</sup> However, many of the other EU members found it difficult to accept reforms. Spain, Greece, Portugal and France had domestic producers to consider, and Britain and France also had their former colonies in mind. Opponents of substantial change to the EU's banana regime had a majority in the Council and the changes that came into force in January

1999 were consequently largely cosmetic. Within twenty-five days the US and a number of Latin American countries went back to the WTO to complain once more about the EU's banana regime. The Clinton administration also invoked Section 301 legislation and imposed punitive sanctions by putting a random selection of fifteen European products on the red list. By April the DSB had formally awarded America damages,<sup>41</sup> which meant that the US was legally allowed to initiate 'compensatory retaliation' through the imposition of heavy tariffs on luxury goods imported from Europe equivalent to an annual cost of \$191.4m (€215.2m).<sup>42</sup>

The 'banana war' finally ended when Chiquita Brands indicated its satisfaction with new provisions that came into force in July 2001.<sup>43</sup> Much more intractable have been EU-US confrontations over hormone-treated beef and GMOs, which are nominally agricultural disputes but which also reveal the fungible nature of trade issues and those of environment and health and safety. In 1988 the then EEC prohibited the use of a number of hormones<sup>44</sup> previously used for growth promotion in farm animals. Since this was justified on grounds of scientific tests having found such meat to be unsafe for human consumption, the ban was to apply to member states as well as to respective imports from third countries. What the Europeans regarded as a matter of public health and food safety, the Americans saw as a cleverly disguised form of protectionism. The US and Canada consequently contested the prohibition, and in 1997 the WTO ruled that the EU measure was not in line with the Agreement on the Application of Sanitary and Phytosanitary Measures.<sup>45</sup> In 1998 the WTO's Appellate Body ruled against a consequent EU appeal on grounds that the ban had not been based on adequate scientific evidence and therefore violated international trade rules.

Called upon to provide sufficient evidence to substantiate its claims,<sup>46</sup> the EU subsequently commissioned a number of studies that apparently show that at least one of the banned hormones causes cancer. The US, however, maintained that hormone-treated beef had legally been on sale in its domestic market and that its own research had found no evidence indicating that such meat could pose a health threat. The two were thus deadlocked, with the EU continuing to enforce its ban on meat treated with the other hormones and arguing that just because they had not been proven to be dangerous they should not be considered safe automatically.<sup>47</sup> Matters were mitigated slightly in April 1999 when the EU threatened to ban imports of American hormone-free beef too after scientists found traces of the banned substances in between 12 and 20 per cent of beef samples from US abattoirs labelled as not having been treated in this way. Forced onto the defensive by this surprise discovery, the US voluntarily imposed a ban on hormone-free beef whilst reviewing its own monitoring measures.<sup>48</sup> However, the dispute is far from resolved and EU-US differences are much more complex than was the case in the banana war. Whilst the US accuses the Europeans of protectionism, the EU maintains that it is not motivated by protecting its beef industry but by concern for the health and safety of its citizens.

This fungibility of issues is repeated in EU-US differences over GMOs and so-called 'Frankenstein foods', a transatlantic trade dispute that has been brewing since the start in 1996 of biosafety talks. The European Commission, in response to environmentalist pressure and public outcry against food scares such as BSE, introduced a regulatory regime that required environmental evaluation and step-by-step approval for the dissemination of GMOs. The US, the world's largest exporter of GM foods, has repeatedly accused the Commission of back-door protectionism and of operating an approval system that is non-transparent, unpredictable, overly politicised and unscientific. Exchanges sank to a new low in February 1999 when EU-US differences stalled efforts at the Cartagena Conference in Columbia to establish rules for the handling and transport of GMOs, GM crops and other biotechnology products. Then, prior to the WTO Summit in Seattle, the US, Canada and Japan proposed a biotechnology Working Group within the WTO. This move was widely interpreted as an effort to apply WTO rules to the conflict over GM trade and to outmanoeuvre the opposition that they had encountered in the negotiations for a Biosafety Protocol at Cartagena. A diplomatic furor subsequently broke out in Europe when at Seattle the EU Trade Commissioner, Pascal Lamy, seemingly unilaterally developed a new approach that supported the US idea. Lamy's actions not only sensitised the competence issue regarding the Commission's mandate, but also spawned a serious political row as he seemed to sacrifice all too easily the EU's environmental goals. There is thus little indication that this dispute will fade away. On the contrary, EU-US arguments over GMOs and GM foods, an expanding field of trade already worth \$1.5 billion per year, could well dwarf their differences over bananas and hormone-treated beef.

