THE U.S.-EUROPEAN RELATIONSHIP: OPPORTUNITIES AND CHALLENGES

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BEFORE THE

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OF THE

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THE U.S.-EUROPEAN RELATIONSHIP: OPPORTUNITIES AND CHALLENGES

WEDNESDAY, APRIL 25, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EUROPE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 1:30 p.m. in Room 2172, Rayburn House Office Building, Hon. Elton Gallegly, [Chairman of the Subcommittee] presiding.

Mr. GALLEGLY. Today the Subcommittee on Europe holds its first formal hearing. It is appropriate that our focus be on the transatlantic alliance because the relationship between the U.S. and Europe is by any measure the most important relationship we have. Nowhere are the full range of United States interests advanced than through the European partnership.

I know our European friends have expressed concern about the international priorities of the U.S. It is true the Middle East, Persian Gulf, Taiwan Straits and Latin America present considerable challenges for our new Administration. Yet, I am here to tell you that the management of European relations will not become a back burner issue. The creation of this very Subcommittee should send a clear and important signal to our allies and friends across the Atlantic that in Congress Europe remains our highest priority.

I would also dispute those who say there is a growing estrangement between this country and Europe that seriously threatens that important partnership. Are there problems and challenges? All relationships have rough moments, and the transatlantic alliance is no different.

Certainly our policy interests and objectives may not always be in perfect harmony with those of our European friends. Nevertheless, I believe political and security cooperation between the United States and the European Union is solid and will remain strong.

A strong, peaceful, democratic and integrated Europe is clearly what the U.S. desires. We do support continued EU expansion, but on Europe's timetable, not ours. We support NATO enlargement as long as this decision is based on security reasons and not political ones.

We welcome and support the concept of European security identity as long as it serves to enhance the overall capabilities of European military forces and does not become a rival to NATO. We wish to continue to work cooperatively with Europe on things such as regional stability and peace keeping. We want a Europe capable

of being a strategic partner as we face other, more global challenges.

Our trillion dollar trade relationship, while sound for 95 percent of it, does involve several disputes which have gotten all the attention and has to some degree soured the cooperation, but, as with the recent proposed settlement of the banana dispute, it is clear that cooperation is the operative word and proves that both sides can move to resolve some of these disputes when necessary.

Missile defense, Russia policy, the environment, among others, are areas where we have differences of opinion, but even the Europeans themselves disagree with each other on many of these points. In the overall relationship, however, these are not the kinds of differences which should lead some to suggest that the alliance is breaking apart.

Today's hearing is intended to assess the overall transatlantic relationship and to address what may be our most pressing opportunities and challenges. I look forward to the testimony of our witnesses today, but before we turn to the witnesses I would like to recognize my good friend, the Ranking Member from Florida, Mr. Hastings, for any opening remarks he would care to make.

[The prepared statement of Mr. Gallegly follows:]

PREPARED STATEMENT OF THE HONORABLE ELTON GALLEGLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE

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Certainly, our policy interests and objectives may not always be in perfect harmony with those of our European friends. Nevertheless, I believe political and security cooperation between the United States and the European Union is solid and will remain strong.

A strong, peaceful, democratic and integrated Europe is clearly what the United States desires. We do support continued E.U. expansion, but on Europe's timetable, not ours. We support NATO enlargement as long as decisions are based on security reasons, not political ones. We welcome and support the concept of a European security identity, as long as it serves to enhance the overall capabilities of European military forces and does not become a rival to NATO. We wish to continue to work cooperatively with Europe on matters such as regional stability and peacekeeping. And, we want a Europe capable of being a strategic partner as we face other, more global challenges.

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Mr. HASTINGS. Thank you very much, Mr. Chairman, and thank you for holding this very timely hearing.

First, let me say what an honor it is to have you lead this new Subcommittee and what a privilege for me to serve as your Ranking Member. Let me also welcome our distinguished panel and the members of the European Parliament who are joining us today.

If I may take a moment of personal privilege, Mr. Chairman, earlier under former Chairman Gilman we had a meeting with members of the European Parliament, and, Mr. Baron Crespo, I apologize to you personally for having to leave. You were answering me, but I had a pressing matter, and I hope you do not consider that I was rude. It is just how Congress works up here, I guess. I do apologize to you for having to leave without being able to say so. We certainly welcome all of you and look very much forward to the testimony here.

At this point in our history there is no more important and dynamic relationship than that between the United States and Europe. Footnote there, Mr. Chairman. I think that we could learn some things, too, regarding our relationships in Asia from our European colleagues and their influences in that area of the world.

In fact, Mr. Chairman, it is my firm belief that 200 years after we forcibly extricated ourselves from Europe, our future today is now more intertwined with Europe than it has ever been, and we should embrace this. Despite the separation of the Atlantic Ocean, the United States is a very integral part of Europe today. Indeed, I do not see a prosperous future for America without a strengthening relationship with Europe.

We have seen many changes in Europe in recent years. We witnessed the rebirth of democracy in eastern Europe; the evolution of these states into stable economic and democratic countries. However, our work is certainly not complete.

When I reflect upon the technological and political advances we have made in the last 20 years alone, from the development of the Internet to the almost complete extermination of totalitarian regimes with some significant and conspicuous exceptions, I cannot even imagine what the world will be like 20 years from now. I have no doubt, though, that the United States will continue to play a vital role in the states that make up Europe, as well as all the other countries of the world; not just to adjust to the global shifts of governmental structures, but to prosper from them as well.

As the title of our hearing suggests, Mr. Chairman, there are a veritable cornucopia of challenges and opportunities facing the U.S.-European relationship. From defense and security issues to trade, to health care, to technological issues, to fiscal policy, we certainly have much to discuss.

Our distinguished experts, according to their prepared remarks, will touch on all of these topic. In a quick pre-read of the prepared testimony, it appears that there is a conspicuous absence of the issue of the environment; specifically, the United States' leadership

role on global warming and climate change; more specifically, our apparent withdrawal from the goals of the treaty reached in Kyoto, Japan, in 1997. Now, certainly our experts have noticed the stark change from the last Administration to the current one regarding these issues, and I will put the question to them why no mention of it?

Please know that many Members of this Committee on both sides of the dais are exceptionally concerned about the United States' about-face. Recently, Members of this Committee have visited with leaders and foreign ministers of many European nations. Not one of them has failed to mention environmental policy as a significant hurdle in the transatlantic relationship.

Members of Congress and this Administration must relinquish their participation in the ostrich caucus and realize that environmental policy is a real priority for the U.S.-European relationship and one that this Subcommittee will surely not balk at.

No doubt, our colleagues from the European Parliament would like to discuss this issue, and I would look forward to their remarks. We have serious issues, Mr. Chairman, to raise over the next year or so as plans progress for the European Security Defense Initiative, NATO expansion and other security questions. In fact, last week I had the good fortune of having conversations in Mons with the leadership of NATO, and I can share much of that with the Chairman, but in the interest of time I will not bother to deal with it at this point.

Finally, Mr. Chairman, let me say that within the past 2 weeks I did meet with Parliamentarians from more than 14 European countries. There is no doubt that all of them are committed to strengthening the United States-European relationship. This Subcommittee will be at the forefront of Congress' stewardship of this serious task, and I look forward to working with you, Mr. Chairman, the other Members of this Committee, the Administration and other colleagues in taking on this challenge.

With that, I leave our witnesses today with a quote that I like of Winston Churchill that says if you have an important point to make, do not try to be subtle or clever. Use a piledriver. Hit the point once, then come back and hit it again, then hit it a third time a tremendous whack. I think that is what we are going to have to do, Mr. Chairman.

Mr. GALLEGLY. I thank the gentleman from Florida.

At this time I would like to recognize the Chairman Emeritus of the House International Relations Committee, our friend from New York, Mr. Ben Gilman.

Mr. GILMAN. Thank you, Chairman Gallegly. We welcome serving with you on the European Subcommittee, an important Subcommittee on the International Relations Committee.

I want to thank the Chairman for conducting, at the outset, this important hearing on Europe. It is important that we discuss our relationship with Europe. It is so good having Members of the European Parliament here today visiting with us. We enjoyed our morning visit with them, and we hope we will have an opportunity of sharing some more thoughts with them.

You, Mr. Chairman, have brought together an outstanding panel today of experts; Dr. Serfaty, the Director of the Europe Program,

Center for Strategic and International Studies, and Dr. Kupchan, the Director of Europe Studies, Council on Foreign Relations, and Dr. Berry, President of the European-American Business Council. We look forward to their testimony.

I hope that this will be beneficial not only for our Committee, but also for Members of the European Parliament who raise some serious questions about the erosion of our relationship between Europe and the United States. We especially look forward to being able to share some thoughts today.

I want to welcome particularly our good friends who are here in the front row, Enrique Baron Crespo and Mel Reed, leaders of the European Union, the great Nobel Peace Prize winner, John Hume, and many of the other Members. It is good having these Members join with us today on this important occasion.

Thank you, Mr. Chairman.

Mr. GALLEGLY. Thank you, Mr. Gilman.

Mr. Delahunt, did you have an opening?

Mr. DELAHUNT. No, I do not, but I really do want to associate myself with the eloquence of my Ranking Member, Mr. Hastings of Florida. He said it so well that I have nothing to say, and I yield back.

Mr. GALLEGLY. Thank you very much.

Mr. SMITH. Mr. Chairman, with your permission I will submit it in writing.

Mr. GALLEGLY. Very well.

Before I recognize Dr. Serfaty today, I want to acknowledge the presence of several very distinguished guests in the audience. First, we have Ambassador Gunter Burghardt. Thank you for being here today, Mr. Ambassador, Ambassador, of course, of the European Union.

Next, we have a delegation of Members representing the Social Democratic Group in the European Parliament. We welcome all of you today and appreciate your interest in our Subcommittee's work.

I would also ask if Mr. Baron Crespo would join us at the witness table. Would you be kind enough to do that? We would enjoy having you available.

With that, we will start with Dr. Serfaty. Thank you for being here, Dr. Serfaty.

STATEMENT OF SIMON SERFATY, PH.D., DIRECTOR, EUROPE PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. SERFATY. Thank you, Mr. Chairman. It is, of course, a pleasure and an honor for me to be here today.

First of all, I wish to commend you and other Members on this Committee for launching what is a very important Subcommittee. I had the pleasure to testify in front of the earlier Subcommittee on Europe and the Middle East 25 years ago. It is always a deep thrill for me to be back here.

I prepared a statement that was made available to the Subcommittee, and with your indulgence, Mr. Chairman, I will now proceed with observations that neglect the statement.

Mr. GALLEGLY. Without objection. Your statement will be a part of the record in its entirety. Thank you.

Mr. SERFATY. Thank you.

Before proceeding, I heard with enormous satisfaction the comments you made to open these hearings, as well as those of Mr. Hastings and Mr. Gilman, about the significance and the health of Europe and the relationship with the United States. I share those conclusions fully. Indeed, I am bullish about Europe and the state of its union, as well as about the future of the relationship between Europe and the United States.

I believe that 20 years from now historians in the 21st century will look back to the 20th century and will be in awe. They will be in awe of what was destroyed during the first half of the century in Europe, the dehumanizing brutalities that conditioned the actions of individual nation states and the ways in which on occasion we and the United States neglected those problems until we had to come and save the Europeans from themselves.

They will also be in awe over what was achieved during the second half of the 20th century when the European states literally changed the course of their history, and we changed the course of our history in order to build in Europe and between Europe and the United States a community of interest and indeed of value that can no longer be reversed.

With your permission, Mr. Chairman, I would like briefly, as requested by your staff, to focus not so much on the U.S.-European relationship generally, but on the role that the European Union plays in the context of that relationship. I would like to do so very briefly in the context of fact answer interrelated questions about the what now, what next, what if, what else, as well as what about, that condition of contemplation of the Union at this time and the determination of U.S. policies in dealing with the European Union.

The agenda about Europe today is overwhelming. I am struck by it. We tend on occasion here in Washington to overlook the immensity, the complexity of that agenda. In part because we tend to deal with one issue at a time, oblivious to the totality of those issues, and in part, because we do not focus sufficiently, it seems to me, on the schedule and the pace of change with which those issues are being addressed.

On the agenda there are issues about the deepening, about the widening and about reforming the European Union. These have been seen before, but, unlike earlier instances, those issues are being today considered simultaneously with deepening in order to widen, widening in order to deepen and reform in order to do both.

They are being considered in the context of a time line that, frankly, seems to exceed no longer than the next 8 to 10 years. This reform is part of the process that began with the summit in 1997, was pursued in Nice in 2000 and is expected to be continued at the next intergovernmental conference that will be held now in 2004. Reforming the institutions has to do with the growth of the then European Community, now Union, since the Rome treaties were first signed.

It is, frankly, incumbent upon the Union and its Members to do more because there is more. Even as such reform is being contemplated through the year 2004, the states of Europe are engag-

ing in the completion of the euro zone with the switch to the euro as legal tender for all 12 of its Members by the year 2002; past 2002 an attempt to extend the euro zone to the remaining three states of the European Union, the U.K., Denmark and Sweden let us say by 2005–2006, taking into account Tony Blair's self-inflicted time table following the election schedule to be held in June.

As if this was not enough, the European Union is also engaged in the pursuit of a European security policy, a common foreign policy and a common defense policy in this order. That would involve beginning with the down payment scheduled for the headlined goals of 2003, extended through 2007 until 2010 and beyond to achieve the three dimensions of a common foreign security and defense policy for those states.

As if this were not enough, the states of Europe also have on their agenda a commitment to proceeding with enlargement to which you referred, Mr. Chairman, but not an enlargement to two, three, four, five states; an enlargement that would nearly double the current membership of the European Union and would begin to complete that goal by the year 2004–2005 in the context of an effective euro zone and an effective reform of the institutions of the Union.

This, I submit, Mr. Chairman, is an overwhelming agenda, and we need to understand this agenda in its totality because being highjacked mentally and otherwise by any one of those issues at the expense of the others would distract away from what is actually taking place on the European continent.

What this is all about then, third question, is no less than the third territorial revolution in Europe over the past half a millennium. Now, I do not use those words lightly, but we first lived in Europe with the city states, and then after the city states came the nation states nearly 300 years ago, and now come the member states of the institutions to which they belong or which they hope to join.

Throughout the European continent, the overlay of any one foreign state is being transformed into the over here of every member state of that institution. It is that extraordinary reconfiguration; not only an economic, but also a political space that will strike the historians 20 years from now.

If and when that agenda were to be completed, an agenda that will be discussed more specifically by my colleagues and friends, Dr. Kupchan and Dr. Berry, then in fact the states of Europe will have fundamentally lived the end game because they will have completed an idea which was started rather timidly after World War II as a common recognition of a failed past and will have proceeded with the development of a new, unknown unit on the other side of the Atlantic.

