

**The EC/EFTA Economic Area:
A Compass for Central Europe?**

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Abstract

Despite all the rethoric, Hungary, Poland and Czechoslovakia will not join the European Community before the end of this century. Therefore, it is already necessary to think about possible forms of integration in the EC which go beyond a free trade agreement on industrial goods.

The author argues that the European Economic Area (EEA) between the EC and the EFTA countries could be a compass for the Central European countries. A compass does not mean a perfect model. To be sure, the historical, economic and political situation of the former communist countries are not similar to the one of the richest states in Western Europe. Nevertheless, for the time being, the EEA remains the best way to get most of the advantages of the EC-1992 Internal Market without being a member of the Community.

The EEA method of integration should be better known. Therefore, in the first part, this paper introduces the EEA in a clear and comprehensive manner. And, in the second part, it analyzes the possibilities and difficulties of extending the EEA concept to the Central European countries.

Introduction

Could the European Economic Area (EEA) between EC and EFTA be a model for the Central European countries? Could this framework be extended to Poland, Czechoslovakia and Hungary? *A priori* the answer appears to be negative.¹ First, the EEA is entangled in tremendous difficulties. Moreover, for most EFTA countries, the EEA is not seen anymore as a solution for avoiding EC membership. In any case, it seems to be useless to compare the Central European countries with the EFTA states because their historical, economic, political and geo-strategic conditions are simply too different.

Such arguments are nevertheless too extreme. The EEA concept will remain an unavoidable case study in any reflection of European integration. Any comprehensive study of the European Community/Central Europe relationship will have to refer (positively or negatively) to the European Economic Area.

First, one should remember that it is the EC itself that always insists on mentioning the EEA as a model for Central Europe.² Second, some of the circumstances which led to the EEA negotiations can already be found in the European Community/ Central Europe discussions. Third, it is obvious that the dilemmas of an intermediate way between marginalization and membership are common to the EFTA and Central European countries. Fourth, the transformation of EFTA as an antechamber to EC membership does not preclude any comparison, because membership is precisely the precedent pursued by the Central

1. We deal here only with Poland, Czechoslovakia and Hungary. We call them for convenience the *Central European countries*. There is of course no reason for not extending subsequently this pseudo-geographical concept to other former Communist countries.

2. *Joint Declaration, Ministerial Meeting between the European Community, its Member States and the Countries of the European Free Trade Association*, Brussels, 19 December 1990, p. 2.

European countries. More prosaically, difficulties in the EEA negotiations could be very instructive as lessons are often better drawn from setbacks than from success.

There is no doubt that the Central European countries's adaptation to EC directives will have many common features with the learning process already set up by the EFTA states. Central European countries will be forced to solve those fastidious – but nevertheless fundamental – questions called: adaptation to the *acquis communautaire*, constitution of a common legal framework, and participation in the shaping-process of EC directives.

It is therefore important to analyze carefully the process which led to the EC/EFTA negotiations on the EEA. To be sure, the European Economic Area will never be *stricto sensu* a model for the Central European countries. Such a notion can be excluded right away. But we argue that this EEA exercise could serve as a compass for Central Europe.

I The European Economic Area

This first part does not aim at introducing the EEA in a detailed manner. There are already numerous studies on this issue.³ Nevertheless, a short introduction is necessary for at least two reasons. First, bureaucratic jargon (which also *contaminates* academic language) makes this EEA incomprehensible even to experts on the EC. Second, there cannot be any reflections on the *challenge of a new European architecture* without integrating the EEA concept.

3. Helen Wallace (ed.), *The Wider Western Europe. Reshaping the EC/EFTA Relationship*, (London: Pinter Publishers for the Royal Institute of International Affairs, 1991).

"The European Community, EFTA and the New Europe: Changing Dimensions of Economic Integration in Europe," *Journal of Common Market Studies*, Special Issue, volume XXVIII, No 4, June 1990.

European Economic Area: a Definition

The EEA's objective is to integrate the EFTA countries in the EC internal market without formal membership. The EEA is an extension of EC-1992 to the Community's closest neighbors. It is an instrument to remove most non-tariff barriers between 19 Western European states⁴ in order to ease the free movement of goods, services, capital, and persons.

As an addition, the EEA includes the extension to the EFTA countries of the so-called flanking measures, such as technological, education, and environmental cooperation, as well as the embryo of a social dimension.

In other words, the EEA integrates completely the EFTA countries to the EC system with the partial exceptions of the Common Agricultural Policy, European Political Cooperation, monetary cooperation (EMS, EMU) and home affairs cooperation (Schengen, Trevi).