However, conflicts over GMOs, hormone-treated beef and bananas should not be allowed to give an erroneous impression of a protectionist EU and of a US that is an unadulterated free trader. The single most contested product in terms of trade issues between the EU and the US is steel, which accounts for ten of the seventy-two trade rows between the two. Here the tables are turned as far as complainants and accused are concerned, with the Europeans initiating four-fifths of all EU-US cases on steel before GATT and the WTO. The first such dispute was in 1969 and the latest commenced in March 2002 when the US imposed three-year 'safeguard' tariffs of up to 30 per cent on steel imports. The Bush administration claimed that these were consonant with WTO rules, as they were temporary measures designed to ease the painful restructuring of the American domestic steel industry. Others, however, interpreted the move as a combination of unfair protectionism and domestic politics, particularly given growing concern within Congress about the costs of free trade, the power of the US steel lobby and the importance to the Republicans of steel-producing states in light of the then upcoming mid-term elections and subsequently the next presidential election. Indeed, then US Treasury Secretary Paul O'Neill made off-the-record criticisms of the tariffs and USTR Robert Zoellick once conceded that they were a sop to America's so-called 'rust-belt'. Of the four key states in question, in the last election Bush took West Virginia, Ohio and

Indiana. Pennsylvania has since been the target of a Republican charm offensive and polls in autumn 2003 suggested that the steel tariffs remained very popular there with 70 per cent approval ratings.<sup>49</sup>

None of this, of course, deterred the EU and seven other countries from appealing against the legality of the US tariffs to the WTO. Even Bush's closest European ally, British Prime Minister Blair, publicly denounced the US action as 'unacceptable, unjustified and wrong',<sup>50</sup> and the EU quickly set about preparing a \$2.2 billion list of compensatory tariffs. Moreover, these were politically targeted so as to maximise the Bush administration's discomfort. For instance, they were to include Harley Davidson motorcycle exports from Wisconsin, steel exports from Pennsylvania and West Virginia, textile and apparel exports from North and South Carolina and orange juice from Florida, the state governed by Jeb Bush and the location of the dramatic electoral recount which finally allowed his brother George W. Bush into the White House. In November 2003, the WTO ruled in favour of the EU and Trade Commissioner Pascal Lamy quickly warned that tariff 'retaliation is a racing certainty' if the US did not remove its safeguard tariffs by mid-December 2003.<sup>51</sup>

On 4 December, the US backed down<sup>52</sup> – but not necessarily because of either the EU or the WTO. Rather, the steel tariffs have had negative consequences for other key American industries, such as the car industry. Moreover, a propitious rise in world steel prices and demand, especially from China, meant that it was easier for the Bush administration to drop the tariffs because the relatively inefficient US steel industry will be better able to compete in an inflated market.<sup>53</sup> However, this round of EU-US confrontation over steel is unlikely to be the last. There are striking similarities between the difficulties that the EU has in reforming its CAP and those that US administrations have persistently encountered with the American steel industry. Furthermore, the rise in world steel prices may well defer necessary restructuring of the US steel industry, and once prices drop again, as they almost certainly will once China fully develops its steel-exporting potential, the cycle of protectionism and recrimination is liable to resume once more.