Now, I am bullish about this idea, Mr. Chairman, because this was not merely a European idea. The idea of the strong and united and effective and affluent and democratic Europe was an American idea. It was an American idea to the extent that it became possible as of the moment when the United States committed its power and its leadership and its influence to promoting it after the second world war and into the Cold War. It is an idea that has served us well.

With time, Mr. Chairman, we could have argued to be sure, and we might return to it, that this end game has not been played out yet. Indeed the complexity of all of those issues may pose to be quite difficult to manage irrespective of the continued support which I would expect the United States would continue to provide for the fulfillment of all of those items on the agenda.

The what ifs have to be dealt with, therefore, for example, an economic crisis and an inability on the part of the European states, as well as on the part of the United States, to fuel the growth of those institutions with a high level, a robust level, of economic growth.

The what ifs of the next 10 years have to do with the inability of those states to sustain central political leadership that would not be tempted by the extremes from the left or from the right that will adopt an anti-Europe phase. The what ifs have to do with issues of regional stability, indeed of concerns over the state of the environment, rebellion against the erosion of one's national identity.

From the evidence provided over the past 50 years, I do not believe that any of those extra costs could not be surmounted, and thus I am bullish. I am looking forward to ways in which we in the United States can continue to work with the European Union and its Members to assert the solidity and the cohesiveness and the strength of the relationship across the Atlantic.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Serfaty follows:]

PREPARED STATEMENT OF SIMON SERFATY, PH.D., DIRECTOR, EUROPE PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

INTRODUCTION

Mr. Chairman and Members of the Committee, I want to thank you for the invitation to appear before you today. It is an honor to discuss with you the state of the U.S.-European relationship on the eve of a new century. This is America's most "complete" and, arguably, most important relationship, and, as requested, I will specifically focus on the state of the European Union and the opportunities and challenges it raises for the United States. Before starting my remarks, however, let me compliment you, Mr. Chairman, and your colleagues and staff for your leadership in re-launching this important subcommittee at this crucial time—a time that will be viewed and reviewed by historians as a defining moment for Europe and the transatlantic relationship.

I. OVER THERE AND OVER HERE

The quest for unity in Europe was initiated after two World Wars had brought the continent to its knees. For the countries of Europe, the idea was not new. During much of their history, it had been an elusive dream. But unity, it seemed all too often, could only be achieved through war, while peace could only be maintained with a delicate balance of power between the main protagonists organized into fragile alliances.

After 1945, however, the time seemed especially propitious for ending anarchy in Europe. With the main exception of a still-proud and arguably victorious Britain, Europe west of Russia was populated by defeated, ruined, demoralized, and dependent states that were all eager to bid farewell to their nationalist pasts. And for those who might still entertain hegemonic delusions of grandeur, there was an unprecedented American commitment of money, security, and leadership that was only refused by those countries in the East that were under Soviet military and ideological occupation.

So it was, then, that after three decades of total wars the second half of the twentieth century came to be dominated by the construction of a European Community, now a Union, that reversed the course of Europe's history—from divisions and worse to integration. And so it was, too, that after 150 years of isolation from a continent in opposition to which the American republic was born, the second half of the cen-

tury witnessed the rise of a transatlantic security community that also changed the course of U.S. history—from separation to cooperation.

Now, Mr. Chairman, the "over there" of yesteryear has become the over here of today. Now, as we enter a new century, the logic of unity in Europe and cooperation across the Atlantic transcends the logic of cleavage. The logic works to the advantage of all. A united Europe needs a strong Atlantic Alliance, and a united Atlantic Alliance needs a strong Europe. But even as we praise the immense achievements of American and European visionary leaders, we must also recognize the challenges that lie ahead.

II. THE EUROPEAN CHALLENGE—THE RISK OF AGENDA OVERLOAD

For the past 50 years, the agenda for the integration of Europe has not changed: deepen, widen, and reform. Translated in simple English, "deepening" is Euro-speak for doing more. It has to do with strengthening institutional cooperation in an increasingly large number of areas, thereby leaving less room for the exercise of national sovereignty in increasingly significant areas. At first, the spillover from one initiative into the next was somewhat automatic—a matter of time more than a matter of substance. Over time, as these initiatives became more important—from a Common Market to a Single Market, from a European Monetary System with an Exchange Rate Mechanism to an Economic and Monetary Union with a single currency—the spillover resulted from complex tradeoffs tediously negotiated by and among the member states.

"Widening" is Euro-speak for bringing more members into the community—from six to nine to ten to 12 to 15, with another ten to 15 new members expected to join over the next decade. There are limits to such enlargement, however, even though how and where these limits are set is unclear—part geography, part cultural, and part organizational. Both processes, deepening and widening, are parallel as neither unfolds without some sense of the other's prospects. For example, some members may insist on widening the community as a prerequisite for deepening it—as then-prime minister Margaret Thatcher did immediately after the Cold War. A commitment may follow, as was done in Copenhagen in 1993, but its enforcement usually takes time as aspiring members prepare themselves for membership while the Community prepares itself institutionally.

Thus, reforming the institutions, the third aspect of the agenda, has to do with devising new ways to enforce an expanding institutional discipline—the *acquis communautaire*—on an expanding community. Predictably enough, as the community becomes wider and deeper, more institutional reforms are needed. These are negotiated with Inter-Governmental Conferences (IGC) held to modify the existing treaties—as was the case in 1996–1997 and 2000, and as is scheduled next for 2004. Standing at the margin of these IGCs, but still a central feature of what can be done, is a budgetary debate, as every new initiative and every new member impacts the distribution of costs and benefits, privileges and burdens among existing and entering members within the union.

Admittedly, each of these broad challenges has been faced before, and what makes the current EU agenda unprecedented is both the enormity of each agenda item considered separately and the finality of all of them addressed collectively. Thus, enlargement does not involve only one, two or three new members as it did in 1973, 1981, 1986, and 1995—but at least 13 applicants all engaged in separate negotiations for quick accession. Similarly, new initiatives are not merely matters of trade or regulations over relatively marginal dimensions of the nation's life. Rather, these initiatives relate to the traditional pillars of each member's national sovereignty and the identity of its people, including money and force. Accordingly, reforms, which raise questions of representation when decisions are being made, become even more important as few members consider any issue small enough to be left to the good will or common sense of their partners.

To complicate matters further, these issues can no longer be decided one at a time, but must instead be viewed collectively, as the ability to proceed with one determines, and is determined by, the ability to address the others. In other words, the task is not only to deepen, *or* to widen, *or* to reform, but to deepen in order to widen, to widen in order to deepen, *and* to reform in order to do both. Thus,

- The enlargement of the EU remains difficult without a credible reform of its institutions lest these institutions be unable to function after enlargement has begun.

For the most part, the European institutions are still governed by the Rome Treaties that were signed in June 1957 for a community of six states only. After membership had doubled to 12 countries following the entry of Spain and Portugal in

1986, the union (then still a community) already seemed unmanageable, thereby prompting a first round of reforms toward a new Single European Act (SEA) in 1987. After further expansion to 15 (with Austria, Finland, and Sweden) in 1995, and in anticipation of the enlargement to the East decided as early as December 1993, conditions threatened to become anarchical. Hence the pre-enlargement IGC that ended in failure in Amsterdam in June 1997; hence, too, the IGC that ended with mixed reviews at the EU Summit in Nice, France, in December 2000. Hence, finally, the IGC that the 15 EU states have scheduled for 2004 in order to pursue, and hopefully enforce, the decisions made in 2000.

Most generally, but also most significantly, the Nice summit of December 2000 agreed on new formulas of EU governance, including a redistribution of votes allocated to member states and new applicants (except Turkey) and an extension of qualified majority voting. The decisions outline a sort of Electoral College that accounts for differences in size, population, and even status among all member states. Thus, while a larger Germany will maintain parity of representation (29 votes in the Council of Ministers) with Europe's three other large states—France, Great Britain, and Italy—other demographic criteria will give it more seats in the European Parliament. While the Netherlands was allocated one more vote (13) than its historic rival Belgium, the three Benelux states will hold, as a matter of status, a combined number of votes equal to each of the Big Three (as well as Great Britain) that signed the 1957 Rome Treaties. Meanwhile, Poland, a candidate country, received the same number of electoral votes (27) as current member Spain, the EU fifth largest state, but Romania was granted only one more vote (14) than the Netherlands, only two-thirds Romania's size.

Mr. Chairman, the Nice Summit set the stage for a difficult and contentious constitutional debate that Germany's foreign minister, Joschka Fischer, initiated informally in May 2000. That debate may well peak with some kind of a "constituent treaty" that would be held in, say, 2007, for the fiftieth anniversary of the Rome Treaties. Meanwhile, the post-Nice reform agenda includes organizing an increasingly cumbersome European Commission, reviewing the adversarial relationship between the Commission and an internally divided Council, and defining the balance of power between each of these bodies and the European Parliament. That, too, will not be easy and much will have to be achieved by the time of the next IGC, already scheduled for 2004, if enlargement is to start by that time.

- On the way to IGC 2004, the will for more reforms and the pace and scope of enlargement will remain dependent on an affluent euro zone at 12 in 2002–2004, and its expansion to all current EU members (including Great Britain) in 2004–2005.

The significance of the euro cannot be overstated. Historically, it may well have been one of the most revolutionary decisions ever made by the nation-states of Europe. Indeed, the very fact that it could be started, in January 1999, was remarkable and helped many in the United States to finally take seriously a process of European integration that had been often neglected or even dismissed in the past.

Admittedly, the performance of the euro has been erratic since January 1999, at times more than 30 percent below its starting rate. Even now, under seemingly favorable conditions, the euro is limping along under or around $0.90, far from the parity value to which it should aspire. Yet, such persistent weakness should not distract from what it has already achieved. Thus, while the acrobatics of monetary convergence were performed on the EU stage, inflation was conquered, budget deficits reduced, and interest rate differentials narrowed. The euro also transformed policymaking in Europe by eroding national sovereignty over monetary policy and instituting a surprisingly independent European Central Bank (ECB) whose performance over the past two years has been globally positive.

In short, Mr. Chairman, the gamble made over the euro has worked, despite odds that often seemed insurmountable. There is no looking back, despite the real difficulties that lie ahead. To raise questions about the future of the euro is to raise questions about Europe's ability to have a future, and to raise questions about Europe's future should also be cause for serious concern for the United States.

- Enlargement is likely to begin as the EU's "euroic" reforms proceed further, but even then it is unlikely to take the form of a wholesale—"big bang"—expansion to all current applicants.

Bidding for EU membership are 10 applicants from the Baltic region (Estonia, Latvia, and Lithuania), Central Europe (the Czech Republic, Hungary, Poland, and Slovakia), and Southeastern Europe (Slovenia, as well as Bulgaria and Romania). In addition, access negotiations are under way with the small islands of Malta and Cyprus, and, at last, with Turkey too. Also not to be overlooked, are the few remain-

ing European states that have either denied or ignored the EU up to this point, including Norway and Switzerland (and even Iceland). Finally, also parts of the future are countries in the Balkans, including Croatia and others, and even countries in the East (including Ukraine but not Russia) that will have to find some institutional home in Europe if they are to remain viable.

That is a lot, Mr. Chairman. The original European Community was started with three large and three small countries, including one that was very small (Luxembourg). By these standards, all current applicants for membership in the European Union, except Poland and Turkey, are small or very small, including several—like Cyprus, Malta, Slovenia, Estonia, and others—with populations below or barely above one million. By these standards, too, all current applicants are rather poor or very poor—except the southern part of Cyprus and, to an extent, Slovenia. These features—number and heterogeneity of applicants and costs—explain the delays faced in enforcing a commitment first made in 1993. And even though there is cause for impatience, we should not allow the operating principle that animates the U.S. commitment to European integration—bigger is better—to blind us to the enormity of the EU commitment to enlargement.

However difficult it may be, and whatever the timeline, EU enlargement will take place, and we can anticipate a future European Union with as many as 28 to 30 members at some point over the next 10 to 15 years, beginning in 2004. What the "advanced guard" of new members might be, and how they will be distributed regionally, may be less significant than the certainty that it will take place. I believe, Mr. Chairman, that all four countries in Central Europe and all three countries in the Baltic region, as well as Slovenia, will be in the EU by January 2007. Also likely early entrants are states that would permit immediate political benefits, like Malta and especially Cyprus—assuming some agreement over its division. Poorer applicants like Bulgaria and Romania will remain unlikely to enter the EU until the end of the decade at the earliest. And states like Turkey will have to wait even longer before its European neighbors agree to membership, if at all. In the meantime, new applicants from Southeastern Europe are likely to be added to the current lot of 13 before the decade has come to a close.

- Finally, as if reforming the institutions (and their budget), completing the euro zone, and enlarging the Union to about 30 members were not enough, the EU states also hope to develop a Common Security, Foreign, and Defense Policy, beginning with the 2003 Headline Goals defined at the 1999 Helsinki Summit.

Mr. Chairman, I had the privilege to address the full committee on the issue of Europe's common foreign, security, and defense policy during the related Hearings that were held on November 10, 1999. Let me simply restate that this new attempt by the countries of Europe to add a security dimension to their common institutions should be encouraged. First, this is the first time that any such effort involves all 15 EU members, led by the United Kingdom and including traditional neutral states like Austria and Sweden that are not, or not yet, NATO members. Second, this is the first time that its commitment to respecting NATO as the security institution of choice for and in Europe is credible. And third, during this formative phase, ESDP remains in any case an intra-European debate that need not be obscured by the transatlantic questions it raises.

Hoping for a stronger Europe, Mr. Chairman, is hardly a new view of the transatlantic relationship. It is the postwar view that inspired the bold decisions of President Truman, and Secretaries Dean Acheson and George Marshall and others, with the strong and bipartisan support of Congress. And it is the view that has inspired every administration ever since, always with congressional support even when occasional bouts of discord raised concerns over the state of the relationship. The goal then, and arguably now, was to watch and assist Europe gain the will, unity, and vigor needed to be an autonomous counterpart of American power. Admittedly, there may come a time when concerns over Europe's challenge as an adversarial counterweight of American power will have substance. That is not the case today, when such concerns are premature, and the evidence gathered over the past 50 years suggests that it need not become the case in the future. Now and for the next few years, the real debates over ESDP will be, and should remain, mainly intra-European debates as the most significant obstacles to the fulfillment of its goals are gaps among European states rather than gaps between Europe and the United States.