Origin of the EEA

The origin of the EEA is as old as the creation of the European Economic Community itself. The aim was – and is still – to avoid dividing Western Europe. Every time the EC deepened its integration, the EFTA countries tried to avoid discriminations.⁵ Thus, in

4. 12 EC countries + 6 EFTA states + Liechtenstein.

5. Thomas Pedersen, "EC-EFTA Relations: An Historical Outline" in Helen Wallace (eds.) *The Wider Western Europe*, pp. 13-27. See also, Bettina Hurni and Pierre Du Bois (ed.), *EFTA from Yesterday to Tomorrow* (Geneva: EFTA/Institut universitaire d'études européennes, 1987).

1972/73, a series of free-trade agreements led to a progressive dismantling of tariffs and quantitative quotas between the EC and the EFTA countries.

The direct origin of the EEA is linked to the tremendous progress made by the European Community since 1985 thanks to the White Paper and the Single European Act. This raised in every EFTA country fears of being marginalized both economically and politically.⁶

Until 1988, none of the EFTA countries appeared to be interested seriously in joining the EC. For its part, the Community kept repeating that it would not welcome new members before the completion of its internal market (1993 or later). There was therefore a necessity to solve the following dilemma: on the one hand, to find a way to integrate the EFTA countries in the emerging EC internal market, but, on the other hand, to avoid having those third countries interfere in the EC decision-making process.

Brussels especially feared to be confronted by an avalanche of candidacies for membership. In the late 1980s, it was common wisdom that any enlargement could jeopardize the deepening of the Community. The Commission was especially reluctant to deal with an Austrian application. In this country, the coalition's parties and the main professional organization were already preparing the ground in order to apply for EC membership (the "letter to Brussels" was finally sent in July 1989).⁷

In order to solve the above-mentioned dilemmas, Jacques Delors and his closest collaborators found the *magic formula*. In January 1989, they offered to the EFTA countries the EC-1992 internal market on the condition that EFTA restructures itself and "speaks with one voice."

6. René Schwok, "L'AELE Face à la Communauté européenne : un risque de satellisation," *Journal of European Integration/Revue d'intégration européenne*, 13 (1), automne 1989; pp. 15-54.

7. Paul Luif, "Austria" in Helen Wallace (ed.), *The Wider Western Europe*, pp. 124-146.

Moreover, Jacques Delors suggested setting up "common organs of decision."⁸

In Spring 1989, those propositions were welcomed by the EFTA countries. At that time, the Delors proposals appeared as a miracle. The Community was offering them the whole EC-1992 internal market without imposing on them its most obvious inconveniences: common agriculture and foreign policy (problem of the neutral countries). Incredibly, Jacques Delors even proposed common organs which would have allowed them to take part without discrimination in the EC decision-making process. The EEA appeared to the EFTA countries as a real godsend.

Hidden Objectives

In fact, the EC as well as the EFTA were veiling their faces on the fundamental contradictions of this intermediate way between marginalization and membership.

On the Community side, the *relance* of the EEA was largely individualist and improvised.⁹ For example, Jacques Delors took by surprise Willy de Clercq, the former Commissioner in charge of external affairs, and did not even inform Frans Andriessen, the new incumbent.

Jacques Delors had reaped advantage from the renewal of the Commission to impose his point of view. Did he realize at that time the

8. Jacques Delors, *Déclaration sur les orientations de la Commission des Communautés européennes*, Strasbourg, Parliament of the European Community, p. 33 (draft).

As a matter of fact, the original text in French is clear:

"(...) une nouvelle forme d'association qui serait plus structurée sur le plan institutionnel avec des *organes communs de décision* et de gestion afin d'accroître l'efficacité de notre action." (Emphasis, R.S.).

9. Willy De Clercq, *Europe. Back to the Top* (Brussels: Roulanta Books, 1990), pp. 72-73.

impact of his proposals? The contrary is the truth. First, his propositions on the EEA constituted only a few lines drowned in a general speech on the EC. No external observer even noticed the importance of his propositions to EFTA.

Furthermore, Delors' propositions were badly written and even contradictory. On the one hand, he was proposing to the EFTA countries to participate fully to the EC decision-making process, but, on the other hand, he was repeating the Willy de Clercq gospel that EFTA countries should not trouble the EC decision-making process.

Among the EFTA countries, the contradictions were almost as important. Those states wanted to take only the positive elements of the Delors speech. They feigned to ignore that the EC was demanding that they give up any claim on permanent derogations, particularly on free immigration of EC member states' citizens.