There are numerous other trade issues over which the EU and the US have clashed in recent years. For instance, the US cried foul over the European Commission's decision to allow production of the Airbus A380 to be supported by government loans. This effectively condoned state subsidisation and therein gave the European conglomerate a competitive advantage over its American rivals.<sup>54</sup> Likewise, the US is deeply suspicious about the protectionist overtones of proposed EU regulations on chemicals that require manufacturers to provide extensive details of health and environmental effects of their products. Conversely, in 2002 the European Commission complained about 'illegal' tariffs imposed by the US Department of Commerce on European producers of low enriched uranium. In June 2003 it instigated WTO action against the US for its 'zeroing practice', an accounting procedure for calculating penalties for dumped goods on a market at below cost-price. The Commission argues that this



discriminates against EU exporters in trade worth several hundreds of millions of dollars per annum. And there is an ongoing row about foreign sales corporations. Partially in retaliation for the banana war, then EU Trade Commissioner Sir Leon Brittan launched a WTO case against FSCs on the grounds that they provided US companies with illegal tax concessions worth some \$3.5–4 billion per year and therewith conferred upon them a substantial advantage in international trade *vis-à-vis* European competitors. This action was particularly contentious as FSCs had previously been sanctioned in a deal concluded within GATT in 1981. Nevertheless, just months after the débâcle of its Seattle Summit, where trade negotiations collapsed amid a cacophony of protest, rubber bullets and tear-gas, the WTO upheld the Commission's complaint. It also authorised the EU to impose some \$4 billion of countervailing tariffs, which the EU is increasingly likely to levy should Congress spin-out interminably the rewriting of the offending sections of the US tax code.

In addition to issue-specific trade clashes, EU–US trade relations have been, and continue to be, riven by problems stemming from their mutual application of extraterritorial measures. This has taken several forms. The first is the extraterritorial application of their respective anti-trust policies; called competition policy within the EU. In the past, the ECs/EU often complained when US attempts to enforce its anti-trust laws outside its territory impinged upon businesses based inside the Communities. However in recent years, and particularly since the 1990 Merger Regulation,<sup>55</sup> the EU has also been increasingly assertive in its scrutiny of, and intervention in, mergers and acquisitions in other countries – something that has generated predictable angry reactions within the US. According to the provisions of EU competition policy, a merger of companies requires the approval of the European Commission, the Union's anti-trust authority, if the following conditions are met: a combined global turnover of all companies involved of more than €5 billion, and an EU-wide turnover of more than €250 million by at least two of the companies involved.<sup>56</sup> Since these conditions are not applied exclusively to EU-based companies, a number of purely American mergers fulfilling these criteria have required the approval of the Brussels-based institution.

The objective behind the EU's competition policy is, naturally, very much the same as that behind US anti-trust legislation, namely to avoid the building of oligopolies or, worse, monopolies, and hence to maintain plurality and a high level of competition in their respective domestic markets. Therefore, when the European Commission approved in 1997 the take-over of the American aircraft manufacturer McDonnell Douglas Corp. by its domestic rival Boeing Co., it only did so on the condition that Boeing cancelled its exclusive supplier agreements with American, Continental and Delta airlines. The idea behind this was that because the global aircraft market was already an oligopolistic one, in other words a market with comparatively few suppliers, the merger without such conditions would have given the new combined company too strong a position in this global market. Some American commentators quickly complained that the EU was now engaged upon actions that it had bemoaned

when taken by the US authorities. Others suspected more cynical motivations. They feared that the Commission was using competition policy to boost European producers because the cancellation of the exclusive supplier agreements by Boeing gave Airbus, the company's European rival, at least the opportunity to vie for additional sales.<sup>57</sup>

Another example of the EU applying its competition policy extraterritorially was the merger of American Online and Time Warner. Here the Commission made its approval of the deal conditional upon the two companies severing all ties with the German media group Bertelsmann. Even more controversial have been instances where the Commission has actually blocked the mergers of two US-based companies. The first time this happened was in June 2000, when the institution refused to approve the take-over of the US's third-largest telecommunications company Sprint by its rival WorldCom.<sup>58</sup> The Commission encountered even heavier criticism over its decision to block a proposed take-over by General Electric of Honeywell in 2001.<sup>59</sup> In these and other cases, the Americans often suspected that the Commission interpreted 'market domination' in a rather generous way, taking into consideration not only the number of suppliers or their market shares, but also their quality or the sophistication of their products. With EU production in the so-called future industries still lagging somewhat behind that of the US, it was feared that EU competition policy could be used to prevent American companies from dominating markets through their technological leadership.<sup>60</sup>