Reducing these gaps, possibly with efforts aimed at defining criteria of convergence as well as criteria of compatibility, is the daunting task faced by the 15 EU countries committed to deploy a rapid reaction force by 2003 or, more likely, in 2003–2006. That will demand more money for defense, which the states of Europe now spend unevenly; more political will, which they now display erratically; and

more policy cohesion, which they now enjoy only occasionally. That will also demand better R&D coordination, improved efficiency in procurement decisions, clearer organizational schemes—in short, more of everything, and better in everything, neither attainable without a continued strong link with NATO and the United States.

III. LOOKING AHEAD—OPPORTUNITIES AND CHALLENGES

Mr. Chairman, I am bullish about Europe and its union. The European continent today is less divided (West, East, and neutrals) than at any time since the end of World War II. On the whole, it is more united (at 15 and relative to at least 13 applicants) than at any time in the twentieth century. Similarly, Europe is more democratic, more affluent, more stable, and more peaceful than at any time in its history. Nor need we fear changes in the conditions for the immediate future. Economic forecasts for 2001 and 2002 remain good even when they fail to get better, political conditions remain centrist and leaning again from Left to Right, and regional conditions are improving or, at least, not getting worse.

- After a relatively sluggish performance during much of the 1990s, the EU and its members are fighting back. With EU growth still expected to average over 2.5 percent in 2001 (when growth in the United States is projected at 1.7 percent) and beyond, there are grounds for optimism not only for the EU as a whole but for the main and larger EU states. After nearly 25 years of yearly increases in most European countries, unemployment is falling, at last, down to about 8.5 percent for the euro area. Most significantly, more growth and less employment have not caused undue inflationary pressures, or at least not yet.

As could be expected, there are, however, circumstantial and structural causes for concern that represent short- and long-term challenges for the Europeans. Thus, even though the German economy is showing some signs of renewed vigor, it continues to sputter as the German government continues to postpone much-needed structural reforms. The European Union, Mr. Chairman, was started around Germany—to make it historically healthy again—and it will not be completed successfully without a truly healthy Germany. Long-term structural conditions that may stand in the way include the EU's ability to enter and manage the new economy, the final reform of the post-war welfare states (including pension systems and taxes), and a dwindling labor force resulting from gloomy demographic trends. While this is not the place and time to discuss any of these at length, it must be noted that Europe's population is currently turning smaller, older, and more foreign—and that traditionally such demographic trends have been causes for tensions from within and/or decline relative to the world outside.

- The euro has also reinforced the need for (and the will of) European companies to restructure, spurring a major wave of mergers and acquisitions in and from Europe that are transforming the protected national champions of the past into competitive global giants.

In this context, Americans and Europeans will have to reinforce their cooperation in developing rules of corporate engagement in an increasingly integrated transatlantic economy, including reinforced cooperation in competition policy. While consultation between the relevant parts of the U.S. Department of Justice and the European Commission's competition directorate has helped develop a de facto convergence of substantive standards for the application of anti-trust regulation, there remain some gaps and there are some significant procedural differences. These are causes for concern not only because of the consequences of delay or denial on the companies involved but also because of their spillover on other parts of the U.S.-EU agenda. The European Commission's consideration of the merger of General Electric and Honeywell, two U.S. companies with a sizable share of the EU market, is a case in point.

These developments, however, combined with a global strategy for the EU are causing more competitive pressures for the protection of market shares within the EU and the gain of additional market shares elsewhere. The new U.S. Trade Representative, Robert Zoellick, is entirely right to point to the need to address, and respond to, this EU global trade strategy, and, may I add, few Americans are as qualified as Secretary Zoellick to do so effectively and cooperatively. The unprecedented summit meeting between President Bush and all EU heads of state or government in Sweden, next June 14, will be an opportunity to test the U.S.-EU will to resolve small but lingering trade disputes, and the recent resolution of the banana dispute points to the right direction. It should also be the target date for an agreement on a "peace clause" for more serious and contentious disputes, pending

a new round of trade negotiations that might hopefully be launched in 2003 at the latest.

- Politically, the fashion for centrist coalition governments, begun many years before the Cold War ended, is lasting. In a continent of centrist republics, the era of political revolutions launched by an authoritarian right or the totalitarian left is over, Mr. Chairman, and the revolutionaries have lost.

This does not neglect, Mr. Chairman, the potential of populist movements that respond to a public anger aimed at institutions that deny the nation's sovereignty and erode its people's identity even as they reverse past gains of the welfare state and impose the pains of the new competitive environment. For many years, the construction of Europe was a top down process that seemed of little public concern so long as it was equated with the economic prosperity and overall societal serenity that seemed to prevail. Occasional referenda on Europe-wide issues were easily won in the 1970s, even in such skeptical countries as France and Britain. In the 1990s, however, such referenda—most recently in Denmark and Switzerland—have confirmed a growing mistrust of Europe and its intrusion into its member's lives. If maintained, these trends would dangerously threaten the governments' ability to make the needed decisions that were outlined above. More ominously, these trends would also encourage anti-European populist voices to redirect the political discourse away from the "Yes, yes, yes" traditionally heard in and about European integration toward an unprecedented "No, no, no."

- Conflicts at Europe's southern periphery are also receding. In North Africa, the civil war in Algeria has receded, and democratic conditions in Morocco and Tunisia have evolved well. Talks of EU membership, an open détente between Greece and Turkey, and a more cooperative relationship between the EU and Turkey make it possible to envision a resolution of the territorial division of Cyprus over the next three years.

Admittedly, conditions in the Middle East are especially troubling—arguably worse than at any time in thirty years. Predictably, a new war in the Middle East would have dire consequences for the EU, as well as for U.S.-EU relations. One reason is economic. While the states of Europe have endured surprisingly well the recent rise in oil prices, a further rise resulting from another war in the region would create especially difficult conditions throughout the continent. If anything, the Europeans may be even more sensitive today to the stability of oil supplies and prices than they were in the early 1970s. Another reason has to do with the domestic dimension of the Arab-Israeli conflict in most European states where Islam has often become the second most important religion.

Yet other concerns have to do with the unfinished business of the Cold War and the many other European wars that preceded it. Persistent risks of armed conflicts in the Balkans are especially urgent. Europe's Headline Goals for 2003, Mr. Chairman, must not be allowed to emerge as America's Deadline Goal for a withdrawal from a region to which we returned on behalf of our interests in Europe. More generally, outside the Balkans and far to the East, conditions in Russia are likely to remain troubling for the indefinite future. Neither we not the EU and its members seem to know what to make of Russia and how to handle it. What we all seem to accept is that Russia is too close to ignore, too big to integrate, too nuclear to offend, and too fragile to rattle. We need to define, refine, and coordinate our policies on Russia. No less significantly, we need to make sure that transatlantic differences over issues that involve Russia are not used by Moscow to build a wedge between the two sides of the Atlantic, as was often attempted by the Kremlin during the Cold War.

IV. THE END GAME—THE TRANSATLANTIC DIMENSION OF THE FINALITY DEBATE

In short, then, being bullish on Europe is being bullish on Europe's ability to attend to its agenda over the next several years. At half before Europe, this is the time when the end game is being played out—when, that is, the nation-states that have prevailed in Europe since Westphalia might be recycled into member states of the institutions to which they belong or hope to join.

Thus, what Europe will be like by the year 2010 can already be told generally: it will be wider, deeper, and more supranational. This means that:

- There will be many more members, including all four states of Central Europe, all three Baltic states, at least one state from Southeastern Europe (Slovenia), Cyprus and Malta, and even, arguably, Norway and Switzerland.
- There will be a functioning Euro zone with all 15 current EU members (including Britain) plus a few (but not many) of the new members. Within that Euro zone,

the single currency will have acquired a global dimension, meaning that it will become a reserve currency (though not on par with the dollar) and an occasional currency of choice for some currently dollar-denominated exports.

- Years of steady economic growth (possibly faster than in the United States) will make the EU wealthier—as anticipated by the 10-year-long Lisbon process launched in March 2000—but also internally less equal as the gap between current and new members is likely to grow for the balance of the decade. In addition, current demographic trends ensure that EU 2010 will be smaller and older, as well as more foreign with expanding inflows of immigrants from outside the community.

Europe-2010 will also be stronger militarily, although it is not likely to regain much of its past taste for armed violence. Interventions, when they will take place, will be prudent—nearly *a l'americaine*, with semi-formulated exit strategies designed to limit casualties or escape the conflict when such limits cannot be maintained. By 2010, the Headline Goals will have developed into a European Security Policy (ESP), well in place by the time the 2007 celebrations for the fiftieth anniversary of the Rome Treaties have been used as a reference date for additional post-2003 steps of defense convergence among the EU countries. A Common Foreign Policy (CFP), but not a European Defense Policy (EDP), will also be emerging with a better policy coordination within the Council in consultation with a reinforced European Parliament.

What the transatlantic partnership will be by the year 2010 can also be told, though with a lesser sense of certainty: closer, larger, and renewed. This means that

- A more responsive transatlantic community will be based on new ties between the United States and the EU. These ties will increasingly give U.S.-EU relations a bilateral form now found between the United States and individual countries. Institutional reforms in Europe will facilitate U.S.-EU consultation before decisions are made. Within this responsive community, there will also be closer coordination between the European Central Bank and the Fed, as well as close coordination between each or most newly formed EU-wide agencies (like a European Food Agency) and their counterparts in the United States.
- A more responsive transatlantic community will also have restored a progressive convergence of EU and NATO membership comparable to the Cold War era, when NATO grew from 12 to 16 (prior to the 1999 enlargement) and the then-EC grew from 6 to 12 (prior to the 1995 enlargement). These separate but mutually reinforcing enlargement processes will have followed new NATO and EU enlargements in 2002–2008 and 2004–2010—with non NATO–EU states joining NATO (including Austria early in this period), and non-EU NATO states joining the EU (including Norway late during this period).
- Within a more responsive transatlantic community there will also be a process of policy coordination (TAPC) comparable to the EPC launched in the late 1960s, and based on the short-term imperative of complementarity as well as on the long-term ideal of convergence. The process will be helped by progress in Europe toward both ESP and CFP, and across the Atlantic by a sharp improvement in transatlantic defense cooperation (with at least one significant corporate merger by the mid-2000s).

Admittedly, the road ahead will not be easy for either the United States or the states of Europe.

- On both sides of the Atlantic, the permissive consensus that allowed the decisions for and about Europe to be driven from the top down has faded. That consensus must be restored not along the same permissive lines as was the case during the Cold War but on the basis of a solid understanding by all of the enormous benefits generated by that consensus in earlier years. The Atlantic partnership needs bullish leaders who boast of past successes to legitimize new advances. President Bush should take advantage of one of his two trips to Europe early this summer to reassert forcefully America's commitment to a united and stronger Europe that is also whole and free.
- New advances are needed in trade relations within the framework of a Millenium Round of Trade negotiations. Yet for such a decision to be effective, some of the debris inherited from the past few years need to be swept away quickly. Too many small economic issues are having too much of an impact on a shared commitment to completing a common economic space between the United States and Europe. At least one more such issue should be targeted for resolution by the time of the next EU summit. Export control legislation, in anticipation of reforms in the mul-

tilateral export control system, is an area where prospects of some quick action can have lasting effects

- Opportunities for success also exist in the area of foreign and security policy. In the Mediterranean, Americans and Europeans should be willing to look for areas where their actions can be coordinated for quick and effective action—one on behalf of the other, and both on behalf of all. Thus, in Cyprus complementary action pursued jointly can be effective and should be pursued. Neither the EU nor NATO are full-service institutions: in North Africa, too, interests need not be shared evenly to permit the success of goals that are common and policies that are complementary. There and elsewhere, a succession of new political leaders ought to have tangible evidence that Western countries applaud and support their dynamism and moderation. In the Middle East, a high level consultative group should be formed urgently to review the feasibility of complementary U.S. and European policies to defuse tensions and re-launch the Arab-Israeli peace process. Europe needs to do more even as America finds ways to avoid doing less. This part of the world is just too significant for either the United States or the states of Europe to leave it up to the other, and for both America and Europe to leave it up to the countries in the region.
- In the Persian Gulf, but also in Korea, regimes of concern are not the creation of paranoid American minds in search of an enemy we can call our own. There too, interests are common even when they are not shared evenly. In nearly all instances, intra-European differences may be lesser than transatlantic differences, but rarely do differences between the United States and its most persistent ally in Europe fail to be lesser than U.S. differences with its most faithful ally in Asia. The goal is not a division of labor that expects the weak to stay in the sidelines until asked to pay, while the strong negotiate pending a need to fight. The goal is a compatibility and complementarity of labor among coalitions of both the willing and the capable. Whether to keep the peace or to make it, not everything will be done by all NATO or EU members all the time, but a lot can be accomplished by many of them most of the time. And even more will be done if NATO and the EU continue to coordinate their action, among their institutional bodies and among a few of their members.
- As mentioned, there is also, of course, the matter of Russia: by 2005, Russia's democratic experiment will be a mere 14 years old, which was the age of the Weimar Republic when Hitler won the 1933 elections. There is no transatlantic asymmetry there. To argue that the EU is more vulnerable to instabilities in Russia than the United States is to argue that U.S. vital interests are not vulnerable to instabilities in Europe. A Euro-Atlantic Ostpolitik begins with transatlantic consultations about Russia and its needs, rather than with consultations with Russia over each other's policies and intentions. In this context, consultations over missile defense should be intensified. The transatlantic partnership need not be made the hostage of a consensus over NMD, but Europe's support for, and involvement with, (N)MD development and deployment will help. Our European allies and friends often misunderstand the U.S interest in NMD as a replay of past debates over missile defenses or as the hidden reflection of a continued interest in disengagement. The reverse is true on both accounts: missile defense is the down payment for a major debate over the nature of deterrence in the twenty-first century, and it is a precondition for the continued engagement of U.S. forces abroad during and beyond the coming decade.
- Finally, related to, but independent of, Russia is the status of Europe's orphans—states, that is, that are unlikely to join, or even be considered, for membership in any of the Western institutions, either the EU or NATO. Some of these states, too, are too big and too European (and even, in a few cases, too nuclear) to be ignored. Ukraine is a case in point. A united and stronger Ukraine guarantees a smaller and less imperial Russia. For these orphans of the Cold War, more needs to be done to avoid the rise of the EU as the new dividing line across the continent. Prospects for growth and stability should not be defined merely by expectations of membership. For other states, prospects of membership are more real, but so distant as to deny them whatever significance such membership may have. Admittedly, the difficulties of EU and NATO enlargement vary from one institution to the other, and both processes must remain, therefore, distinct. Yet, as shown during and even since the Cold War, however separable these two processes may be, they cannot be entirely separated. Past the IGC Summit that will end the year 2000, and as we move toward the 2002 NATO summit, the European members of NATO and the EU need a robust and credible strategy of dual enlargement and engagement that will end the institutional fragmentation within Europe.