The EFTA countries made a show of not understanding that a true European Economic Area means that competition norms should be homogeneous in the whole zone. The EFTA states also refused to imagine that the EEA would not be based on both EC and EFTA norms. It was however evident that the Community was not envisaging anything other than imposing its directives to the EFTA countries.

Negotiations on the EEA

The negotiations on the EEA formally began in the summer of 1990. They led to a succession of concessions by the EFTA countries. For instance those states pleaded for permanent derogations in order to avoid the free establishment of EC citizens, to keep their real estate and their fields out of the Community purchasers. In particular, the EFTA countries were very interested in maintaining superior health, safety, and environment norms.¹⁰

10. On the EFTA and EC positions during the negotiations in 1990, see René Schwok, "EC-EFTA Relations," in Leon Hurwitz & Christian

The EFTA states were especially keen on the common decision-making issue. They repeated many times the statement that they would never endorse the *acquis communautaire* without full participation in the decision-making process. For instance, on December 12, 1989, in a common declaration, they solemnly stated that:

The establishment of a genuine joint decision-making mechanism in substance and form is a basic prerequisite for the political acceptability and the legal effectiveness of an agreement, and would be justified by the envisaged scope thereof.¹¹

But the Community refused any institutional formula (co-decision) that could affect its autonomy of decision. Brussels has only accepted equal opportunities for input by EFTA experts in the preparation of EC proposals on new legislation on matters relevant to the EEA. The EC will only consult EFTA and give it continuous information in the decision-shaping phase. During this phase, EFTA will have the possibility of raising matters of concern at any moment and at any level. There is, however, one difficult condition: EFTA should not cause additional delays to the EC decision-making process.¹²

Decisions at the EEA level would be taken by consensus, the EFTA countries speaking with one voice, and have the character of public international law. The EFTA countries are not authorized to delay the implementation of the EEA rules. They will have to implement the EC

Lesquesne (eds.), *The State of the European Community: 1989-1990* (Boulder: Lynne Rienner Publishers, 1991), pp. 433-436. (Forthcoming).

11. "Meeting of the EFTA Council at Ministerial Level," Geneva, 11 & 12 December 1989, *EFTA Information*, point 6, p. 2.

12. *Joint Declaration, Ministerial Meeting between the European Community, its Member States and the Countries of the European Free Trade Association*, Brussels, 19 December 1990, pp. 3-6.

rules identified as EEA rules in such a manner that, for the sake of homogeneity, they will be effectively applicable at the same time throughout the EEA.¹³

There have been, moreover, difficult negotiations on the *opting-out* issue, i.e., on how to deal with the consequences arising if an agreement on new EEA rules cannot be reached. Berne tried unsuccessfully to get the right for an individual EFTA state (as distinct from EFTA as a whole) to opt out of any future EEA law it did not like.

Brussels also refused to allow an EEA court to displace the European Court of Justice as the supreme arbiter of all law within the EC. The chief rub has been over how such EC rules are interpreted in law. The compromise has been on the creation of an EEA panel which will be comprised of five judges from the European Court of Justice and three from EFTA countries (drawn from a pool of seven, one for each EFTA state).¹⁴ This panel will rule on disputes arising from EEA law and from competition cases within EFTA.

The EFTA states have also agreed to set up a competition body with the same powers to control trade-distorting state aids and company cartels the Commission has in the EC.

Impact of the End of the Cold War

The end of the Cold War played an important role in the evolution of the negotiations between the EC and EFTA. The withdrawal of Soviet

13. René Schwok, "EFTA in the 90s: Collapse or Revival?" in J. Redmond (ed.), *The External Relations of the European Community: The International Response to 1992* (London: Macmillan, 1991), pp. 13-14 of the manuscript. (Forthcoming).

14. *Joint Declaration. Ministerial Meeting between the European Community, its Member States and the Countries of the European Free Trade Association*, Brussels, 14 May 1991, pp. 7-8.

troops from Central and Eastern Europe led, among other things, to the absorption of East Germany into the Community. This led to an important change of Soviet and Community attitudes toward Austria. Moscow could not oppose Austria's membership in the EC anymore if it has already accepted that the GDR join it. At the same time, Austrian officials were repeating that their new interpretation of their neutrality allows a full participation in the European Political Cooperation. Austria even declared itself ready to deal with security and defense matters at a European Community level.¹⁵ Unlike Switzerland, Austria authorized the United States to use its territory for the transit of tanks necessary for the Gulf War. This indicates that Austria could act in a similar manner if the Community, in conjunction with the WEU, evolves as a defense alliance. At the same time, the Swedish government *discovered* that neutrality can be compatible with EC membership.¹⁶

One should nevertheless not exaggerate by arguing that the end of the Cold War explains Austria's application and Sweden's evolution. Most Austrian leaders were already ready to apply for EC membership in 1987. They formally sent their letter to Brussels in July 1989, i.e., before the collapse of the Berlin Wall (November 1989).