A different case in which extraterritorial measures have aroused strong EU–US disagreement is the application of extraterritorial sanctions within foreign policy strategy. Herein the EC/EU has been the principal complainant, which is perhaps not surprising given the relatively recent and still incomplete development of CFSP. In Chapter One it was noted how damaging to EC–US relations was the Reagan administration's unilateral imposition of sanctions against American subsidiaries and licence-holders in Western Europe that were involved in the Siberian pipeline project. This, however, is far from an isolated instance. Such US policies have continued in the post-Cold War era, something that owes not least to domestic political pressures and an increasingly assertive Congress. Consider, for example, the Helms-Burton Act and the Iran–Libya Sanctions Act. Both of these were passed in 1996, which was a year of presidential and congressional elections, and sought to promote US foreign policy objectives *vis-à-vis* undermining Castro's communist regime in Cuba and deterring Iran and Libya from supporting terrorism, acquiring WMD and undermining the Middle East peace process. The problem for EU–US economic relations was that Helms-Burton legislation contained clauses that provided for the extraterritorial application to EU companies and individuals of the US economic isolation of Cuba. Similarly, the Iran–Libya Sanctions Act contained extraterritorial provisions designed both to increase Iran's economic isolation and to guard against American companies being disadvantaged on account of their government's legislation *vis-à-vis* their competitors from Europe and elsewhere. Specifically the Act empowered the US President to impose two

countermeasures, drawn from a substantial list, upon any foreign company that invested more than \$40 million annually in either the Iranian or Libyan energy sectors.

These US actions were wholly unacceptable to the EU because of their unilateral nature, extensive extraterritorial implications and because they went against both the economic interests of EU member states and the Union's preference for policies of engagement rather than of isolation/confrontation. Pursuant to Section 301 of the EC Treaty, a joint action was established within CFSP that provided for the EU to pass its first-ever blocking statute. This effectively neutralised the extraterritorial US measures by prohibiting any EU subject from participating in, or abiding by, the judgements of US courts and by providing for them to secure through the European courts compensation from the US for any damages incurred as a consequence of the relevant US legislation. In addition, the EU appealed against the extraterritoriality of the US legislation to the DSB of the WTO. Even though the EU case before the WTO was far from watertight given that it concerned investment rather than trade, it was sufficient to force a compromise. In April 1997 the EU agreed to suspend its WTO action and the US agreed to suspend continuously Helms-Burton provisions that enabled private law suits. In 1998 a more comprehensive deal was reached that, whilst not ending the dispute, provided for a negotiated stand-off. Waivers were secured for the EU and EU companies under both Acts, the US promised greater self-restraint on future extraterritorial legislation in an agreement on Transatlantic Partnership on Political Co-operation, and the EU and US agreed greater commonality in dealing with investments vested in illegally expropriated property.<sup>61</sup>

It is a measure of EU-US economic interdependence and mutual political will to nurture their bilateral relationship that each has continually sought to develop understandings that mitigate tensions and facilitate trade. For example, they have concluded mutual recognition agreements (MRAs) that currently cover electromagnetic emission, telecommunications equipment, pharmaceutical manufacturing practices and off-road vehicle emissions.<sup>62</sup> Likewise, increased transatlantic friction over extraterritoriality prompted the creation in June 2000 of a Working Group comprising the European Commission and the US Justice Department, which is responsible for American anti-trust policy.<sup>63</sup> However, it is also important to recognise that EU-US friction is not confined to their trade relationship. Consider, for instance, monetary issues and, in particular, the dollar-euro exchange rate and how this has been managed, or not managed, over time.