After 1945, when a few European states entered the *terra incognita* of territorial consolidation, the finality debate was muted by a widespread apprehension that continued fragmentation would perpetuate the conflicts waged during the previous 50 years. This shared vision of a failed past served as both a catalyst to get started away from the darkness behind, and as a flashlight to keep going through the darkness ahead. Now, growing anxieties over the enormity and the consequences of what remains to be done can hardly be overcome by the sightings of past ghosts. In other words, a debate over Europe's finality, however politically dangerous, may well be overdue. Each of the decisions in and about Europe will be made more readily if the sum total of the choices entailed through the totality of these decisions is better explained and properly understood.

Yet, no debate over the finality of Europe can be complete without an explicit transatlantic dimension. The postwar idea of Europe was an old European idea that was made plausible only after the United States had endorsed it with a series of bold economic, political and military commitments. To this extent, the idea of Europe challenged the history of both America and Europe, ending at last a history of transatlantic separation in whose name the American Republic was born and matured for more than 150 years after that. Now, America and Europe have regained an intimacy that is no longer reversible: the United States is not a European power but it is a power in Europe. This is not a hidden invitation to debate U.S. membership in the EU but it is an open plea to accept the reality of the U.S. presence as a non-member member state within the EU. In short, Mr. Chairman, a vital but covert dimension of the end game in Europe has to do with completing the transformation of a responsive community across the Atlantic that parallels the organization of an integrated political community within Europe. For the coming years there is no greater challenge and no greater opportunity than fulfilling the vision that was started 50 years ago and stands now on the verge of completion.

Mr. GALLEGLY. Thank you very much, Dr. Serfaty.

Dr. Kupchan?

STATEMENT OF CHARLES KUPCHAN, PH.D., DIRECTOR, EUROPE STUDIES, COUNCIL ON FOREIGN RELATIONS

Mr. KUPCHAN. Thank you very much, Mr. Chairman, Members of the Subcommittee. It is a pleasure and an honor for me to be able to address U.S.-European relations with you today.

I think it is very difficult to discuss any policy issue today without starting with some prior assumptions, and so I would like to begin my testimony by sharing with you some of the guiding assumptions that I bring to the table.

I would ask that my written testimony be submitted to the record, and I will simply here try to summarize.

Mr. GALLEGLY. Without objection. That will be a part of the record.

Mr. KUPCHAN. Thank you, Mr. Chairman.

I believe that the Atlantic relationship is on extremely solid ground, but I also believe that we are entering a period of change in which the fundamentals of the relationship will be altered.

I think the two most important sources of change on the horizon are, first, the rise of a more self-confident, capable and autonomous Europe that my colleague, Simon Serfaty, was talking about, and, second, a change in the nature of American internationalism and a questioning of the traditional Atlantic bargain; that is, that America keeps the peace while the Europeans focus on political and economic integration.

I think that the American people are justifiably beginning to say that this bargain is no longer as meaningful as it used to be in an era in which Europe's collective GDP is surpassing that of the United States and in which Europe enjoys a peace that it has not known in history.

Let me take a few minutes to just focus briefly on these two issues, and then I will touch on some of the precise policy issues that are under discussion today.

I think Europe is reaching a point in which it is transitioning from being focused exclusively on its internal construction—bringing down borders, creating a single currency, trying to build a European identity—to a phase in which it is beginning to have some external ambition and external weight on the global stage.

I would point to the following pieces of evidence. First, the completion of the single market and the successful introduction of the euro. The euro did drop by 20 percent after its introduction a couple of years ago. But I believe it will strengthen as the capital that flowed to the United States flows back to Europe as the U.S. economy slows. As that happens, I believe the euro will come to rival the U.S. dollar as a global reserve currency.

Second, the internal reforms that my colleague was talking about are leading to greater cohesion and a more collective voice for Europe as a whole.

Third, the EU is moving, albeit haltingly, into the defense realm, including the appointment of Javier Solana as the High Representative for Foreign and Security Policy, and also a new flexing of diplomatic muscles. We have seen the EU step into the gap on the Korean Peninsula, and the EU has acted as the leading negotiator in the Macedonian crisis. The EU is now moving forward on its relationship with Russia, and so I think we are beginning to see Europe reach out and become more of a player on the international scene.

Finally, I think there is an important change taking place in the European dialogue; that is, how the European national states connect themselves to the European project. For the last 50 years, that connection was made primarily through an argument about escaping the past. But for younger Europeans there is not much past that they want to escape from because they did not live through World War II. They did not live through the Berlin Wall period. So I think that the dialogue is changing, and Europe is becoming more about the future than about the past.

Europe is now about projecting the collective will of the European people and European civilization, again leading to an EU that will begin to play a greater role on the global landscape. I think that is good for America, because it means an EU better able to share burdens but I think it is a challenge for the United States to move from a setting in which it has been the senior partner to a setting in which it begins to have a more equal and a more mature partnership with the European Union.

The second key change that I would like to discuss is that of an America that is shifting its strategic priorities. I think that the very activist internationalism of the 1990's is going to be slowing down a little bit over this decade. I believe that this is happening for several reasons: because the United States has no serious external challenger; because the American economy has begun to slow down; because I think President Bush represents a part of the country that is somewhat less internationalist than the coastal regions that supported President Clinton; and also because I think we are going through a generational change of our own.

The students that I teach at Georgetown, who are coming of age after the fall of the Berlin Wall, do not bring to the table the same mental images that the older generation does. That is, they are not default internationalists, automatically enthusiastic about the nature and scope of the American commitment to Europe and, for that matter, to other parts of the world. So I think we are entering a period in which there is a rise of Europe.

The United States has to be prepared to adjust to this new setting, but the Europeans also need to be ready to adjust to a world in which the United States may not be as prepared in the past to take care of them, to do the Kosovos, to do the Macedonias, to intervene in Montenegro if that became necessary. Therefore, I think we are in a very important transition period in which the United States has to recognize that Europe needs to be more self-reliant and make room for that more autonomous European Union.

Let me now touch on a few specific issues that are critical to the ongoing debate on the Atlantic relationship. First, ESDP. I believe that the creation of an autonomous European military capability is not just not harmful to American interests, but critical to the preservation of the Atlantic relationship. As I said, that is because I believe that the current level of Europe's strategic dependence on the United States is not politically sustainable.

I think that America's ambivalence about the war over Kosovo and the calls by Members of Congress to reduce the nature of America's commitment in the Balkans are justifiable calls for a rebalancing of this relationship. But I think the only way that that rebalancing can take place is if Europe steps up to the plate and acquires the capability and the voice to act on its own.

I think that the United States should give Europe a strong and unequivocal green light on ESDP. I think we are right to say do it in a way that is transparent, have good links to NATO, but I think many of the objections that some American officials have raised simply do not stand up to scrutiny.

We have said do not duplicate. Well, Europeans must duplicate if they are going to have some of their own military capability, and I also think the Europeans have to caucus if they are going to have their own single voice and their own view of these issues. As I said before, I think ESDP is all about preserving the Atlantic relationship in NATO, and we should be much more forthcoming in welcoming it.

The second point I would like to touch on briefly is the Balkans and southeastern Europe. As I said, I think the United States is right to begin asking whether the traditional Atlantic bargain is stable. I think the answer to that is no. On the other hand, I believe that the United States should stand by its European partners as they try to bring a lasting peace to southeastern Europe.

I would argue strongly in favor of keeping at least some contingent of U.S. troops in the Balkans and to be ready for a long stay. But I would also focus on two other issues. One, I think at some point we have before us a day of reckoning on the question of border changes. Montenegro may ask for independence. Kosovo already has de facto independence. The Dayton process in Bosnia really is not working in terms of creating a unitary, multiethnic state. Even though border changes would open up a Pandora's box,

I do believe that ultimately we need to keep an open mind on that question.

The other point that I would like to stress here is there is, I think, an opportunity that has quietly opened up, and that is Greek-Turkish rapprochement, which emerged in the wake of the horrific earthquake in Turkey in 1999, then moved forward, but is now losing momentum. I can think of nothing that would be more important to resolving the Cyprus issue and to helping southeastern Europe be pulled into the European mainstream than getting Ankara and Athens to put their historic feud behind them. The United States, I think, can help that process.

Let me end with a few thoughts on NATO enlargement. I think that this is a very difficult and complicated issue. I think it is time that we begin to have a public dialogue about a second round of NATO enlargement. I admit that I am still somewhat tentative in my own mind, but let me share with you where I come down for now.

I am someone who was a staunch opponent of NATO enlargement. I opposed it when I was on the National Security Council under President Clinton. I opposed it after I left the National Security Council. And I did so for a very simple reason. I did not believe that the gains to American security were sufficient to outweigh the risks of expanding Europe eastward, potentially alienating Russia and redividing Europe.

Now that the first wave has gone ahead, I believe enlargement should continue in part because our policy has been predicated upon NATO becoming a new Pan-European security instrument and, secondly, because I admit that it has had some very good effects disciplining the new members, getting them to set aside their border disputes, protecting their minorities.

The key question in my mind is how can we continue the process of enlargement without at the same time alienating Russia further and risking the redivision of Europe. The only answer that I can come up with is to work much harder at making Russia a part of the process.

I think that it is time for the United States to begin carefully, cautiously, a dialogue with Russia about ultimately joining NATO. Therefore, I would argue in favor of a small second wave that begins next year, but focuses probably only on two countries, Slovakia and Slovenia, because that would be not too controversial.

At the same time, I would begin to have a serious dialogue with Russia about their ultimate inclusion in the alliance. I would have a work plan. I would identify a potential target date, maybe 2015, when Russia might be able to join.

I am fully aware that Russia is not ready to meet the criteria. In fact, it has been back-sliding on the question of democratic and economic reform. On the other hand, I think that the prize at the end of the Cold War is the democratization and pacification of Russia and its inclusion in the Atlantic security order.

I think that we need to begin to recognize that Russia's attachment to Europe is in our interest and find some way of squaring the circle, bringing in the Baltics, bringing in more countries of central Europe, but doing so in partnership with Russia and not against Russia.

Let me simply sum up by saying that I join my colleague, Simon, in being bullish about the future. But I do believe that we are in a very important period of transition in which America's strategic priorities are changing and Europe is rising. I think we need to get ahead of the curve and build a partnership that is much more based upon equality and consultation than in the past and one in which the Europeans become more self-reliant. I believe the EU ultimately has no choice in the matter largely because I think the United States is in a stage in which its priorities are changing.

Thank you.

[The prepared statement of Mr. Kupchan follows:]

PREPARED STATEMENT OF CHARLES KUPCHAN, PH.D., DIRECTOR, EUROPE STUDIES, COUNCIL ON FOREIGN RELATIONS

Mr. Chairman and members of the Subcommittee, it is a pleasure and an honor for me to appear before you today to discuss U.S.-European relations. America's relationship with Europe has been the anchor of U.S. foreign policy for much of the past century. The Atlantic link promises to be equally important to America during this new century. I believe, however, that the U.S-European relationship is headed into a new and more difficult era. It is therefore especially important that the United States and the European Union prepare for this new era and map out complementary strategies for ensuring the integrity and vitality of their relationship.

I believe we are at a fluid moment in history, one in which the outlines of a new geopolitical landscape have yet to emerge. Such fluidity provides America and its partners enormous opportunity to shape that new landscape. But it also denies us a readily available set of guiding assumptions upon which to base U.S. foreign policy. Accordingly, I would like to begin by sharing with you the guiding assumptions that I bring to the table in thinking about the future of U.S.-European relations. I will then turn to the specific areas of policy under examination in today's hearing.

GUIDING ASSUMPTIONS

The emerging Atlantic relationship will be quite different than over the past fifty years because of two fundamental changes in the geopolitical landscape. The first fundamental change is the rise of a stronger and more self-confident Europe. The European Union is reaching a new stage in its evolution that will, in my estimation, lead to increased political cohesion, more autonomy, and a desire for greater influence in the international arena. I base this assessment on the following observations.

- The EU has completed the formation of a single market and the introduction of a single currency. The euro declined roughly 25% during 1999–2000, largely because of the inflow of European capital to the United States. The euro is now likely to strengthen as a result of the slowing of the U.S. economy, gradually establishing its place as one of the world's major reserve currencies. The EU is also expected to enjoy stronger economic growth than the United States for 2001. The collective GDP of the EU will soon surpass the GDP of the United States.
- The EU is continuing to pursue internal reforms that will provide for more efficient decision making and prepare the way for enlargement. The recent Nice Summit fell short of expectations on this front. But the EU is expanding the use of qualified majority voting, strengthening the power of the EU parliament, and taking steps to reinforce the identity of Brussels as its collective capital. A debate is also underway on the drafting of an EU constitution.
- The EU has embarked on a serious effort to forge a common security policy and acquire the military forces needed to back it up. Javier Solana is the first high representative for foreign and security policy. The EU is in the midst of building a rapid reaction force of some 60,000 troops. It has also been flexing its diplomatic muscle of late. The EU has offered to step in to facilitate negotiations on the Korean peninsula. It took the diplomatic lead during the recent crisis in Macedonia. And it is working hard to strengthen its ties to Russia.
- Great Britain, after decades of keeping its distance from Europe, is gradually becoming one of the EU's leading members. Prime Minister Tony Blair was a key player behind the new initiative on the defense front. It is only a mat-

ter of time before Britain joins the euro zone. The EU will be immeasurably strengthened by strong British participation.

- The EU enjoys enormous allure among Europe's new democracies. All the countries of Central Europe are preparing for membership, providing the EU a great deal of influence throughout the region.
- European politicians are beginning to use arguments about Europe's place in the world to legitimate the project of European integration. For the past fifty years, the need to escape Europe's bloody past was the main justification for integration. But this argument now carries little weight among younger Europeans, who have no past from which they seek to escape. The new legitimating task for the EU is focused on the future and projecting Europe's voice on the world stage. As Tony Blair has stated, "Europe's citizens need Europe to be strong and united. They need it to be a power in the world. Whatever its origin, Europe today is no longer just about peace. It is about projecting collective power." [1]

In light of the maturation of the EU, the United States has in Europe a stronger and more capable partner. At the same time, as Europe seeks a new station and a voice commensurate with that new station, the potential for rivalry with the United States also increases. Both sides will need to work to ensure that partnership prevails over rivalry.

The second fundamental change I foresee in the geopolitical landscape is the emergence of a new and more selective brand of internationalism in the United States. I believe that U.S. internationalism has reached a high-water mark and will be on a downward trajectory in the years ahead. Since the Cold War's end, the United States has been the chief guardian and peacemaker in virtually every quarter of the globe—a level of engagement that I do not consider to be sustainable over the long term. From this perspective, the activist and wide-ranging foreign policies of the 1990s are likely to be an aberration, a legacy of the Cold War, more than a good predictor of the future. This evaluation is based on the following considerations.