To be sure, the 1989 events partly explain the Austrian shift, but only partly. The "Gorbachev" factor is an important element for explaining Austrian timing of its move towards membership. In 1989, Gorbachev's authority was seen as fragile and, therefore, Austrian leaders hurried to apply for membership, hoping to relieve the country

15. "Der neue Integrationsbericht Österreichs im Wortlaut. 'Europa Sicherheit ist auch die unsere'," *Die Presse*, 12 September 1990.

16. Parliamentary Standing Committee on Foreign Affairs, *Sweden's Future European Cooperation* (Stockholm: Government Printing Office, 1990/91:UU8); 7 p.

Pierre Schori, "Neutralitet aldrig malet (Neutrality Never the Aim)," *Dagens Nyheter*, 13 January 1991.

of Soviet tutelage definitively. In other words, Austrian leaders accelerated their procedures not because they anticipated the end of the Cold War but because they feared that *détente* would not last.

As for Sweden, one should also avoid drawing wrong conclusions. The "end of the Cold War" played a role but should not be overstressed. To be sure, Sweden does not have to see itself anymore as playing a stabilizing role in the crucial area of northern Europe. But the Swedish government's shift of opinion was mainly the result of domestic economic factors. The years 1989/1990 have been characterized by high inflation, sluggish productivity, and rising unemployment. In 1989, for the first time, Swedish firms invested more capital abroad than at home.¹⁷ In 1990, Sweden's total outflow of foreign direct investment into the EC reached a rate of SKr46 billion (\$7.5 billion), more than ten times as much as five years previously. In 1991 Sweden looks set for a net fall in gross domestic product of around 0.6 per cent. Most troubling of all for Sweden is the prospect of unemployment, (only 1.5 percent until 1990). This is projected to rise to nearly 4 per cent in 1991 and as much as 5.5 per cent in 1992.

To sum up, it is mainly the fundamental contradictions of a third way between membership and marginalization which led Austria and Sweden to apply for EC membership. The end of the Cold War has certainly accelerated their shift of opinion but it did not constitute the main factor.

17. "Swedish Business. Close your Eyes and Count to Three," *The Economist*, 17 November 1990.

Robert Taylor, "Sweden Unable to Blame Saddam for its Economic Woes," *Financial Times*, 19 March 1991.

The EEA's Change of Nature

Austrian and Swedish applications for EC membership changed the nature of the EEA surreptitiously. As a matter of fact, from an alternative to membership as aimed by the EC and EFTA (except Austria), the EEA became the best way to prepare for it.

As soon as Sweden and Austria imagined themselves as members of the Community, they lost interest in negotiating strongly an alternative to membership. Moreover, most Norwegian, Finnish, and even Swiss diplomats acknowledge, off the record, that their own countries should apply for EC membership. In those conditions, it was very difficult for Switzerland, Iceland, and Norway to keep a strong position against the EC.

In the meantime, Austria and Sweden gave sufficient proofs of their goodwill by interpreting their neutrality as compatible with EC membership, therefore, the EC has no more reason to be afraid of the absorption of two neutral states.

Furthermore, most of the White Paper's directives have been adopted by the EC Council of Ministers, so the Community does not risk that its decision-making process would be delayed by the interference of the EFTA countries. All together, this explains why the Community was not interested anymore in setting a European Economic Area that would be a true alternative to EC membership.

Conclusions

The EEA turned in a direction opposed to the one previously envisaged by its initiators. A few paradoxes should be mentioned. The first concerns the EFTA states' policies toward the EEA. It is amazing to observe that the EFTA countries which were the most supportive of

the EEA concept (like Switzerland) have become the most reticent, whereas, reciprocally, the states which were the most cautious (like Austria) have become the most favorable. This stems from the fact that the European Economic Area is not any longer an obstacle to Austria's EC membership, but, on the contrary, a means of preparing for it, as around 90 per cent of the *acquis communautaire* will already be adopted thanks to the EEA. For countries like Switzerland, Finland, and Norway, however, the EEA has lost its value as a means of avoiding EC membership because the "EC diktat" forces those countries to take almost all the EC rules without true co-decision.