The US was for some time rather sceptical about, if not positively ignorant of, the seriousness of EU intent to establish EMU complete with a common currency.<sup>64</sup> It was certainly the case that EMU was driven primarily by calculations of internal benefits to the EU, stemming especially from irrevocably fixed exchange rates and the surrender of national currencies to a common currency. This removed exchange rate risk, eradicated the need to pay for currency exchange transactions and made prices comparable and therewith transparent

across the entire eurozone. Yet that the euro, as the common currency of the world's largest economic bloc, also had the potential to rival the dominant role hitherto occupied by the US dollar as the global reserve currency has never been denied by people writing on, or speaking for, the EU. For some this was even an additional reason to adopt the euro, for it would reflect the Union's economic and (to an extent) political standing and increase its international profile. Others feared that a strong euro portended transatlantic friction owing to US sensitivity for the dollar's status as the dominant reserve currency.<sup>65</sup>

The euro was launched on 1 January 1999 at an exchange rate to the US dollar of €1 = \$1.17 and took an almost immediate dive.<sup>66</sup> With only two brief and rather unspectacular recoveries, this trend continued for almost two years until the exchange rate bottomed-out at €1 = \$0.84 on 24 November 2000.<sup>67</sup> This unexpected and quite severe depreciation tempered the early fears and aspirations of those who saw the euro as a rival to the dollar as the world's most used and important currency.<sup>68</sup> It also inspired accusations, often directly addressed at the European Central Bank (ECB), that the euro was not the strong and stable currency that the ECB and the Union had promised. In fairness, such promises had usually referred to the purchasing power of the currency inside the eurozone and hence to the ECB's principal mandate to maintain low inflation. As far as the external value of the euro was concerned, this was not the ECB's responsibility.<sup>69</sup> It is indicative of the pressure that the ECB nevertheless came under to justify the situation that its first president, Wim Duisenberg, was forced to defend the currency's declining value as reflecting 'predominantly the strength of the dollar rather than the weakness of the euro'.<sup>70</sup>

Whilst the steady depreciation of the euro against the dollar was criticised from within the EU because it meant that the currency was not playing the international role it should have done,<sup>71</sup> criticism from beyond the Union centred around quite different issues. The ever-weakening currency made eurozone exports steadily cheaper on the world's markets traditionally dominated by the US dollar. American exporters in particular faced the inverse situation. The continuous appreciation of the dollar against the euro made their exports comparatively more expensive and meant that they had increasing difficulty in selling to the eurozone. As early as 1999, the first complaints were heard about the EU not doing enough to help the euro recover. Alan Greenspan, the Governor of the Federal Reserve, the central bank of the US, even feared that this could lead to renewed calls for protective measures as Americans were 'losing faith in free trade'.<sup>72</sup>

The EU consequently attracted increasing criticism, especially from the US, for not doing enough to support the value of the euro *vis-à-vis* the dollar. This was understandable from the perspective of US businesses and of the US administration, not least because the euro's decline against the dollar stimulated an EU export boom and contributed to a record US trade deficit. How, though, could a 'correction' in the exchange rate be achieved? And who could, or would, be able to do it? The ECB's principal objective was to maintain internal price stability with a secondary consideration of generally supporting the

economic policies of the EU, as formulated by the Union's Council of Economics and Finance Ministers (Ecofin). The Bank could have made the euro more attractive by raising interest rates. However, these are first and foremost tools to fight inflation, and already this was low with economic activity weakening within the eurozone. In fact, the ECB was under pressure to cut interest rates to stimulate economic activity and could consequently do little to influence the exchange rate other than to discourage further depreciation of the euro by maintaining interest rates slightly higher than otherwise necessary. The other alternative was for the EU and/or its member states to undertake structural reforms of, most prominently, over-generous welfare systems in countries such as Germany, France and Italy. Although such steps would have gradually made the euro more attractive, structural economic reforms of such magnitude are politically very difficult, of a long-term nature, and hence would have taken some time to make their respective effects felt on the exchange rate. Besides, the urgency of reforms was somewhat disguised because the low value of the euro worked as a huge export promotion programme for the Union and consequently hid the true scale of the structural discrepancy between it and the US.<sup>73</sup>