- The United States today faces no major external adversary or peer challenger. This benign strategic environment, as it cycles through domestic politics, is likely to induce the country to seek to lighten the burden of global engagement.
- The U.S. economy has begun to slow after successive years of unprecedented growth. The accompanying constraints on resources and political will are likely to produce a somewhat less ambitious brand of internationalism.
- President Bush was elected by states in the south and west that have historically been less internationalist than states in the northeast and on the west coast. These states are also some of the fastest growing in the country in demographic terms. Early indications are that President Bush will be pursuing a more selective foreign policy than his predecessors, having already backed off somewhat from mediating conflicts on the Korean peninsula, and in the Balkans, Middle East, and Ireland.
- Americans who came of age after the Cold War are now entering the work force and rising to positions of prominence. They will not bring to the table the historical experiences—World War II, the rebuilding the Europe, the fall of the Berlin Wall—that have provided a ready foundation for U.S. internationalism over the past decades. Younger Americans, raised in a globalized world, are unlikely to be isolationist, but they may well support a more discriminating brand of international engagement than their elders.

I believe that the forging of a new and more selective brand of internationalism is healthy for America. It is not a sign of a worrisome isolationism. Rather, it represents a necessary search for a new level of international engagement that befits a new strategic environment and that is politically sustainable over the long term. Indeed, deliberately crafting a new internationalism is the best way to avoid the isolationism that could potentially result from an America that overreaches and tries to do too much.

Europe, precisely because of the success of the European Union in bringing prosperity and peace to the continent, is the part of the world that will feel the strongest effects of this new brand of U.S. internationalism. Europe is today no less important to the United States than during the previous half century. But it remains hard to

[1] Speech to the Polish Stock Exchange, October 6, 2000, available at http://www.number-10.gov.uk/news.asp?NewsId=1341&SectionId=32.

make the case that the United States should remain Europe's primary guardian when the EU's collective wealth is surpassing that of America and when the United States faces far more pressing threats in the Middle East and East Asia than it does in Europe. America's reluctant participation in the war over Kosovo and its continuing ambivalence toward the peacekeeping mission in the Balkans are clear signs that America is in the midst of altering its strategic priorities and reconsidering its dominant strategic role in Europe.

The rise of a stronger Europe and the evolution of a new and more selective U.S. internationalism promise to have a profound effect on the Atlantic link. Indeed, I believe that the traditional Atlantic bargain—America keeps the peace while the EU focuses on economic and political integration—is rapidly coming undone. If the Atlantic link is to remain strong, a new and more balanced bargain is urgently needed, one that will require hard work by both sides.

Europe will have to redouble its efforts to forge a common position on foreign and defense policy. It will also have to devote sufficient political and economic resources to ensure that it builds its rapid reaction force in a timely and effective manner. The United States will have to make room for a stronger EU and accord it more influence in step with increases in Europe's collective political will and its military capabilities. If the Atlantic link is to remain strong into this new century, it must evolve into a more mature and balanced partnership. The next few years represent a critical window of opportunity for both Europe and the United States to get right this important transition.

Having clarified my starting assumptions, I will now address the specific policy issues under consideration.

COMPLETING THE EUROPEAN PROJECT

During the current period of transition in the Atlantic relationship, the United States and Europe should together address the three remaining tasks needed to complete the European project: managing the emergence of ESDP, finishing the stabilization of Southeastern Europe, and enlarging Europe eastward. I now consider each in turn.

ESDP. As my earlier remarks indicate, I believe that a robust European defense force capable of operating independently of U.S. forces is not just tolerable from an American perspective, but essential to maintaining the vitality of the Atlantic link. Far from undermining NATO, ESDP is critical to bringing about the more equal sharing of burdens that will keep America in Europe and NATO alive and well. Some American analysts argue that ESDP will mean the end of the alliance. They contend that the United States will see an autonomous European defense force as finally providing an opportunity for U.S. forces to withdraw from the continent. I believe just the opposite. Five years hence, Americans and their elected representatives are far more likely to support the Atlantic link if Europe is carrying its fair share of the burden than if Europe continues its excessive strategic dependence upon the United States.

Accordingly, the United States should give Europe an unequivocal green light on ESDP and outline a new Atlantic bargain that consists of the United States granting Europe more influence in return for Europe's acquisition of military capability. Washington is right to insist on close and transparent defense links between the United States and the EU. Washington is also justified in arguing that NATO have the right of first refusal and that the EU act independently only when the United States chooses not to engage. After all, consultation before action is what a mature and balanced partnership is all about.

But most U.S. reservations about European defense are simply misplaced. American officials have told Europeans not to duplicate existing assets, but they must do so if they are to develop the capability to operate without the U.S. forces. American officials have told the EU not to caucus and form a collective position, but Europe must do so if it is to act with a single, coherent voice. American officials express concern that Europe will go off on its own when it has the ability to act autonomously. But it is Europe, not the United States, that should be the worried suitor. Europe is building what will still be a small military force, and will want U.S. participation in virtually every conceivable operation.

The main threat to the Atlantic link stems from too little Europe, not too much. The United States should welcome, indeed it should insist upon, a robust and effective European defense force.

Allow me to make a few brief remarks about missile defense before turning to the Balkans. If handled correctly, missile defense has the potential to strengthen the Atlantic link. If mishandled, it has the potential to strain the relationship and po-

larize the debate over ESDP. The United States should observe three guidelines as it seeks to manage with the EU the ongoing debate over missile defense.

- Consult early and often. Just as the United States expects and deserves to be fully consulted as ESDP moves forward, the EU expects and deserves to be consulted as America's missile defense program develops. The EU has recently changed its position; rather than opposing deployment, it is now prepared to engage the United States in substantive dialogue. The United States should take advantage of this opportunity to work toward a common position.
- Proceed slowly and deliberately. The Europeans were justifiably concerned by the extent to which the pressures of an election year led to a rushed and incomplete U.S. debate on missile defense. Especially because tests are still proceeding and missile defense technology still in a developmental stage, the U.S. should take a paced and measured approach to a decision about both the timing and nature of deployment.
- Develop boost-phase technology and focus on multilateral deployment. A boost-phase system, by intercepting missiles soon after launch rather than as they approach a target state, protects all potential target states, not just the one deploying the system. In this sense, its benefits are shared by all and its deployment therefore more likely to win widespread approval. Boost-phase intercept is also far more difficult to circumvent than intercept later in flight. Deployment of joint, multilateral systems will ease fears that the United States is seeking to protect only itself or gain unilateral strategic advantage, thereby substantially decreasing the likelihood that deployment triggers a new arms race. The United States should explore with the EU and with Russia proposals for sharing of early warning systems and intercept technology.

Southeastern Europe. Europe's southeastern flank remains its most troubled region. The reasons run deep; the history of the area has left behind complicated and volatile relationships among national identity, religion, and ethnicity. The new regime in Serbia and the uneasy peace that now holds throughout the former Yugoslavia provide a window of opportunity for the region finally to leave behind its troubled past. The United States and Europe need to stay the course to ensure this is the case. Otherwise, Europe will continued to be plagued by instability and violence in the region, distracting the EU from its other important tasks.

To ensure that the Balkans have finally experienced their last war, the United States should be guided by three principles:

- Prepare for a long stay. Integration into Europe's mainstream offers the best hope for a lasting peace in the Balkans. Although the EU is already playing a leading role in peacekeeping and reconstruction, it will take a long time—perhaps generations—before integration works its pacifying effects. In the meantime, the United States should be prepared to stay the course and keep at least a small contingent of troops in the region. American participation is important to the credibility of and momentum behind the mission. Even after the bloodshed has receded into the past, neither the United States nor Europe can afford to let the region fall off the political radar screen.
- Keep an open mind on the question of redrawing borders. The United States and its partners in the Balkans have understandably been reluctant to broach the question of redrawing borders; doing so has the potential to provoke a new round of instability and bloodshed. At the same time, the issue will not go away and addressing it sooner rather than later could facilitate efforts to attain a self-sustaining regional order. Kosovo has already achieved de facto independence from Serbia. It is very likely to end up either as an autonomous republic in a very loose Yugoslav federation or as an independent state. Montenegro may ultimately move toward independence. In Bosnia, the Dayton process and years of political pressure and economic assistance from the international community simply have not produced the multiethnic integration necessary to establish a self-sustaining, unitary state. If the political stalemate in Bosnia continues, it will at some point make sense for the international community to consider other options, including the redrawing of boundaries.
- Place more emphasis on rapprochement between Greece and Turkey. Greek-Turkish rapprochement, which gained steam after the devastating earthquake in Turkey in 1999, now appears to be losing momentum. The United States and the EU should urgently press both parties to resume the process of reconciliation. Rapprochement between Ankara and Athens would immeasurably improve the chances for resolution of a divided Cyprus, would facili-

tate peace efforts in the Balkans, and would repair an age-old political cleavage that continues to plague Southeastern Europe.

NATO and NATO Enlargement. Since the end of the Cold War, NATO has gradually changed its core mission and its character. Although it still provides for collective defense as an insurance policy, NATO on a day-to-day basis is now fulfilling two other critical functions—carrying out peace enforcement and peacekeeping in the Balkans, and serving as the primary vehicle for integrating Europe's new democracies into the Atlantic security order. This adaptation has been key to keeping NATO relevant to a rapidly changing strategic landscape.

Whether to continue NATO enlargement and which countries to include in a second wave of expansion are becoming pressing issues on the NATO agenda. I will share with you my thinking on these issues, but I must admit that I am still in the midst of weighing contending arguments and examining the options. Here is where my thinking now stands.

I was a staunch opponent of the first wave of NATO enlargement, both while serving on the National Security Council under President Clinton and after returning to academic life. I believed that the gains to security achieved by enlarging the alliance were substantially outweighed by the potential risks. I worried that enlargement would jeopardize what I consider to be a top priority for U.S. policy—the integration of Russia into a new Atlantic security order. The end of the Cold War affords a historic opportunity to democratize and pacify Russia, goals that are central to building a stable and peaceful Europe.

Now that the first round of enlargement has been completed, I believe that it should continue. NATO has established itself as the main vehicle for establishing a new Atlantic security order and expectations of entry have been raised throughout Central and Eastern Europe. The prospect of membership also provides NATO a great deal of leverage in these regions; countries hopeful of joining are settling border disputes, proceeding with democratization, protecting their minority populations, and undertaking other welcome preparatory steps.

I would, however, predicate the continuation of NATO enlargement on the following important shift in policy—that NATO enlargement becomes a vehicle for Russia's integration into Europe, not a cause of its alienation and exclusion. Current NATO policy maintains that the alliance is open to all European countries that qualify. I believe it is time to take this statement seriously and to begin laying the groundwork for Russia's eventual inclusion in the alliance.

I am fully aware that Russia is far from meeting the criteria for membership; indeed, anti-democratic forces appear for now to be on the rise. I am also fully supportive of the desire of all the countries of Central Europe, including the Baltics, to join NATO. However, I am deeply troubled by the prospect of a continuing process of NATO enlargement that succeeds only in alienating Russia from the West and redividing Europe. Just as the United States would feel threatened if Russia formed a military alliance with Canada and Mexico, Russia is justified in feeling uncomfortable with the expansion of NATO toward its borders.

To square America's commitment to the continuing enlargement of NATO with Russia's legitimate security concerns, I believe that the best solution is to start working sincerely on Russia's own inclusion in the alliance. Doing so would elevate to a top priority Russia's attachment to Europe—the ultimate prize of the end of the Cold War. It would also make it far easier to integrate the Baltics and others in later waves of enlargement; they will be joining with rather than against a Russia that has come to see NATO not as a threat, but as key to its own security.

Based on these suppositions, I would recommend the following approach to NATO's continuing enlargement. I believe that NATO should proceed with a second wave of enlargement next year. The group of countries offered membership should be small and not controversial—Slovenia and Slovakia would make prime candidates. Slovenia has made extraordinary progress on economic and political reform. Slovakia, which had been excluded from the first round because of faltering reform efforts, is now back on track. This round of enlargement should keep the process moving forward while buying time for Russian reform to proceed. Concurrent with the second round, NATO should begin a serious dialogue with Russia about its eventual membership. A detailed work plan should be mapped out. A timetable should be drafted; perhaps 2015 would serve as an initial target date for Russia's accession.

It is entirely plausible that Russian reform will fail, foreclosing the option of joining NATO and entering Europe. But at least the West will have made a sincere effort to bring Russia in and expose it to the pacifying effects of military and political integration. The risks are low; Russia will have a say in NATO only as its reforms substantially advance. But the payoffs of success would be huge—Russia's democratization, pacification, and integration into Europe.

At this point in time, the idea of Russia joining NATO has as little support in the Duma as it does here on Capitol Hill. But my contacts in Russia suggest that this need not be the case and that beginning a serious dialogue with Moscow about eventual NATO membership may ultimately provide an answer to the strategic dilemmas posed by the continuation of NATO enlargement. President Putin, after all, has made clear his western orientation and his desire to make Russia part of Europe. Just as the prospect of joining NATO has helped induce reform and discipline in Central Europe, it could also help keep reform in Russia on track and counter the return of anti-democratic forces.

Should Russia ultimately join NATO, the alliance would function quite differently than it does today. Rather than being focused on the territorial defense of its members, it would serve as a more informal and flexible vehicle for coordinating military activities and preserving peace across Europe. But this looser and broader NATO would be in keeping with a much more benign strategic landscape and a Europe that is no longer so dependent upon the United States to ensure its security.

The Atlantic link is in the midst of transformation. I am optimistic that the integrity of the Atlantic bond can be preserved. But achieving this important objective requires both Americans and Europeans to recognize the profound changes that are taking place, to get ahead of the curve, and to work together to build a Europe that is whole and free.

Mr. GALLEGLY. Thank you, Dr. Kupchan.

Dr. Berry?

STATEMENT OF WILLIAM M. BERRY, PH.D., PRESIDENT, EUROPEAN-AMERICAN BUSINESS COUNCIL

Mr. BERRY. Thank you, Mr. Chairman. I, too, am very pleased that you have organized this hearing at this point in the Administration.

The European-American Business Council is a business group of approximately 80 member companies, large European and U.S. companies that have operations and substantial activities on both sides of the Atlantic. We are an advocacy group. We monitor issues. We provide hopefully a dialogue between business interests in the U.S. and the EU to try to come together on common positions on important issues.

I am going to just summarize my testimony. I hope you would submit the written version for the record.

Mr. GALLEGLY. Without objection. We will make it a part of the record.

Mr. BERRY. Thank you. The first point has already been made by you, Mr. Chairman, and Mr. Hastings about the magnitude and the enormous qualities of this relationship, which are positive, between Europe and the U.S. As a matter of fact, Ambassador Burghardt recently in a speech in Chicago describing the economy said that Europe and the U.S. are really in fact joined by the hip.

