

Luncheon Address

by

The Honorable Matthias Wissmann

Member of the Bundestag

Former Federal Minister

The American Council on Germany

in cooperation with the

Konrad Adenauer Foundation

**"25 and Counting: EU Enlargement and the Impact on Transatlantic
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Introduction

The EU is facing one of its most significant steps into the future: Its enlargement by ten new member states. On 1 May 2004, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus will join the European Union.

This marks a significant milestone in European history, the conclusion of a long process that started with the collapse of the Soviet empire and the fall of the Berlin Wall. In Germany, a country divided between East and West for over forty years, the accession of our eastern neighbours is widely seen as the "reunification of Europe".

Enlargement symbolises a return to normalcy as these countries come back into the fold of a community of European states. If it succeeds, EU enlargement will make possible what Europeans have been dreaming of for centuries: the creation of an undivided Europe based on shared values, on respect for cultural diversity, on joint responsibility, and on the absence of an hegemonic power. Enlargement represents an extraordinary second chance for a continent that had almost self-destructed and whose eastern half has paid an especially heavy price. Enlargement means the prospect of peace and stability in Europe, the unification of a once artificially divided continent, the creation of the biggest single market in the world.

Clearly, enlargement is a bold step, and assuredly it will not be an easy one. Its unprecedented set of challenges will

continue to require a tremendous degree of cooperation, patience and hard work for some time to come.

This does not mean, however, that the post-enlargement EU will be inward-looking and will focus solely on internal issues in the years following enlargement. In the age of globalisation, we have the opportunity and responsibility to pursue together with our transatlantic partners the objectives we achieved for Europe in the last century on a more global scale - to strengthen democracy and human rights and to make the world a safer, more stable and a better place.

I) Enlargement

1) Enlargement process

Before I go into further details of what impact this enlargement might have on the transatlantic relations, let me briefly recall the major steps that led to the unification of Europe.

As early as 1993, the Heads of State and Government of the EU member states, **at their summit in Copenhagen, invited the eastern European countries to join the EU** - provided that they fulfil a set of specific political and economic criteria known as the 'Copenhagen criteria' (stable democracy, functioning market economy and adoption of the common rules, standards and policies that make up the body of EU law). These were high standards to meet and they have required often painful social, political and economic reforms.

But the old member states of EU did not leave their neighbours alone in their labours: the Union provided financial as well as political assistance to their transformation. **The Europe Agreements**, as the legal basis for bilateral relations between these countries and the EU, served as a framework for their preparations for accession. The PHARE programme soon became the world's largest assistance programme, providing technical expertise and investment support.

In 1998 and 1999, the EU formally launched the negotiation process with twelve applicant countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia. Turkey was given the status of an applicant country. At the **Copenhagen Summit in December 2002**, the negotiation procedure was formally concluded with ten applicant countries. And the Accession agreements were signed in Athens **on 16 April 2003**. **In nine of the ten acceding states**, the agreements were then **put to a referendum**, which resulted, as a rule, in broad acceptance of membership by the population. Membership will come into effect in May 2004. This will enable an important date to be met: citizens in the ten new member states will be able to participate in the next elections to the European Parliament due in June 2004.

The accession process does not end there. It will continue with **Bulgaria and Rumania**, the aim being to admit these states into the EU in 2007 if possible. As **Turkey** does not yet fulfil the necessary political criteria, accession negotiations have yet to begin. The European Council is expected to take a decision in December 2004 on the possible commencement of negotiations.

The accession process might be also extended to the countries of the Western Balkans. At a special summit in June 2003, the Heads of State and Government confirmed the "European Perspective" of the **Western Balkan countries** Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro and the Former Yugoslav Republic of Macedonia (FYROM), and offered their support in establishing to an integration partnership with the EU. The European Commission is at the moment preparing a so-called "opinion" due to be issued in March next year on the possibility of opening negotiations with Croatia.

Where will EU-enlargement end? There is a certain risk, I admit, that the EU will suffer "overstretch" if it continues to grow at the current pace. As diversity within the Union grows, centripetal forces might become stronger. Therefore, I believe it is time for Europeans to enter into an honest and open discussion about where Europe's frontiers lie and what is the geographic and political "finality" of European integration.