It is important to understand that these EU-US differences over the euro-dollar exchange rate and the problems of adjustment are not simply the product of the euro being a new currency but are actually embedded in very different economic philosophies. The eurozone has emphasised maintaining low inflation and the objective of steady growth in order to avoid 'boom and bust' cycles. In consequence, it operates under self-imposed criteria that have encouraged tight macroeconomic control and even fiscal tightening. For instance, recently the ECB has only slowly cut short-term interest rates by 2.75 per cent in a bid to stimulate growth whilst keeping inflation below its mandated 2 per cent average across the eurozone. Also, whereas the US is seemingly unperturbed by its approaching a 6 per cent budget deficit, the maximum such deficit allowed in the eurozone is 3 per cent. Already in 2003 Germany, France and Portugal have all breached this ceiling agreed under the Stability and Growth Pact and face consequent action by the European Commission. In contrast, the US is in a strong Keynesian phase in which it has prioritised economic growth and employment through a macroeconomic and fiscal loosening designed to re-ignite the American economy. For instance, the US Federal Reserve has slashed short-term interest rates by 5.5 per cent and a surge in government spending since the Bush administration assumed office has transformed the federal budget from a 2 per cent surplus in 2000 to a 4 per cent deficit in 2003. The US has also been critical of the eurozone's corporate capitalism, fiscal restraint and failure to liberalise its labour markets, which reflects transatlantic differences over economic philosophy and the appropriate balance between individualism and social solidarity. The IMF has similarly both criticised Europe's welfare burden and inflexible labour markets as contributing to the eurozone's weak economic performance and suggested that a liberalisation of Europe's employment and product markets to the American model would result in a 10 per cent increase in the region's output. Interestingly Britain, which is not bound by Stability and

Growth Pact criteria, has cautiously followed the US trend towards fiscal and macroeconomic loosening and in recent times has generally outperformed the big three eurozone economies of France, Germany and Italy.

Since late 2000 there has been a dramatic reversal of fortune and the euro-dollar exchange rate at the end of 2003 is the complete opposite of what it was. The first recovery of the value of the euro against the US dollar took place in early 2001 when the first signs of a slowing US economy were discerned.<sup>74</sup> The euro subsequently weakened again until the events of 11 September 2001 once more reversed this trend. The real slide of the US dollar against the euro, however, began in early 2002, and as it became increasingly evident that the invasion of Iraq had been and would for some time remain a costly undertaking, the dollar reached an all time low of just under €1 = \$1.25 on 29 December 2003.<sup>75</sup> Not surprisingly, the tables have turned as far as complaints about the consequences of this new situation are concerned. Now it is the Europeans who are complaining that the weakness of the dollar is hurting their exports,<sup>76</sup> and it is the Americans who stand accused of positively talking their currency down.<sup>77</sup>

However, the significance of EU-US arguments over the euro-dollar exchange rate does not stop here. Rather, it is inextricably bound up in the wider global economy. As aforementioned, the recent global economic upturn has relied heavily on US economic performance, which has in turn relied upon America spending beyond its means. There is a fierce debate about for how long this is sustainable and what will happen once the US either chooses or is forced to reduce its deficit. Closing the deficit is difficult because the US economy is growing faster than others are and American imports far outstrip exports. For instance, in 2002 US imports totalled \$1.4 trillion compared to exports of \$974 billion. The method of adjustment, rather like in the mid-1980s, is consequently liable to be a substantial depreciation of the dollar. Just how great a depreciation may be required is reflected in economists' predictions that a trade-weighted dollar depreciation of between 20 and 50 per cent will be needed in order to bring the US current account deficit down to around 3-3.5 per cent of GDP.<sup>78</sup>

The IMF has underscored that this is not merely a hypothetical possibility. It warned in its World Economic Outlook in September 2003 that despite the post-2001 depreciation of the dollar 'the possibility of a rapid realignment of the major currencies carries a significant risk for the global economy'.<sup>79</sup> These risks for the EU and the wider international economy are potentially profound. Even if the dreaded dollar crash and financial meltdown could be avoided, the euro might still be driven upwards of two dollars. Already it has borne the brunt of dollar depreciation - since early 2002 the dollar has dropped 20 per cent against the euro compared to 8 per cent on average against its trading partners. This owes both to the added sensitivity to exchange rate fluctuation of currencies that float rather than those that are pegged and to the active intervention of Asian governments to prevent their currencies from appreciating. A further rapid appreciation of the euro could extinguish the eurozone's fragile

the tone for the international economy. And with such power comes great responsibility. For instance, their exchange rate (in)stability has significant repercussions for economies across the world, as do the balances between both their relative growth rates and between their import-export ratios. Their macroeconomic co-operation or otherwise, along with that of other major economies, will also help determine the seriousness of the economic repercussions of the eventual adjustment of the US deficit. Furthermore, as the EU and US both pursue competitive liberalisation, their relative priorities within this, coupled with their relationship within the WTO, will affect substantially the future fragmentation or unification of the global trading system.