We are a huge economic area, and the benefits are substantial. As the Chairman said, it is a $2 trillion plus relationship if you look at all of the activity, and it has grown phenomenally in just the last few years.

The fact is that the economy is not only integrated to a large extent, but it also has a significant impact on every U.S. state. We did pass out to you a study we do every year, which is a breakdown state by state which goes through each state, shows what the magnitude of the investment is from Europe in the state, the number of jobs that are supported.

As a matter of fact, Europe is the largest investor in 43 states. In 42 states, the European market is either the number one or number two export market, and there are also a substantial num-

ber of jobs connected with the trade, as well as with the investment.

While we have this rapidly integrating transatlantic economy, we also see that the political relationship has not kept up. That is our feeling. There have been attempts to put together a positive agenda. There was a transatlantic economic partnership. There have been a number of other things.

Essentially I think our members and I think the business community see these as not really having lived up to their expectations. Our members survey reflects this. Whatever remains on the TEP is essentially moribund. I know USTR Bob Zoellick and Pascal Lamy are talking about ways of reviving cooperation, but essentially there is much less cooperation than there should be, given the character of the economic and commercial relationship.

In fact, I think there is a huge concern in our membership about disputes. Now, I know that at the political level people try to minimize the disputes, and we ourselves in the past have bemoaned the fact that in the press frequently the relationship is defined by the disputes and not by all of these positive aspects that we see in the commercial area. I think there was recently a Commission report released where they said they did not think, despite these disputes, that there was any spillover into the political relationship, which is getting broader and deeper.

Every year we do a survey of our member companies, and we did it again this year. We had for a survey a very high return. It was over 50 percent of our membership. It is a long requiring survey, which is quite detailed. We also in this survey had the same kind of split between American companies and European companies that we have in our membership, so the respondents were essentially 60 percent European and 40 percent U.S.

For the first time ever in this survey we had an open ended question where we asked the companies to list what are your three priority issues, and by far number one was resolving transatlantic trade disputes. This had never shown up before. Irrespective of what is said by leaders on both sides, I think from the business point of view there is an enormous amount of concern about the trade disputes.

Now we do, you know, share your views on the bananas. I think this is a very good step. It is very positive. It is a big change since I think Pascal Lamy has been in his job since the fall of 1999, and it is the first dispute that has been solved. Of course, we have a new USTR, and that is very encouraging.

We do have a number of other disputes. We have one on GMOs. We have foreign sales corporations. Hopefully the carousel dispute will become downgraded somewhat with a resolution of the bananas. Then we also have a whole range of looming disputes. The EU has challenged the Byrd amendment, which is something the U.S. passed last year which actually encourages people to pursue dumping cases. The law will generate disputes.

There is a steel case, which involves, you know, the privatization methodology, which has to do with privatization of the industry and consolidation of the industry in Europe. There are now about 16 cases related to that, which the U.S. is silent on. There are aircraft subsidies, and I think there are also concerns about the reau-

thorization of some sanctions legislation and how Helms-Burton will be enforced in the future.

The dispute that bothers people the most is the foreign sales corporation dispute. It is the largest. It has the most powerful constituencies. The U.S. has lost the case, lost an appeal. The Congress changed the law. There will be a review of that law, and the interim ruling will be reported out on the 22nd of May. The thing about this dispute is it will involve retaliation, if it moves in that direction, of $4 billion. This is unheard of.

People are thinking and our group is thinking about what if the European Union wins and they have, you know, every right to move to retaliation on $4 billion? You know, what will this look like?

We went through the numbers. We looked at retaliation scenarios, and the first thing we know is that our member companies, whether they are involved or not, they are going to be hurt. European companies and U.S. companies alike are going to be hurt.

We ranked the order of exports going from Europe to the U.S. and the exports going from the U.S. to Europe, and essentially we trade back and forth the same things. If you look at the top 20 in each list, 14 overlap. They are the same products. They are aircraft parts, chemicals, plastic, paper, wood products, other things which are huge industries on both sides of the Atlantic. Forty-one percent of the transatlantic trade is intercompany trade, so companies have integrated relations, and if you choke off something at one side the other side is going to be hurt.

Another thing is if you break down these things into two product categories. You have essentially almost 100 products, and if you just looked at $4 billion, you know, that covers half of the list.

Anyway, we are worried about retaliation, and there is not any way you can look at this and not see that businesses on both sides are going to be hurt. We asked our companies directly about the FSC in the survey. Seventy-nine percent of our companies want this settled. They do not want the same pattern followed in the past where we have extended litigation. We also do not want to see the pattern pass where, you know, it is tit for tat so the way to get even is to retaliate, is to take an action where the retaliation will be bigger and going in the other direction.

We would like these resolved. We do have in our survey some views about a positive agenda, one of the primary things being the WTO. The U.S. and Europe have to cooperate. After all, they account for 40 percent of the world trade. If they cannot agree, you are not going to have a round. You are not going to have cooperation. If you are fighting over things like the FSC, you are not going to have any cooperation. You are not going to have any time to put together an agenda, and that is what we would really like to get to is a positive agenda.

I am running out of time here, but I have tried to summarize the views of our membership in transatlantic companies. Thank you.

[The prepared statement of Mr. Berry follows:]

PREPARED STATEMENT OF WILLIAM M. BERRY, PH.D., PRESIDENT, EUROPEAN-AMERICAN BUSINESS COUNCIL

INTRODUCTION

Mr. Chairman and members of the committee, thank you for the opportunity to testify. I am Willard M. Berry, President of the European-American Business Council, or EABC. The Council is the one transatlantic organization that regularly provides actionable information on policy developments and works with officials in both the US and Europe to secure a more open trade and investment climate.

Comprised of over 80 EU and US companies, EABC is the leading business association active on transatlantic trade, tax and investment and policy issues. The EABC is viewed as highly substantive, unique in both its membership composition and in its recognized role as an authoritative, highly credible and effective voice on transatlantic policy issues. EABC's work includes providing a forum for dialogue on transatlantic issues; preventing EU/US disputes and roadblocks to desirable policy outcomes; shaping quality and workable issue strategies; and helping member companies achieve business objectives.

THE TRANSATLANTIC ECONOMIC RELATIONSHIP

The European Union and the United States are both global economic powers. Their combined GDP is around 56 % of the world total. 40% of world trade is conducted between the US and the EU. Clearly, any successful agenda of world trade liberalization requires bilateral cooperation.

If we look closely at US–US trade and investment, we see a substantial economic relationship which is unmatched in its magnitude, is essentially balanced and is mutually beneficial. If you add up the $552 billion in two-way trade between the US and the EU in 1999, the cross investment of more that $1 trillion and the sales of US and EU company affiliates in each other's market, we see an economic relationship of more than $2 trillion. The US and the EU are each other's largest single trading partner, accounting for 20% of each other's trade in goods and 33% of each other's trade in services. Forty percent of the trade in goods in intra-company trade.

Trade and investment flows between the US and Europe provide real benefits for Americans and Europeans. More than seven million US jobs depend on European investment in the US, including 3.6 million Americans directly employed by European-owned companies. US investment in Europe has a similar employment impact. One quarter of all US exports go to Europe and those exports support 1.6 million jobs

The EABC publishes an annual study of the impact of European trade and investment on each of the 50 US states, called The United States & Europe: Jobs, Investment and Trade. The study shows how important the transatlantic business relationship is to the economic welfare of each state. Europe is the largest foreign investor in 43 of 50 US states and the number one or number two export market for 42 states. Just to cite one example, Mr. Chairman, your home state of California sold $24 billion of goods to Europe in 1999. Those exports support an estimated 250,000 jobs in California. European investment in California of $104 billion supports about 292,000 jobs in your state. I have brought copies of the study so all members of the committee can see the importance of Europe to their states.

STRAINS IN THE TRANSATLANTIC RELATIONSHIP

While the strong trade and investment links and the significant level of economic integration suggest common interests and goals, the transatlantic relationship at the government-to-government level has for some time shown increasing tension. For some time, a growing number of WTO trade disputes have become the primary concern of trade officials in Europe and in the US. Consequently, the positive developments in the commercial relationship are not reflected in the political realm. The "positive agenda" has almost disappeared.

The European Commission released in late March a policy document titled "Reinforcing the Transatlantic Relationship," which focuses on increasing transatlantic cooperation and plays down the importance and the growing number of trade disputes priorities. The policy paper maintains that trade irritants do not cast a shadow over other aspects of the relationship between the EU and the US. "In reality, there is little risk of a negative spill-over from individual disputes into the overall political relationship which is broader and deeper than ever before." This is not the perspective of business.

The EABC, in an attempt to ensure that its work is organized around the issues that matter most to its membership, surveys all of its member companies each year on their issue priorities.

The survey results for 2001 were released in March. The survey responses show that "resolving EU/US trade disputes" is the single most important issue for Council members. The deep concern over EU/US disputes was expressed when EABC members were asked to list "the three most important issues to your company." Resolving EU/US trade disputes led all other priorities by far. Other important issues like launching a new round of trade negotiations in the World Trade Organization (WTO) and advancing the development of the digital economy were listed, but lower levels of support. The issue of "resolving transatlantic trade disputes" has never before shown up on our survey in its three-year history.

The EU and US have just settled an eight-year dispute on bananas, which had been a significant irritant in transatlantic trade relations. We welcome this important breakthrough. Many see the move as improving chances for resolution of other disputes and lending fresh impetus to the potential launch of new World Trade Organization negotiations. It is a very positive sign, showing that EU Trade Commissioner Pascal Lamy and USTR Bob Zoellick can work together to resolve disputes, avoid escalation and concentrate more on an agenda of cooperation.

Taking a new direction will not be easy. If you take a look at the list of disputes, it is lengthy, and includes such difficult issues as beef hormones, the Foreign Sales Corporation, genetically modified food and the carousel. There are also quite a number of looming disputes. These include (to mention a few):

- *Byrd Amendment*—This new law which requires US Customs to distribute the antidumping and countervailing duties it collects to US companies that have petitioned for relief is being challenged by the EU in the WTO.
- *Privatization Methodology*—The US method of imposing countervailing duties (CVDs) on goods was challenged in the WTO and it was ruled that US CVD practices violated WTO rules. The US has not reassessed it decisions in 16 other cases.
- *Aircraft Subsidies*—The US is concerned about government subsidies for the development of the Airbus A3XX and the EU is concerned about US indirect subsidies to Boeing.
- *Sanctions*—Many of your colleagues are considering reauthorizing the Iran Libya Sanctions Act, set to expire in August, and arguably the most controversial US sanctions law, as it imposes sanctions extraterritorially on EU firms. While WTO dispute resolution was avoided thanks to a May 1998 EU–US understanding on sanctions, with the US since then waiving sanctions on EU firms, reauthorization of this legislation is highly inadvisable. Further, strict enforcement of anti-Cuba legislation, in particular the Helms-Burton law, could lead to a major EU–US dispute.

The dispute that currently bothers companies the most is that over the Foreign Sales Corporation, or FSC. The FSC is the most significant case in terms of the magnitude of potential retaliation and the size and influence of the US constituency involved. Following a WTO decision that the FSC provided an illegal export subsidy, the Congress last year changed the law to bring it into conformity with WTO rules. The European Union commission feels confident that it will win a pending WTO case examining the FSC replacement legislation. Should the US lose, the EU could proceed with retaliation against the US.

The EABC has looked at trade between the US and the EU and how retaliation in the FSC case could affect transatlantic trade flows. We examined a number of possible scenarios for retaliation and found that retaliation on the scale contemplated in the FSC case—$4 billion—would significantly harm companies on both sides of the Atlantic and be devastating to the European-American relationship.

CONSEQUENCES OF FSC RETALIATION ON TRANSATLANTIC COMPANIES

Almost every transatlantic company is at risk and would be harmed if the FSC dispute escalated to retaliation.

Looking at all of the products traded across the Atlantic, we see that the EU and the US essentially trade the same products. Data show that of the 20 largest categories of US exports to Europe (totaling $132 billion), fourteen are among the twenty largest categories of EU exports to the US (totaling $151.5 billion). Many of these products—aircraft parts, chemicals, plastics, paper and wood products—are components in products that the EU exports back to the US.

About 41 percent of US exports to the EU are accounted for by intra-company trade, meaning that a European company is purchasing goods from a parent or affiliate.

Almost half of transatlantic trade takes place between related companies.

If the EU retaliates against $4 billion of products, 50 of the 98 categories, or one-half, of US exports to Europe could be subject to sanctions.

While the approach is unprecedented, there is the possibility that the EU would impose a small tariff on all US exports. If the EU were authorized to retaliate at the $4 billion level, the result would be an additional tariff of about 2.7 percent on all US goods going to the EU.

A 2.7 percent tariff is not an insignificant amount. Consider that all of the tariff cuts negotiated in the Uruguay Round trade agreements, after they are fully phased in, will result in a reduction of EU average tariffs by 3.2 percent.

Industry is well aware of the significance that the FSC dispute could have on the transatlantic commercial relationship. This was reflected in the 2001 EABC Member Priorities survey, where companies were asked specifically about the FSC issue.

EABC members show very strong support for a continued effort toward a negotiated settlement in the dispute over the FSC. Seventy-nine percent of EABC members said they support a negotiated settlement in the dispute. Almost all of the other respondents (18%) have no position on what course should be followed in pursuing the case. A comparison of our 2000 Survey and the 2001 Survey shows a shift in the past year toward a negotiated settlement. Last year 67 percent wanted a negotiated settlement and 33 percent had no position on the issue.

Clearly our member companies don't want this to be an endless legal squabble and run the risk of escalation. The point I'd like to make, Mr. Chairman, is that there is no commercial constituency to follow the pattern of endless litigation we have seen in older disputes.

We also cannot risk thinking that the FSC can be resolved by initiating bigger counter cases. The get-even, tit-for-tat approach to addressing disputes—bananas, beef, FSC, carousel, etc.—is no longer viable to the transatlantic business community. We have got to settle issues like the FSC and move on to a more positive agenda. Also, we have also got to find better ways of dealing with trade conflicts before they become an issue in the WTO.

THE POSITIVE AGENDA

EABC members do have a positive agenda for the year. Our other top issue priorities include a new round of WTO negotiations and electronic commerce.

EABC members show a very strong interest in many different issues related to electronic commerce. These results reflect both the number of EABC members whose primary business is in the information technology area and the transformation in the way companies conduct business. The most important issues for the companies are taxation, data privacy, and intellectual property rights protections.

There is strong support for launching a new WTO round, but the survey shows that many companies have no strong views on many aspects of a new negotiations. Regarding the content of the round, half of those surveyed support a comprehensive approach and exactly the same percent would like to see some agreements concluded early. EABC members support and would like to expand ongoing, broad based WTO services negotiations. They also support increased WTO transparency, particularly in the dispute settlement process, and reform of the dispute settlement process.