2) Benefits of enlargement

a. For the acceding countries

- A huge part of our continent has moved **peacefully** from dictatorship to **stable, participatory democracy**. This is an extraordinary achievement.
- All acceding countries satisfy the political criteria laid down at Copenhagen, and democratic institutions are now stronger everywhere. In the space of a decade we have seen:
 - the holding of dozens of free and fair national, regional and local elections;
 - the adoption of thousands of laws and regulations to give shape to the new democracies and incorporate the body of EU law, the "acquis communautaire", into national law.
- The overall performance of the economies of the ten first-wave countries is improving. Their growth rates are higher than the average rate in the EU-15. In 2002, the average growth rate in the acceding countries in 2002 was 2.9 %, three times the rate in the EU-15. As an example, Poland's growth rate (3.8 % in the second quarter of 2003) has consistently been higher than Germany's since 1995. Moreover, membership will stimulate additional growth. Again, estimates for Poland range between 0.2 and 1.7 % per year. The inflation rates and deficits of the acceding countries are being kept under control, direct foreign investment is flooding in, the markets have confidence.

b. For the EU

The forthcoming enlargement of the European Union is **without precedent in terms of scope and diversity**: never have so many countries joined, and never has there been such an increase in area (by 20%) and population (by 70 million).

The benefits of enlargement are considerable for the European Union. First and foremost, enlargement is important for political and moral reasons. It is the fulfilment of the European project. It will bring **peace and stability** in Europe, the continent's greatest achievement since the Second World War.

Enlargement also implies the **creation of the biggest single market in the world**, with a considerable increase in intra-EU trade which will hopefully help **boost economic growth** throughout our continent. Of course, enlargement will bring us together with economies which currently have lower GDPs than the present EU member states. Accession will lead to a rather moderate 8.1% increase in the Union's overall GDP, the average GDP in the acceding countries being less than half of the current EU average. But these countries will definitely have a greater potential for growth in the coming years.

Apart from trade, enlargement will lend **impetus to various other sectors such as investment, education and research**.

3) Risks of enlargement

Even after the accession of the new member states, the enlargement process will continue a **considerable effort**. It cannot be denied that the incorporation of ten new countries will entail significant challenges. The countries' administrative capacities and their justice systems are still fragile, the implementation of the *acquis communautaire* will have to be consolidated and the fight against corruption, trafficking in human beings etc. reinforced. The new and old member states of the European Union will be confronted with a number of collateral problems, especially in fields such as agriculture, trade, defence and the restructuring of the internal security apparatus in the new member states. But all our efforts will be paid back in full, I am convinced, once the enlargement process has been consolidated.

Beyond the task of ensuring the coherence of our community of nations inside the enlarged Union, we face the even more daunting task of ensuring that the overall structure remains workable and that an EU with 25 members does not render itself immobile. EU enlargement will **not be feasible without major institutional reforms** in the near future.

Enlargement and the so-called "deepening" of European integration are indeed two sides of the same coin: the new European Union needs a clear and stable institutional framework and a revision of the decision-making process enshrined in the draft Constitution for Europe. As you know, a

European Convention consisting mostly of national and European parliamentarians but also of representatives of national governments has drafted a constitutional text which is currently being discussed in the framework of an Intergovernmental Conference. Representatives of the acceding states are participating at the IGC on an equal footing with representatives of the current member states. The Italian Presidency of the European Union is hoping to be able to close the Intergovernmental Conference by the end of the year with an agreement on the Convention's draft. The ideal scenario will be for the new Constitution to be signed on 9 May 2004 (Europe Day).

But, the **pressure from various member states**, old and new, to make substantial changes is of course considerable. The general position in Germany, and my own position, is that the governments should try to stick to the Convention's draft as far as possible because it represents a good and realistic balancing of interests. Renegotiating substantial parts of the package would be like opening Pandora's box. Moreover, it is very difficult to imagine how an Intergovernmental Conference could, in a few sessions, come up with a better balance than the Convention.

I hope that the IGC achieves its objective, ideally under the Italian Presidency, otherwise in the first months of the Irish Presidency. The most important aim should be to achieve a reform which enables the EU to be more efficient, more able

to act, and easier to understand - not only for European citizens but also and especially for our American friends.

I also hope that the IGC will bring us closer to a common European foreign and defence policy that really deserves that name. Only a EU with effective political and military instruments will make possible the balanced burden-sharing within the Alliance that has been called for in the US. A united democratic Europe has been a major goal of America's policy towards Europe for the last 50 years.

II) **A stronger Europe alongside a strong America**

In this changing world, characterised by the positive and negative impact of globalisation and by new threats such as organised crime and international terrorism, the European Union needs the United States and the United States need Europe. Neither Europe nor America can meet these challenges alone. I would like to explain why.

The transatlantic relationship is unprecedented and unique. The United States and Europe share the **same common values**, which can be summed up by a few basic notions: the rule of law, democracy, the protection of minorities, the market economy. These democratic ideals are as fragile as they are invaluable. International terrorism has shown that the principles of freedom are not shared by everyone and must be defended.