A second paradox concerns EC policy. The Community has indeed reached a result that is the inverse of its initial objective. Jacques Delors put forward the EEA scheme in order to avoid both an enlargement and a political neutralization of the Community. Ironically, the Commission position in the EEA negotiations has contributed to the Swedish decision to apply for membership, and is fueling in all EFTA countries a discussion on EC membership, as a way to escape satellization.

A third paradox should also be mentioned. The EC is becoming more attractive for neutral countries just as it presents itself as the European pillar of NATO. It is remarkable that states like Austria and Sweden, which kept repeating for 30 years that their neutrality is not compatible with EC membership, say now that there is no contradiction between their neutrality and EC membership. At the same time the Community has not been hiding, however, that its security and perhaps defence dimension will be closely linked to the WEU and NATO.

Final paradox: although the EEA could serve the EFTA countries only temporarily, it might nevertheless have a posthumous success by being extended to other European countries which cannot join the EC, like Poland, Hungary, and Czechoslovakia. Those states will certainly remain in the EC antechamber a long time. Then the EEA could be indeed

a compass for the future integration of those countries into the EC-led European integration system.

II EEA: a Compass for the Central European Countries

For a mixture of political, strategic, economic, and often mystical¹⁸ reasons, the Central European countries have expressed their strong desire to join the European Community.¹⁹ The EC is interested in stabilizing those countries.²⁰ The time is nevertheless not ripe for a fast absorption of those countries. The countries of Central Europe need to consolidate their commitment to a market-driven economic system. They are in no condition to withstand the shock of free market competition.²¹ Beyond their official speeches, the Central

18. "Eurobarometer," *European Affairs*, February-March 1991, p. 68.

An overwhelming majority of Hungarians (76%), Poles (72%) and Czechoslovaks (62%) surveyed want their countries to join the Community within five years. Only 2% answered never.

19. David Marsh, "Czech Leader Pleads for West to be Generous," *Financial Times*, 10 May 1991.

Nicholas Denton, "Hungary Goes West with a New Urgency," *Financial Times*, 2 May 1991.

Pmr. "Werben Walesas für 'Paneuropa'," *Neue Zürcher Zeitung*, 6 April 1991.

20. Commission of the European Communities, *Programme of the Commission for 1991* (Luxembourg/Brussels: Official Publications of the European Communities, 1991), point 32, p. 12.

21. Birgir Arnason, "Le cheminement vers une économie de marché et les préalables du libre-échange," *EFTA Bulletin*, 3/90, pp. 19-24.

UN Economic Commission for Europe, *Reforms in Foreign Economic Relations of Eastern Europe and the Soviet Union* (Geneva: Publication of the United Nations, 1991), 200 p.

Alfred Tovas and Sam Laird., *Whither Hungary and the European Communities?* (Washington, D.C.: International Economics Department, The World Bank, 1991), 48 p.

European leaders know very well that they will have to wait. Several years of deep reform and restructuring are clearly required first. It is therefore necessary to find intermediate solutions. This second part will analyze the different options.

The "European Agreements"

Although the first generation of agreements (signed with the Communist rulers) lift quantitative restrictions on exports from the Central European countries, they do not contain any element of tariff preference to facilitate their access to the EC market. Nor do they provide for statutory financial aid. The second generation of agreements (called *European agreements*) will be a totally new kind. These agreements will even go beyond the 1973 free-trade accords which the Community has forged with the individual countries of EFTA.

The *European agreements* consist of four essential elements: (1) free trade between the Central European countries and the EC; (2) industrial, technical and scientific cooperation; (3) financial assistance; and (4) a mechanism for political dialogue.

Prime focus will be on measures to facilitate technology transfer and direct foreign investment. Cooperation projects will cover areas such as professional training, the environment, the modernization of agriculture and agro-industries, the renovation of industrial structures, science and research, energy, mining, transport, tourism and other services, telecommunications, health and medical equipment, standards and norms.

During the negotiations, especially with Poland, there have been several elements of bickering.²² First, the EC did not want to commit

22. "EC/Poland: Refusing that a 'Silver Curtain' should replace an 'Iron Curtain'," *Europe Agency*, 3 April 1991.

itself on the issue of membership and considered those *European agreements* as an end in themselves. Under strong pressures from the Central European countries and from within the Community, the Commission has finally admitted that membership in the EC may figure at least in the preamble to the agreements as an ultimate though not automatic goal.²³

Second, difficulties emerged on the issue of the symmetry of the tariff dismantling. Usually, in this kind of agreements, the rich partner (here, the EC) dismantles its tariffs earlier than the poor partner (here, Central Europe) as goodwill gesture. But Poland has already one of the most liberal trade policies in Europe. Tariffs on more than 55 per cent of the country's tariff-lines are now zero, while tariffs on only 36.5 per cent of Poland's tariff-lines are more than 10 per cent. Therefore, Warsaw pressed the EC to accelerate the dismantling of its tariffs, especially for agriculture, textiles, coal, and steel, which are the main Polish exports.