CONCLUSION

It is acknowledged by our members that progress in launching a vital new round of multilateral negotiations in the WTO is impossible without the European Union and the United States working together. After all, they account for 40 percent of world trade. It is also clear that transatlantic disputes divert the attention of trade officials and of transatlantic businesses away from building the agenda and the work program necessary to a successful negotiation. The EABC feels it is very important for leaders on both sides to make progress in resolving trade disputes. We feel that they can spill over into and sour the overall economic and political relationship and that they can stifle cooperation on the issues that are most vital to enhancing the bilateral and global trade agenda.

Thank you Mr. Chairman and members of the Subcommittee for inviting me to testify before you today.

Mr. GALLEGLY. Thank you very much, Dr. Berry.

Mr. Baron Crespo, welcome.

Mr. BARON CRESPO. Thank you, Mr. Chairman, Members of the Subcommittee.

Mr. Chairman, would it be possible for Mrs. Reed, who is the Chair of the federal delegation between the European Parliament and the U.S. Congress, to join the panel?

Mr. GALLEGLY. Certainly.

Mr. BARON CRESPO. Thank you.

Mr. GALLEGLY. Without objection.

Mr. BARON CRESPO. I will be thankful if my written testimony will be put on the record.

Mr. GALLEGLY. It will be made a part of the record without objection.

Mr. BARON CRESPO. Thank you. Let me first say that I am very grateful to the Committee for giving me the opportunity to speak. It is not so often that Members of the European Parliament are invited to address a Committee so eminently important for the relationship between the United States and the European Union.

As president of the Social Democratic Group, whose national leaders are in government in 11 out of 15 member states, I am particularly pleased to be the first group president of our House to appear before you since last November's elections. Let me also say that I am particularly happy to be here because I believe that our two institutions will be increasingly frequent and important interlocutors in coming years.

I say this for two reasons. First, because despite the occasional patch of fog in the Atlantic, the transatlantic relationship remains the most important of all international relationships, both economically and politically. Europe is America's biggest market, biggest investor, biggest investment destination, as you are ours. When it comes to promoting the national interest of the USDA in the global arena, the European countries are as close to a like minded ally as the U.S. is ever going to get, just as you are to us.

Working together, the U.S. and EU have the greatest opportunity to bring some of the biggest international challenges a little closer to solution. If there is now some uncertainty and soul searching on both sides of the Atlantic about the nature of our strategic partnership, neither of us is really happy with our own current role; each feeling our expectations of the other are not being fully met. Then that is a wake up call that we must make a closer transatlantic dialogue a high priority for our two legislatures, just as for the Administrations of the U.S. and the European Union.

My second reason for believing that the House of Representatives of the European Parliament will be increasingly important interlocutors concerns the evolving role of the European Parliament in the European Union. As the EU continues to build and strengthen democracy, the role of the Parliament, the only directly elected institution in the Union's decision making triangle with the Commission and the Council of Ministers, continues to grow.

To put it bluntly, today almost all important EU decisions require the Parliament's approval, and in almost 80 percent of the Union's legislative work the Parliament and the Council of Ministers have equal powers, legislative powers.

The reality of co-decision has increased Parliament's involvement in all stages of the legislative process. Gone are the days when Commission officials could draw up legislative proposals working only with the lobbyists concerned and then present them as a fait

accompli to the Parliament and the Council. Compromise with Parliament is now recognized as a precondition for effective legislation to be adopted. For us, openness and public scrutiny are the best recipe for good government. The Parliament is a constant source of pressure for greater transparency in EU decision making.

Many of the issues on the European Parliament agenda have an impact on the issues with which you too are dealing, both domestically and internationally, but in this short presentation let me just say a word about four of the most important issues of this sort which currently confront us.

The single most important issue is certainly the enlargement of the European Union to central and eastern Europe, including Malta and Cyprus. I hear that some in the U.S. are of the view that the EU is not moving fast enough to take them on board.

Let me be very clear. We have a political and moral obligation toward these countries, which for most of the second half of the last century were part of the Soviet bloc. They have a right to share the peace, freedom and prosperity that we have had the chance to experience over the past 50 years. But, enlargement must not only be done fast. It must be done right. With huge differences in living standards, political cultures, administrative capacities and social systems, the challenge of integration is immense. It takes time.

You all have vivid memories of the delicacy of the NAFTA negotiations, and now you have set a 3-year deadline to negotiate a free trade area of the Americas. We wish you well, but let me reassure you. Although membership in the European Union is by far a more complex process, raising a number of thorny issues, accession talks are advancing well, and the position of the Parliament is that we are ready to welcome the first new member states and their elected representatives by the year 2004.

The second issue I want to mention is trade. It has already been mentioned; in particular, the effort to launch a new multilateral trade round. The European Parliament does not have the power of Congress to legislate on a detailed trade promotion authority, but we have the power of assent on all international agreements with significant budgetary and legislative implications. As Members of Congress know well, the former power of a veto at the end of a negotiating process gives rise to a considerable informal power in the earlier stages.

My own group in the Parliament has devoted close attention in the last 18 months to the prospects of a new multilateral trade round to which we are committed. The case for a new round is still strong today. Signs of progress here will give a powerful boost to international confidence and help avert the threat of recession.

The terms for a new round must be right. My own group's position paper spells out clearly that a new round must also mean a new direction for the World Trade Organization. It must effectively tackle the issues of democracy, transparency, environmental and social standards and the plight of the poorest countries in the world trade system, which the EU already began to address through our initiative of everything but arms for barrier free access for all products from the least developed countries. I believe that many in the U.S. Congress share our priorities on these issues.

I cannot mention trade without also mentioning agriculture. I know that this is a major preoccupation for many U.S. legislators. As you well know, pressures for reform of the EU's common agricultural policy have been building up for some years, budgetary pressures, the prospect of EU enlargement, the WTO commitment to negotiate further liberalization and a growing public mood putting increasing emphasis on food quality and safety, environmental protection and animal welfare standards.

The Social Democratic Group, which I lead, is strongly behind the movement for reform. Again, we have set up a high level internal working group to draw up proposals for reform in order to influence the review process to which the EU is committed in 2002. Our WTO position paper, to which I have referred, already signposts the direction in which we want to move on trade related aspects; away from production related supports toward a more targeted support system, focusing on the non-trade public policy goals of environmental protection, rural development, food quality and safety and animal welfare. We want the opportunity to discuss this agenda with you.

Last, but not least, let me say a word about a common foreign security policy which, as you know, the European Union is only beginning to develop. My group strongly adheres to the principles of common security based upon cooperation, sustainable security, concentrating on taking away the causes of insecurity and democratic security meaning security in all its forms and expressions as the best guarantee for the security of all of us. Our main priority is conflict prevention based on predicting the future by learning from the past and present. I think we need more and better capacity to do that.

Concern and sometimes criticism from this side of the Atlantic about the lack of European action in the Balkans, for instance, is understandable, but misses the point. Europeans were never unwilling to share the burden, as some like to put it here. They were, until now, simply not in a position to do so.

You should not underestimate the rich diversity of defense and security cultures and practices in our member countries, but we in the Social Democratic Group acknowledge and seek to draw upon this diversity of experience in formulating a policy and in the development of the common foreign security policy.

Thank you, Mr. Chairman, honorable Members, for your attention.

Mr. GALLEGLY. Thank you, Mr. Baron Crespo.

I would just like to open with a couple questions, first of all, for Dr. Serfaty.

Dr. Serfaty, Anthony Blinken, in a recent article in Foreign Affairs, stated, "The crisis in U.S.-European relations is largely a myth manufactured by the elites, politicians, intellectuals and the media."

How would you respond to that statement? In your opinion, is there a crisis in the relationship?

Mr. SERFATY. The history of the U.S.-European relationship is a history of both discord and cooperation. At any one point in time there have been discordant issues; at any one point in time over the past 50 years there have been apprehensions over the drift of

Atlantic relations, as well as exasperation over the recurring nature of the tensions between the United States and the states of Europe.

My response to this is not so much a matter of rehashing either the tensions of the moment or the uncertainties of the future, but to think about the relationship in retroactive terms today, as compared to 1991, 1961, 1951, 1921, 1901.

Mr. Chairman, we have come a long way in developing a coherent, a cohesive, a sustainable and irreversible relationship between us and the states of Europe. So it is not simply a creation from the top down, but it is something that has developed such deep roots as to now flourish from the bottom up as well.

Mr. GALLEGLY. Thank you very much, Dr. Serfaty.

Dr. Kupchan, in your opinion, are the Europeans really interested in NATO enlargement by 2002, or are they more focused on EU enlargement, and, in your opinion, how do you see the U.S. role to be played out and through what process?

Mr. KUPCHAN. I believe that the Europeans are just beginning a dialogue among themselves on the desirability of a second wave of NATO enlargement, as well as who might be included in it. My sense is that they are going to look to this side of the Atlantic for leadership on the question of the second wave, as they did on the question of the first wave.

My own sense of the European position is that they will come along if the United States does want to push ahead with the second wave in part because they realize that the expansion of NATO to some extent lets them go more slowly on their own EU expansion and because going forward with NATO meets some of the security concerns of the states in central Europe. It is also easier than EU expansion in the sense that prospective members do not have to meet all the various criteria of the EU on agriculture, on budgets, to get into NATO.

I think beneath the surface there are many in Europe who would like the NATO expansion issue just simply to go away because they realize there are very difficult decisions ahead, but again I believe that they will follow our lead on that question.

Mr. GALLEGLY. Even though during the Clinton Administration the French and others in Europe were very critical and did criticize the U.S.'s involvement, would you not agree?

Mr. KUPCHAN. On the question of NATO enlargement?

Mr. GALLEGLY. Right.

Mr. KUPCHAN. I think——

Mr. GALLEGLY. Or who should be enjoined.

Mr. KUPCHAN. Yes. On the particular question of who, there was a great deal of to-ing and fro-ing with the French and other European allies pressing for some countries and the United States at the end of the day saying no, let us just go for these three—Poland, the Czech Republic, and Hungary.

I do think that when you begin to look at a second round there will be extraordinary pressures coming from different quarters, some pressing hard for at least one Baltic country, the French probably pressing hard for Romania, the Germans probably on Lithuania because of the connection to Poland, so I do think that

we are entering a period in which this debate is going to intensify considerably.

Mr. GALLEGLY. Thank you very much.

Mr. Hastings?

Mr. HASTINGS. Thank you very much, Mr. Chairman.

Dr. Serfaty, in your prepared remarks you spoke about if there were to be an intensification of the conflict in the Middle East. Not your exact words, but can you help us understand better what the Middle East means to Europe and United States relations, taking into consideration both the religious factor, the development of Islam in Europe, as well as obviously the energy factors that have to be considered?

Mr. SERFATY. Well, Mr. Hastings, you essentially led me very effectively in responding to the question because what is significant about the nature of Europe's relationship with the Middle East is that this is indeed multidimensional.

There is, for example, an extraordinarily significant domestic political dimension to questions raised in the Middle East. Islam, as you well know, has become the second most important religion in most states in the European Union, including the likes of Denmark and others, France, Germany. So that there are domestic political consequences to the eruption, to the visibility of balance in the Middle East. In turn, that kind of emotion from within is translated into political consequences that tend to feed one or the other of the political parties across the spectrum, depending on the nature of that balance.

Third, there are obvious economic consequences to the extent that Europe is at the defining moment in the development of its institutions. The loss of half a percent, half a percentage point of economic growth due to some disruptions in the flow of oil might be more important than those disruptions faced in the 1970's, so there is vulnerability to conditions there that is multidimensional.

Mr. HASTINGS. I sense some movement with Mr. Baron Crespo and Ms. Reed. Do you all have to leave?

Mr. BARON CRESPO. No, no, no.

Mr. HASTINGS. Since you do not, Ms. Reed, then I am going to take advantage of the opportunity.

Mr. Chairman, I might add I wish to add further commendation to you. I am sort of still a new Member to a lot of things, even though I have been here now and I am in my fifth term. This is the first time that I participated in any hearing in any of the Committees that I have been in that foreign dignitaries were directly involved.

I do not want Mrs. Reed to leave without having an opportunity. She amplified some of her views earlier today, Mr. Chairman, I would like to utilize my time and yield it to her. Otherwise when I see Bruce George at OSCE he will not let me in the room, I am sure.

Mr. GILMAN. Would the gentleman yield a moment before beginning?

Mr. HASTINGS. Indeed I will, Mr. Chairman.

Mr. GILMAN. I want to note that President Reed, who is president of the European delegation, participated in a video conference with our Committee not too long ago, and we had an opportunity

then between our Committee and the European Union to review some of these problems.

Mr. HASTINGS. Well, I am looking forward to testifying in Spain and in England.

Mr. BARON CRESPO. In Spanish, though.

Ms. REED. Mr. Gallegly, thank you very much indeed for giving me an opportunity to make a brief contribution. I do not have it in writing. Apologies. It is heartfelt nevertheless.

Mr. Gilman was kind enough to explain that I am president of the formal delegation cross party between the European Parliament and the United States Congress. It is our oldest delegation, our most prestigious delegation. I say that not just because I am its president at the moment. That is generally held to be so, and that I think is a reflection of the very special relationship there is between the European Union and the United States of America.

If you will permit me to just reflect for a moment on a previous question of yours about whether the relationship was in a state of crisis? I think it is not in a state of crisis, but it might be in a state of mutual taking for granted; that we rather assume that each side is going to be there. Perhaps we have made an error in assuming that neither side is going to change very much or the circumstances underpinning our work are not going to change.

Of course, they have changed very substantially, and our distinguished panel, and we listened to very great interest and look forward to having copies of your contributions, reflect much of that change.

You know, of course, that we have worked closely with the Congress not only through the formal delegation, but also through informal visits by individual members of our Parliament who have close contact with many of you. Of course, this is a delegation from our political group, so, of course, I defer to Mr. Baron Crespo with great pride as the leader of our delegation.

We work closely, of course, with our colleagues at the Commission. Ambassador Burghardt and his colleagues are our partners and our colleagues, and we look forward very much to that being strengthened.

Mr. Chairman, if you would just allow me a few minutes to comment on one or two issues which I know are of great concern to many here? Dr. Berry mentioned some of them during his presentation.

At every discussion we have, at every video conference exchange, every informal visit, the question of the outstanding trade disputes are raised. Of course, they raise very strong feelings. I think it is a matter of considerable satisfaction that the issue on bananas is reaching its final conclusion. There is a great tribute I think to those involved who have worked so hard to find a compromise.