The United States and Europe **share the same concern for the security of their territories and their populations.** NATO is the most striking expression of this concern and our close military ties. In this domain, the attacks of September 11 underscored the closeness of the transatlantic relationship with Article 5 being invoked for the very first time. This terrorist attack also demonstrated that security is not an exclusively military issue. The fight against terrorism demands reinforced cooperation in the financial sphere, in intelligence-sharing and more broadly in the judicial and police fields.

Certain important foreign policy issues, such as peace and stability in the Balkans, underline the **complementarity of our efforts.** One need only think of Macedonia and Bosnia, for example. That is why Europe's defence policy, as we conceive it, will not aim to duplicate or to weaken NATO, but to create the conditions for a more equitable burden-sharing and sharing of responsibilities.

The United States and Europe also share similar economic interests. Trade and investment have long been regarded as the basis of the transatlantic partnership, and they increasingly determine the well-being of the entire global economy. Over time, our **bilateral economic ties have become even more crucial** given the sheer size of our respective economies. The combined EU and US GDP makes up around 56% of the world total, although together we only constitute 10 % of the world's population. EU and US

command over 40% of world trade and this figure will rise after enlargement. We have achieved such a high degree of interdependence that any kind of trade war would be virtually suicidal. More than half a billion dollars' worth of goods and services cross the Atlantic every year. Crossed investments amount more than \$1500 billion. Our shared fundamental interests should encourage us to overcome current trade disputes, which represent less than 5% of our total bilateral trade. To sum up, we might be competitors, but more than that we are partners.

However, this special relationship between the two sides of the Atlantic **should not be taken for granted**. It requires attention and must be nurtured by further common undertakings. Together there is nothing we cannot achieve; separately we are vulnerable to bitter failures. Only a stronger Europe will be able to ensure that the transatlantic relationship endures as a relationship of equals built on respect and a shared vision.

III) The impact of EU enlargement on transatlantic relationships

a. Consequences in the political and security sphere

Enlargement will **increase the size, relative weight and, hopefully, the cohesion of EU voting** in international forums. With regard to global issues, the candidate countries

and the "old" member states will have to co-ordinate their actions in international organisations and at international conferences. European unity rather than European disunity will also have **huge advantages for the transatlantic dialogue** when trying to find common positions in international forums.

In the political and security sphere, enlargement will affect US interests in the three areas: **NATO and the US defence role in Europe**; **global issues** such as the International Criminal Court, the Landmine Treaty, and the Kyoto Protocol on greenhouse gas emissions and the **EU's "proximity policy"** towards such countries as Russia, Ukraine, Belarus and Moldova, the Balkans, North Africa and the Middle East.

While EU membership will produce closer relations between the acceding states and Brussels and their fellow EU members, it will also mean stronger relations between the EU and the U.S. Those who believe the new member states must decide between loyalty to Europe or to the United States are posing a false choice. The two are not incompatible. One can be a good European and a good Atlanticist.

The roughly simultaneous **expansion of NATO and EU** will increase by eight the number of countries that are members of both organisations, thereby mitigating the problem of differentiated levels of security within the EU or of "backdoor" security commitments by the US to EU members that are not members of NATO. Because of their direct exposure to

potential instability emanating from the Newly Independent States and the Balkans and their historical memories of Russian/Soviet threats to their independence, **the new member states of the EU will have a strong interest in preserving the viability of the Atlantic Alliance** and highlighting its enduring character as a defensive military alliance through which the US remains engaged in European security affairs. The accession countries are thus likely to be more "Atlanticist" in outlook than some of the current members of the EU.

Today, more than half a century after its creation, NATO remains the bedrock of European security and America's main anchor in Europe. For Germany, NATO remains as important as it was before the end of the Cold War.

The objective of the EU's new proximity policy is to project stability beyond its external borders. The EU initiative "Wider Europe" aims to build a zone of stability on its future borders to the East and around the Mediterranean. This initiative translates the EU willingness to share "everything but institutions" with our future neighbours. This includes reciprocal arrangements covering the Union's four freedoms: free circulation of people, goods, services and capitals. The objective is to contribute to the stabilisation of neighbouring region, **not to create a zone of influence in Europe's hinterland** to which the EU would have "privileged" access and from which the United States would be excluded. Enlargement will increase the salience of EU "proximity

policy" towards non-member countries on the periphery of an expanded Union. Failure by the EU to stabilise its periphery could lead to a return to instability in the Balkans, a sharp deterioration in relations between Russia and the EU etc. Such developments would be damaging to the interests of both the EU and the US.

b. Economic impact of enlargement on transatlantic relations

For the US, enlargement could also prove to be a positive development in economic terms as US goods will have improved access to a larger market following accession. The new enlarged European Union will present a massive opportunity for US companies, just like the Internal Market which did not prove to be some form of "Fortress Europe" as many in the US had feared.