Finally, northern EC members were successful in overruling Mediterranean objections to giving Eastern Europe more on textiles and steel. All textile tariffs will disappear over the ten-year transition period (despite complaints from Portugal and Greece), while steel import duties and quotas will go within five years (against Spain's wishes).

It is moreover good that the EC overruled Spain in promising extra concessions on farm exports. Central Europeans will be probably able to sell more fruit, vegetables, and pork.

To help the integration of Poland, Hungary and Czechoslovakia, the EC is also ready to allow regional *cumulation* in its rules of origin on the EFTA model. For example, a product exported from Hungary but using components from Poland or Czechoslovakia would not, by virtue of

23. Martin Wolf, "Beating on the EC Doors," *Financial Times*, 3 May 1991.

those components, be considered any less *Polish* or less eligible for duty-free entry into the EC.

The EEA: a Compass

According to the EC itself, the European Economic Area (EEA) should serve as a reference for the integration of the Central European countries. The European Economic Area provides the opportunity to fill up a theoretical as well as a practical vacuum. This exercise - whatever its final outcome - contributes to approaching more precisely and concretely the difficulties of an intermediate way between membership and marginalization.

First lesson, the Central European states should be aware that they will have to adopt the relevant *acquis communautaire*. As a consequence, they should follow a double approach. In a first step, every time they plan a new national legislation, they should make sure that it will not collide with the ones already adopted by the EC in the same sector. In a second step, those countries should make their legal order compatible with the one of the Community. Czechoslovakia has already announced that it would be manufacturing to West European norms and standards by the end of 1992.²⁴

Compatibility does not mean strict harmonization. It signifies only that the Central European countries should set up minimum general norms which fit the EC criteria for health, safety, and environment. From this point, the flexibility linked to the EC *new approach* will allow a mutual recognition of standards, tests, certifications and diplomas.

24. Commission of the European Communities, *The European Community and its Eastern Neighbours*, p. 11.

Observation of the EEA negotiations teaches that creating gaps with EC directives is illusion. Central European states' interest is to stare steadily at the Community. By adopting national norms (even on a provisional basis) not compatible with EC, they would take two main risks. First, they will impose on themselves costly discriminations. Second, they will crystallize their legal and bureaucratic systems, thus making more difficult adapting them in a few years.

An Organization for Central Europe?

To be sure, Poland, Czechoslovakia, and Hungary do not want to create a common organization only for themselves. It is no secret that historical distrust remains among the Central European countries. Those states would certainly prefer to negotiate bilaterally with the Community, hoping to get better deals this way than by negotiating within a common framework. For instance, it will be more advantageous for Czechoslovakia to integrate its agriculture in the CAP without involving the enormous Polish agriculture in the balance.

There is no doubt that a part of future Central European countries' arrangements with the Community will be bilateral as it is already the case in the so-called *European agreements*. One should also remember that the EFTA countries – besides their collective negotiations on the EEA – still deal at the same time bilaterally with the EC on such issues as transit, immigration, justice and police cooperation (extension of Schengen), foreign policy, and monetary policy.

We think nevertheless that Central European countries should develop a collective approach toward the Community. This will bring them on the whole more advantages than a individual policy. Several options are theoretically possible. We will analyze which combination could be the most appropriate.

Joining EFTA

The Central European countries could join EFTA.²⁵ They would benefit from the *EFTA acquis* as well from the *EEA acquis*. This solution appears advantageous because it grants Poland, Czechoslovakia, and Hungary almost all the advantages of EC membership without tackling the delicate questions of agriculture, foreign, and security policy.

Such an option is unfortunately unrealistic if the EEA is successful. The possible remaining EFTA members (Switzerland, Finland, Iceland, Liechtenstein, Norway?) will never accept speaking with one voice with the Central European countries each time they have a problem with Brussels. They will not tolerate letting their rules of competition be controlled and judged by an equivalent of the Commission dominated by Polish, Czechoslovakian, and Hungarian bureaucrats.

Paradoxically, Central European countries will join EFTA only if the EEA is a failure. According to such a hypothesis, EFTA will largely remain a consultative Secretariat as most of the relations between the EC and the remaining EFTA countries will continue to be dealt with on a bilateral basis on the model of the EC/EFTA 1973 agreements.