We have a number of outstanding issues, and I think the one that is of the greatest concern here is one that Dr. Berry mentioned, the issue of foreign sales tax. You know, you only have to look at the figure of $4 billion a year at the latest count in terms of impact in the economy of the United States of America. Of course, if you turn that round that is a loss to the economy in the European Union. You know, you put it into some sort of context.

You will all know, I am sure, the state of play with FSC; that there was an EU–U.S. agreement about procedures for how the issue would be handled. There was a delay of 1 month, a WTO extension of the deadline, and we expect the initial decision I think you said, Dr. Berry, on the 22nd of May. I think we must wait and see how that plays out during the formal deliberations.

We are also facing, of course, the next round of trade discussions, and I am sure that within that will be discussion about conflict resolution dispute mechanisms. We have to look, of course, at the political and trade backgrounds to current disputes and potential disputes, but also move one step away from that in the abstract and look at whether the existing dispute mechanisms are satisfactory. If not, how should they be resolved? I think one thing is for certain, the length of time that these things are elongated is of no benefit to anybody, and we need to look at speed, but also effectiveness.

Mr. Chairman, Mr. Gallegly, we are really happy to be here. We can stay longer because it is such a priority for us. Perhaps if I could conclude by saying that we are very grateful to have this opportunity. We know that this hearing was planned prior to you knowing of our visit. The fact that you have made space and time for us to make a contribution is of very great importance to us, as indeed has been the reception, the kindness and the constructive discussions we have had with so many here in Washington.

If we came with some doubts about the welcome, and we had one or two little doubts, they have certainly been greatly reassured during our visit here. I look forward particularly, sir, to working with you in the future. We have not had a chance to meet on a personal level, although we have corresponded, but I am sure that if you do exactly as I tell you and I do you exactly as you tell me, we are going to get on just fine.

Mr. GALLEGLY. Madam President, I value your comments, and I value your testimony today, as I am sure my colleagues would join. We are pleased to have you here. I look forward to meeting you on a personal and less formal basis.

The gentleman from New York, Mr. Gilman?

Mr. GILMAN. Thank you, Chairman Gallegly. We are pleased Enrique and Mel are here as part of the panel.

Mel, let me ask you. You mentioned the banana dispute and the goodwill that has been inured by the joint decision to resolve the banana dispute. Can we generate more of that goodwill as we work to resolve the FSC case? Do you think we can resolve that properly?

Ms. REED. May I? Thank you, colleagues. As I understand it, this is currently being considered under the normal WTO rules. You will remember, Mr. Gilman, that prior to the elections last November——

Mr. GILMAN. Yes.

Ms. REED [continuing]. In the United States of America there were many, many discussions between the U.S. Administration and Commissioner Lamy to try and see whether according to the rules an interim proposal that would be regarded by both of the parties as WTO compliant could be come up with. That did not prove to be possible.

The deliberations now are considering the legislative proposals that the U.S. has come up with to see whether the panel regards that as WTO compliant. I must tell you that the view of the European Union is that we think it is extremely unlikely that the panel will rule in favor of the United States of America. We do not see, looking at how the rules have been interpreted in the past, that that will be regarded as WTO compliant.

I speak just for myself, Mr. Chairman. I would like to make that clear here. It does seem to me that as this is being dealt with by the existing rules that we must let those rules run their course. Of course, I am quite sure that Commissioner Lamy as ever, as indeed every other commissioner, is very happy to talk, and indeed he indicated that. He came over to Washington. I do not know how many discussions there were between Mr. Lamy and his counterparts, but there were certainly very many.

We must talk, Mr. Gilman, must we not, as ever about this. The rules are running their course, and that seems to me what we must let happen. The first decision comes on the 22nd of May. Things will be clearer there.

Mr. GILMAN. Mel, let me ask before I turn to Enrique. Is it possible to have some mutual agreement to stop the WTO clock in order to resolve this issue?

Ms. REED. Mr. Gallegly, when the decision comes, the first decision—I am sorry—comes on the 22nd of May, I think the period then for deliberations is until December, so we have maybe 7 or 8 months of time. I am sure that on both sides that is going to be used usefully and wisely.

That is quite a lot of time to try to get together and have discussions. Of course, the discussion point will start from whatever comes on the 22nd of May.

Mr. Baron Crespo wanted to——

Mr. GILMAN. Enrique? Mr. Baron Crespo?

Mr. BARON CRESPO. We are totally open to dialogue. We have invited the Presidential High Representative for Trade, Mr. Zoellick, and he agreed to come. He is a frequent visitor to Europe, a good friend and a very hard negotiator.

We have invited him to come to our plenary session in May, where he will address on Monday, I think, Monday evening, the Foreign Affairs Committee and the Committee in which there is industry external relations and so on.

Perhaps it would be a good opportunity for the U.S. Administration to try to advance and make proposals.

Mr. GILMAN. Let me raise one local issue; not so much a local issue. It is one that affects many of us. Today, I am involved in the drug wars. Many of my colleagues are. One-third of our cocaine and a good chunk of the heroin come out of Colombia and now heads for Europe.

Coming in the other direction, most of the precursor chemicals to make cocaine and heroin in Colombia come from Europe, Germany and Holland in fact, and these chemicals are used to make the same drugs that go back to Europe.

Today, it is very hard to get the Europeans to agree to help us in Colombia and get some serious controlling regulations with regard to those chemicals. I would hope that you would take back to

your European colleagues the need to do something more in that direction. I just pass that out as a personal request.

Mr. BARON CRESPO. Well, sir, I will try to convey this message. In any case, drug trafficking is a very, very wide social problem both in the United States and the European Union.

We are in favor of developing cooperation with you, taking into account that this is not only a supply problem. It is a social and demand problem. I think that it would be interesting to increase our cooperation. I think this is a standing point in the agenda of the delegation.

Mr. GILMAN. I know we raise it quite often with our European colleagues.

Let me just ask, Mr. Chairman.

Mr. GALLEGLY. Mr. Gilman, I would just say I had made a commitment to our witnesses that we would be wrapped up by 3:15. We have not got to Mr. Delahunt yet.

Mr. GILMAN. Then I will waive my further questions at this point.

Mr. GALLEGLY. Thank you very much.

Mr. Delahunt?

Mr. DELAHUNT. I will try to be brief. Let me just say it was very informative and welcome. I thought your remarks, Dr. Serfaty and Dr. Kupchan, were excellent. They were on the mark, I think probably because they reflect my own thinking. I find that happens occasionally. I attribute brilliance to those who agree with me.

Let me just make two quick observations to our colleagues from the European Parliament. Let me pursue for one moment the observation by Chairman Gilman relative to Colombia and the drug issue there. Let me take it from a different perspective.

I am sure that you are aware that the United States has enacted a plan, the so-called Plan Colombia. Many of us did that with an understanding that the European donors would contribute substantially not in terms of the military hardware, but in terms of providing assistance to the social and economic development within Colombia. Because it is my perspective, at least, that that is absolutely the key to achieving stability or, in other words, to at some point in time achieving a peace accord, and with peace and stability many of the issues relating to drugs could be solved.

I would ask respectfully you go back and examine your willingness to participate in a substantial way; again, not in terms of military hardware, but in terms of economic and social development issues within Colombia.

As I said earlier, I really do agree with both Dr. Serfaty and Dr. Kupchan. I do not see any crisis at all in terms of the relationship. I think it is reversible. I think really the biggest challenge is the need for the United States to adjust, if you will, almost on an emotional level in terms of, I think it was you, Dr. Kupchan, that indicated that there are fundamental changes going on that I welcome and embrace.

I think your observation about the ESDP—I mean, we should welcome that, and yet it is interesting to note that there is a lot of schizophrenia about that. At the same time that we are questioning the role of American troops in the Balkans, simultaneously we express concern about the ESDP and its impact on NATO. I

mean, I see an inherent inconsistency there. It just does not make sense to me.

I guess my original premise is the American adjustment. I think again, and I will just make a statement and you can respond or not. I think we have to adjust to the fact that we are not the senior partner anymore. We should acknowledge the fact that we will be equal partners, and that is going to require a different relation, one that is more involved in consultation.

What concerns me is, and I think Mr. Hastings enumerated some of his observations relative to what has happened in the last four or five—well, longer than that. In terms of Kyoto, in terms of the lack of consultation or at least from what one gleans from newspaper reports lack of consultation, the position of the United States versus the so-called National Missile Defense Program. You should know that there is considerable opposition within this body to that particular program.

The position of sanctions versus Iraq and the International Criminal Court, the Comprehensive Test Ban Treaty. I would hope that there would be more consultations with our traditional European allies and friends. I think it is time that we recognize that we have a changing role.

I think it was you, Dr. Kupchan, that indicated that there are fundamental changes going on, but I wonder sometimes if we are aware of them. I know we are pressed for time, but if anybody wants to make a comment I would welcome it.

Before I say that, Dr. Berry, I do not want to leave you out of this mix. It is my sense that what we are looking for here is a more efficient dispute resolution mechanism. We are always going to have commercial disputes. We see them here domestically. One only has to examine the rather large backlog in our judicial system when it comes to civil litigation, so I think this is a process that constantly has to be monitored, improved, and I am sure it will happen.

Mr. GALLEGLY. Thank you very much, Mr. Delahunt.

We will make time for one final round with Mr. Smith, the gentleman from Michigan, with the witnesses' indulgence. I appreciate that. Thank you.

Mr. SMITH. Well, again thank you for your participation and patience with sometimes more verbiage coming from up here than down there.

Allow me to say that one of my concerns is agriculture, Mr. Baron Crespo, and where we go. When a country's farmers are threatened, there is going to be a certain amount of protection. Europe is not going to allow its supply of food to be diminished in some kind of a WTO trade agreement that threatens your agriculture and, likewise, neither is the United States. However, I am particularly concerned about political decisions masquerading as science-based decisions.

One area where this applies is genetically modified foods. In talking to many scientists in Europe, they see no scientific basis for extra regulations on new genetic technology. In fact, they agree with most U.S. scientists that genetic modification and high tech are probably safer than traditional cross breeding.

Some in Europe have suggested that they are just doing what the free market demands, and that their population does not wish to buy genetically-modified foods because of some potential danger someplace. My suggestion is and my criticism, if you will, is that government in those countries has a responsibility to give correct information if the market system is going to work. I think that is one area that gives me cause for concern.

This country has become very dependent on exports for the maintenance of our agricultural industry. As a result, we see what appears to be protectionism in decisions that are not totally scientifically based or in subsidy decisions.

A recent report I have suggests that Europe subsidizes their farmers five times as much as the United States subsidizes their farmers. I would be glad to send you the tables and have you critique those tables, but it is a huge problem. It is not good for any of our agricultural producers if we get in a war of subsidization.

It is going to be much better for agriculture to allow the market in a competitive system to work and minimize the protection and protectionism to the minimum amount possible. Mr. Baron Crespo, I did include tariff rate quotas in defining subsidy.

Any comments from the different panelists where we go with what tends to be protectionism in many countries throughout the world, certainly including the United States?

Ms. REED. Thank you very much, Mr. Smith.

I will speak first about GMO foods, if I may, and I want to emphasize to you first that there is very widespread, deeply held views among our voters about GMO foods.

The bottom line that we in the European Parliament have supported, and for which there is a general support I think in every member state in the European Union, is that the consumers have the right to know whether the food they buy in the shops contains genetically modified ingredients. It seems to us then that the onus is on the consumer to make the choice when they shop about whether they want to buy those products.

My own view is that I think that that sort of approach might begin to gain support in other countries, including the United States of America. We do understand and hear the arguments about scientific evidence. I must say to you that after the BSE crisis in my own country, the major issue with blood products in France, our current foot and mouth epidemic, that there is a growing loss of faith in the integrity of science. I say that very seriously. It is a serious matter.

I do know that here in the United States of America you currently have a problem that is reported in the newspaper over StarLink. This is the animal feed issue where products that were designated for animal feed use were——

Mr. SMITH. Yes, but let me restate what I tried to say in my statement. I think government has some responsibility to getting as much correct information as possible to the consumers so that they can make decisions based on science and fact.

Let me also say that in regards to the Kyoto accord and the recent meeting in the Hague that I was disappointed that the EU decided not to accept the final negotiations. I think it would have been a step forward.

This morning we had a Science Committee meeting. The direction of our Science Committee at the moment is to increase the research to help ascertain truly whether the problem is real and what some of the better solutions might be. This is the kind of effort we should be working together on to get the best possible scientific information.

Ms. REED. If I could continue to make the point? You know, I am sure the most recent Commission proposal is talking about key provisions on labeling, which is very important to us, on traceability and monitoring. We recognize the need to relaunch some GMO products on the market with those qualifications.

Briefly on agriculture, Mr. Chairman, we would be happy to discuss with you and exchange statistics because the statistics that we have, which are very thoroughly worked out, I think will give a clear picture of how we see the issue of agricultural subsidies, so I hope you will agree to receive them.

We would be happy to I was going to say exchange hostilities. I do not quite mean that. Exchange statistics is a better way to put it.

Thank you very much.

Mr. SMITH. Again on labeling, let me just say if you go into any supermarket in the United States or in Europe——

Mr. GALLEGLY. Pardon me, Mr. Smith. If I might thank Dr. Serfaty and Dr. Kupchan very much? Thank you for your patience. We value your testimony. Thank you very much.

I am sorry, Mr. Smith.

Mr. SMITH. Well, just let me say the danger is that there will be labeling with a continuing unwillingness to convey accurate scientific information to consumers. This can be in itself a restriction and restraint on trade. So your call for labeling of any U.S. meat products where that animal might have consumed some food or grain product that was genetically modified I think is unreasonable in terms of the current scientific information.

I was just going to make the point that scientists in both Europe and the United States agree that arbitrarily taking the 20,000 to 25,000 genes in any plant and cross breeding them or hybrid breeding them has the greater potential of aberrant results than our new technology where we can isolate particular genes and either take them out or put them in with very predictable results.

I think it is going to be a shame for the world if we shut off research in new technology because consumers lack good information.

Thank you, Mr. Chairman.

Mr. GALLEGLY. Thank you very much, Mr. Smith.

Dr. Berry, Mr. Baron Crespo, Chairwoman Reed, thank you all for being here this afternoon. I look forward to working with you in the coming months and throughout this Congress, and I do appreciate your being here today. I think we are off to a good start.

Mr. GILMAN. Mr. Chairman, before we conclude I just would like to add our thanks to Mel Reed and to Enrique Baron Crespo for the Parliamentary group meeting we had earlier today, along with Ambassador Burghardt, and we look forward to further European-congressional relationships in the days ahead.

Mr. GALLEGLY. Thank you, Mr. Chairman. Thank you.

The Subcommittee will stand adjourned.

[Whereupon, at 3:37 p.m. the Subcommittee was adjourned.]

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