In the economic sphere, enlargement will mean **increased export opportunities** for US companies. EU membership will bring with it the harmonisation of accession country health, safety and related standards to EU norms. A single set of trade rules, a single tariff, and a single set of administrative procedures will apply across the Single Market of the enlarged Union. This will simplify dealings with Europe. This will be favourable for US companies engaged in trade with the new member states.

Moreover, the differential treatment accorded to US exports under the Europe Agreements will end when **the acceding**

countries adopt the EU's Common External Tariff, which is generally lower than the tariffs currently applied by these countries to imports from the United States. This will contribute to increasing the relative modest share of these countries in overall US trade (0.4 % of total US exports).

More generally, sustained economic growth and the gradual convergence of levels of prosperity between the old and the new member states will mean **a larger and more affluent market with increased export and import opportunities for US companies**. The need for companies in central and eastern Europe to upgrade their competitiveness and raise productivity is creating openings for US manufacturers of capital equipment, software, environmental technologies and other products.

Remark: The adoption of the Euro by the acceding countries is however not yet a credible perspective for the coming future. Nevertheless, due to the increased economic stability in these countries foreign investors and trades will benefit in the meantime from increased monetary stability and the liberation of currency exchanges.

Investment

Enlargement will create **greater opportunities and a more favourable environment for US investments** through the strengthening of transparency, property rights, protection against corruption etc.. However, problems could arise over the United States bilateral investment treaties with countries

in the region, which the EU is insisting that the accession countries abrogate or renegotiate to conform with EU norms.

Steel

Enlargement might exacerbate US-EU trade tensions in a few specific industrial sectors, notably steel. Although the countries of central and eastern Europe have modernised and downsized their communist-era steel sectors, these industries remain large relative to their respective national economies and more dependant than producers in Western Europe on the export of lower-valued added products.

Agriculture

While enlargement will on balance benefit US exporters of manufactured products, it might be **more difficult to ensure positive effects for US agricultural interests.**

Accession will mean acceptance by the candidate countries of certain EU rules and standards that the US regard as unfair barriers to trade. **Enlargement could also mean a potential increase in agricultural protectionism** and a further loss of US agricultural exports as the EU's Common Agricultural Policy squeezes out US exports and various EU bans are extended to the accession countries.

Over the long term, the implications of enlargement for US agricultural interests are likely to depend on how radically the CAP is reformed. Under a best-case scenario, reform would proceed and the CAP would be extended to the new member

countries in the disciplined way envisioned in Agenda 2000. WTO negotiations would begin to liberalise European markets, thereby increasing export opportunities for US farmers. A second scenario, however, is that CAP reform falters and that real agricultural trade liberalisation under WTO auspices does not materialise.

IV) Indispensable cooperation

The Atlantic partnership remains a vital force in the world. The breadth and depth of our relationship, encompassing the entire range of international economic and foreign policy issues, is impressive. That is why everything cannot always be perfect in our relationship - the EU and the United States sometimes have differences of opinion and go through difficult times in some areas. What is important is that we avoid fundamental misperceptions and remain committed to this partnership **at the EU level as well as on a bilateral basis.**

For the EU, multilateralism is at the heart of our historical experience. Americans and Europeans have a shared interest in supporting, far more than in the past, global institutions such as the United Nations or the WTO. In this globalised world, it is important to have frameworks for action based on commonly accepted rules. In this context, let me stress how essential it is - if we do not want to return exclusively to regional or bilateral arrangements - to pool our efforts and try to revive the talks in the framework of the WTO

for the good of the United States and Europe, but also for the good of the developing world.

Germany has always been a close partner of the United States despite some recent differences and will continue to preserve and develop this cooperation. As far as the EU is concerned the transatlantic partnership, based on the Transatlantic Declaration of 1990 and the New Transatlantic Agenda adopted in 1995, which has been gradually deepened and broadened in its eight years of existence, will have to be consolidated, perhaps readjusted, in future in light of the developments after enlargement which I have described.

Conclusion

The post-war transatlantic relationship has been a unique success story. It has prevailed in the secular conflict between western democracy and communism. Now, in the age of globalisation, we should pursue our objectives in even closer cooperation.

Neither Europe nor America can meet the challenges of the new world alone. Together, we are the world economy's engine of growth. Together, we have built a multilateral trade system which we both want to improve. As NATO allies, we are working together to preserve peace and to project stability in Europe and beyond. Together, we are pursuing the strategic aim of a just and stable peace order for Europe and

the world. Now the time has come to make the transatlantic relationship fit for the global agenda of the 21st century.