Strengthening the Organization for International Economic Cooperation (OIEC)

Strengthening the Organization for International Economic Coopera-

25. Peter S. Rashish, "A Club for East Europe to Join," *New York Times*, 20 February 1990.

Holger Schmieding, "The Efta Option for Eastern Europe," *Financial Times*, 2 September 1989.

tion (OIEC) (former Comecon) could be a second solution. The still loose consultative body would become the main organization for Central European countries. The first advantage of such an option is to avoid building additional barriers between former Comecon countries. Furthermore, no Eastern European country would be marginalized. This scheme also fits the external trade structures imposed by Soviet domination. Finally, there is an urgent need to re-balance the asymmetric trade between the Soviet Union and the Eastern European countries as the USSR continues to sell oil and gas to the Eastern European countries but has no hard currency left to import goods from them.

Disadvantages of such an OIEC option are nevertheless obvious. Most countries are still dominated in one way or in another by the communist party (*nomenklatura* and way of thinking). The OIEC not only includes the Soviet Union but also Mongolia, Vietnam, and Cuba. Moreover, there are still residual conflicts between the OIEC member states, for instance Hungary and Rumania. Above all, the Central European countries would have a margin of flexibility inversely proportional to the number of members of this organization.

A Permanent Secretariat Limited to Poland, Czechoslovakia and Hungary

A third solution could be the creation of a small permanent Secretariat for the three Central European countries. This would correspond to the trilateral cooperation envisaged by the leaders of the three countries at their summit in Visegrad in February 1991.²⁶

26. "Eastern Europe: Towards a Hungary/Czechoslovakia/Poland Free Trade Area," *Europe Agency* 8 April 1991.

This scheme is the logical consequence of the negotiations underway with the European Community and EFTA. It would be otherwise absurd that those countries agree to lift most of their trade barriers with 19 Western European countries (EC+EFTA) and not among themselves. Hungary already proposed bilateral agreements with Poland and Czechoslovakia, with the latter two countries concluding their own bilateral agreement.

Moreover, the Commission has put some *time-bombs* as the Central countries will already be considered by the EC as one area when calculating quantitative quotas and cumulation of origins in rules of origins.

Such a Secretariat would be very useful for coordinating and rationalizing the study of the directives already adopted by the Community. Take an example, if the Community accepts that Hungary join programmes of technological cooperation, it will be willing to grant the same access to Poland and Czechoslovakia at the same time. Brussels will not start negotiations on the same issue every six months. The Commission will demand that the Central European countries present their dossiers simultaneously in order to prepare agreements which will be broadly similar.

Beyond a Small Secretariat

It might also be possible to create an organization which goes beyond a small permanent Secretariat. This means speaking with one voice in Brussels, setting up supranational organs similar to the EC Commission, for example, to control rules of competition. This would be, in other words, a kind of reproduction of the strengthened EFTA as foreseen by the EEA treaty negotiations.

Such an organization could be however, bureaucratic, and unmanageable. It takes the risk that the countries' sovereignties and

margins of manoeuvre would be eroded without real trade-off, like full participation in the EC decision-making process.

The Swiss example in the EEA negotiations is interesting. Berne has been forced to follow its EFTA partners against its will. If it withdrew from the negotiations on the EEA treaty, it would take the risk of being marginalized not only from from the Community, but also from EFTA. A similar scenario could be repeated in the future, if, for instance, Poland will not be ready to follow Hungary and Czechoslovakia on some deals with the Community about agriculture.

Nevertheless, an organization which goes beyond a Secretariat should be an objective. First, it fits the Community's desire to avoid being confronted by the dilemma of having to patronize some Central European states at the expense of the others.

Second, such an organization would better rationalize the links with the Community than a skimpy Secretariat. One should be realistic: if the Community hires thousands of employees, there is no reason to believe that the Central European countries will not have similar needs. Finally, the main advantage of supranationality is to force the governments to take difficult decisions they otherwise would avoid because of strong internal protectionist pressures.

Affiliate membership

The concept of *affiliate membership* has been proposed to Central European countries in April 1991 by the EC Commissioner Frans Andriessen.²⁷ For Frans Andriessen, *affiliate membership* is "a special kind of membership which would enable affiliate members to contribute to policy formulation in areas considered to be common

27. Frans Andriessen, *Towards a Community of Twenty Four?* Brussels, 19 April 1991, 69th Plenary Assembly of Eurochambers, pp. 4-5. (Not published).

European interests."²⁸ The Central European countries could be "consulted" through enlarged sessions of the Council of Ministers. But this "affiliate membership" would concern a few sectors such as transport, telecommunications, energy, environment, research and culture.