## Notes

- 1 For a more detailed analysis of the post-WW2 period in EC-US economic relations, see Geiger, T. (1996) 'Embracing Good Neighbourliness: Multilateralism, *Pax Americana* and European Integration, 1945-58' in *Regional Trade Blocs, Multilateralism and the GATT*, Geiger, T. and Kennedy, D. (eds), London: Pinter, pp. 56-78.
- 2 Information from the EU was obtained from the europa-website at [www.europa.eu.int](http://www.europa.eu.int), with most data being provided by Eurostat, the Union's statistical office. Data from the US was also obtained from [www.ita.doc.gov/td/industry/otea/usfth/tabcon.html](http://www.ita.doc.gov/td/industry/otea/usfth/tabcon.html).
- 3 The percentages were calculated on the basis of information obtained from the EU-website at <http://europa.eu.int/comm/trade/issues/bilateral/data.htm>.
- 4 Mexico came third with 14 per cent.
- 5 Figures calculated from US Aggregate Foreign Trade Data, [www.ita.doc.gov/td/industry/otea/usfth/tabcon.html](http://www.ita.doc.gov/td/industry/otea/usfth/tabcon.html).
- 6 European Commission (2003) 'EU-US Bilateral Economic Relations' *European Union Factsheet*, p. 1, [http://europa.eu.int/comm/external\\_relations/us/sum06\\_03/eo.pdf](http://europa.eu.int/comm/external_relations/us/sum06_03/eo.pdf).
- 7 Data taken from <http://europa.eu.int/comm/trade/issues/bilateral/data.htm>.
- 8 Figures calculated from data from US Aggregate Foreign Trade Data, [www.ita.doc.gov/td/industry/otea/usfth/tabcon.html](http://www.ita.doc.gov/td/industry/otea/usfth/tabcon.html).
- 9 'EU-US Bilateral Economic Relations', p. 1.
- 10 *Ibid.*, pp. 1 and 2.
- 11 Aristotelous, K. and Fountas, S. (1996) 'An Empirical Analysis of Inward Foreign Direct Investment Flows in the EU with Emphasis on the Market Enlargement Hypothesis' *Journal of Common Market Studies* 34 (4) pp. 571-83; Gorg, H. and Ruane, F. (1999) 'US Investment in EU Member Countries: The Internal Market and Sectoral Specialization' *Journal of Common Market Studies* 37 (2) pp. 333-48.
- 12 Blinken, A.J. (2001) 'The False Crisis Over the Atlantic' *Foreign Affairs* 80 (3) p. 46.

- 13 Baroness Scotland of Asthal QC (2003) speech to the House of Lords, 2 May 2001, <http://www.fco.gov>.
- 14 For predictions of serious commercial challenges to the US from Europe see, for example, Thurow, L. (1992) *Head to Head: The Coming Economic Battle Among Japan, Europe and America*, New York: Norton.
- 15 European Commission, *Joint EU-US Action Plan*, [http://europa.eu.int/comm/external\\_relations/us/action\\_plan/index.htm](http://europa.eu.int/comm/external_relations/us/action_plan/index.htm).
- 16 European Commission (2001) 'The Transatlantic Economic Partnership' *Economic Relations*, [http://europa.eu.int/comm/external\\_relations/us/action\\_plan/3\\_trade\\_economy\\_release.htm](http://europa.eu.int/comm/external_relations/us/action_plan/3_trade_economy_release.htm).
- 17 *Ibid.* On the part of the EU, assessments of the situation are being made in the annual *Report on United States Barriers to Trade and Investment*, the latest of which was published in November 2002 by the European Commission in Brussels.
- 18 European Commission (November 2002) *Report on United States Barriers to Trade and Investment*, p. 3.
- 19 United States Mission to the European Union (2003) 'Commerce's Aldonas: Shoring up the U.S.-EU Trade, Economic Relationship,' <http://www.useu.be/Categories/Trade/Apr2803AldonasUSEURelationship.html>.
- 20 Excluding intra-EU trade.
- 21 'EU-US Bilateral Economic Relations', p. 1.
- 22 <http://www.imf.org/external/np/sec/member/members.htm>.
- 23 <http://www.worldbank.org>.
- 24 Zoellick contended that this US inaction damaged the country's businesses, workers and farmers, because they found themselves excluded from the numerous preferential trade and investment agreements negotiated by the country's trading partners. He gave a concrete example: 'while U.S. exports to Chile face an eight per cent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. As a result, U.S. wheat and potato farmers are now losing market share in Chile to Canadian exports.' Zoellick, R.B. (2001) 'Prepared Statement of Robert B. Zoellick U.S. Trade Representative before the Subcommittee on Trade, Committee on Ways & Means of the U.S. House of Representatives', p. 3, [www.ustr.gov/speech-test/zoellick/zoellick\\_3.pdf](http://www.ustr.gov/speech-test/zoellick/zoellick_3.pdf).
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- 29 G21: Argentina, Bolivia, Brazil, Chile, China, Columbia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela.
- 30 Bierling, S. (2002) 'Die Europäische Union und die USA' in *Europa-Handbuch*, Weidenfeld, W. (ed.), Bonn: Bundeszentrale für politische Bildung, p. 649.
- 31 'For legal reasons, the European Union is known officially as the European Communities in WTO business. The EU is a WTO member in its own right as are each of its 15 member States – making 16 WTO members altogether. While the member States co-ordinate their position in Brussels and Geneva, the European Commission alone speaks for the EU and its members at almost all WTO meetings and in almost all WTO affairs.' Source: [http://www.wto.org/english/thewto\\_e/countries\\_e/european\\_union\\_or\\_communities\\_popup.htm](http://www.wto.org/english/thewto_e/countries_e/european_union_or_communities_popup.htm).
- 32 Prior to 1970 conflicts had been fought out between the Communities' member states and the American administration, even though the ECs as a supranational body had been a full participant in GATT since the year 1960. See Sapir, A. (2002) 'Old and New Issues in EC-US Trade Disputes', unpublished paper.
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CHAPTER  
6The EU and security in  
Central and South-Eastern  
Europe

Europe was the most logical region for the EU to develop its credentials as a leading post-Cold War security actor. Yet the region constituted a security environment more challenging than many first imagined. The East–West ideological divide was replaced with new divisions such as differentiated memberships of key security institutions, grave differences in economic development and environmental security and a new psychology of insecurity prevalent especially in the geo-strategically homeless of Central and Eastern Europe. The removal of Cold War overlay gave rise to a number of vulnerable new independent states and to a potential security vacuum, unleashed secessionist conflicts and required more 'peace' operations on European soil than in any other region of the world.<sup>1</sup> It also facilitated East–West transnational crime and encouraged migratory pressures. Borders became more vulnerable, wealth inequalities provided push and pull incentives, drug trafficking from the Golden Crescent through the Balkans blossomed and new criminal opportunities were afforded such as human trafficking and the smuggling of firearms and nuclear materials.<sup>2</sup>

This chapter assesses three aspects of the EU's response to these security challenges in its 'own backyard'. The first section examines its efforts to stabilise Central and Eastern Europe through, principally, the enlargement process. This has seen co-ordinated cross-pillar activity, a prioritisation of JHA issues as external policy towards candidate states became progressively 'domesticised', and a difficult balance struck between maintaining EU internal security and exporting security to CEECs. The second section examines the EU's role in South-Eastern Europe and explores its very mixed record in handling security challenges posed by the disintegration of Yugoslavia and consequent Balkan instability. The final section places EU aspirations to a leading role in European security in the wider context of an evolving post-Cold War security architecture and of the different security preferences of its leading member states.