This concept of *affiliate membership* involves nevertheless some disadvantages, among which are the following: it is only an intermediary solution, a foretaste of membership in limited sectors, nurturing frustrations vis-à-vis the *forbidden* others. On the Community side, there is the risk that its homogeneity would be jeopardized.

Affiliate membership is nevertheless a useful concept. First, it is already an important concession from the EC side, a gesture which has not yet been granted to the EFTA countries (although Andriessen's mention in his speech mentioned the *neutral states*).

Second, *affiliate membership* could be a very useful training method to familiarize the Eastern European countries with EC mechanisms. One can hope that they will use this partial membership in order to increase their influence on the EC from within.

Third, such arrangements would introduce a multilateral element into hitherto bilateral relationships. Finally, *affiliate membership* could boost the Central European governments' *prestige* vis-à-vis their public opinion if it is presented as a political success and the first step toward full EC membership.

28. Frans Andriessen, *Prosperity and Stability in a Wider Europe*, Dobris, 10 June 1991, The Atlantic CEO Institute, p. 6. (Not published).

Concentric Circles and Variable Geometry

The Community should not be afraid of the concept of *affiliate membership*²⁹ in particular, and of variable geometry in general. Opposing it in the name of the Community's homogeneity is more and more an unsustainable argument. Of course, the Commission's preferred scheme is a concentric circle vision of Europe's future. There exist at least ten different models.³⁰ According to one of the latest proposals,³¹ at the hub would be the present twelve member states of the EC, brought closer together by monetary unity and a common foreign policy; they would be surrounded by a first inner *economic* circle, comprising Austria, Switzerland, and the Nordic countries, all of which would belong to the EC internal market without formally belonging to the Community; then would come a second, *political*, circle reaching out to those countries that had completed their political transformation; a third circle would cover Europe's orphans, i.e., Yugoslavia and Albania; and, finally, the Soviet Union would be the fourth, outer, circle.

29. "EP/Eastern Europe: Criticisms by Several MEPS of Mr. Andriessen's Idea of Envisaging the Status of 'Affiliate Member'," *Agence Europe*, 25 April 1991.

30. Michael Mertes and Norbert J. Prill, "Der verhängnisvolle Irrtum eines Entweder-Oder," *Frankfurter Allgemeine Zeitung*, 19 July 1989.

Italian Presidency of Community Council, second half of 1990: *Objectives in Europe*, 26 June 1990, Document No 1629, p. 2

In this scheme, the fourth circle of the European architecture will be formed not only by the Soviet Union but also by the United States and Canada.

31. Bertrand de Largentaye, *The European Community, the Phare Program, and the East-West European Partnership*, An address to students from Harvard's J.F.K. Kennedy School of Government, Brussels, 26 March 1991, p. 11. (Not published).

To be sure, this concept of concentric circles is useful for introducing the issue of a third way. It is necessary because it gives the possibility of better explaining that the real question is how to integrate the Central European states around a dominant pole constituted by the EC. It is also interesting as a reminder that there can be different degrees of integration. Maybe the main contribution (cynicals would say) of this concept is to dissimulate behind a scientific veneer what should be more correctly called a satellization.

This notion of concentric circles should nevertheless not be assimilated to a theory. It explains neither the *why* nor the *how* of the crossings among the different circles. It is above all of no practical use for understanding why some states want to be in the core of the EC system (Austria), others joined it almost without noticing it (GDR), and a third category is very reluctant (Switzerland).³² The concept of concentric circles does not clear up the deep motivations of the EC core's countries either. Why do some countries want to promote more integration (Belgium) and others always try to slacken the pace (UK)?

Finally, the notion of concentric circles does not say what the practical nodalities for the integration of the non-EC countries are. But isn't it time now to go beyond generalities such as : "EC is a pole of attraction for its closest neighbors"; "one needs agreements of association," etc.

Nolens, volens, the EC is already going in the direction of variable geometry. Its security and defense dimension will be based upon a mixture of the European Council and the Western European Union (an alliance linked to NATO). Ireland, presumably Austria and Sweden, and

32. René Schwok, *Horizon 1992. Switzerland and the European Community* (New York: Praeger, 1991).

"EC-1992 and the Swiss National Identity," in Ezra Talmor (ed.), *Comparative History of European Nationalism: Europe Towards 1992*, (Oxford: Pergamon Press, 1991), 10 p. (Forthcoming).

even NATO countries like Denmark and Greece will be very reluctant to join it. Therefore, they will be able to opt out of defense matters.³³ This is a first example of variable geometry.

The same is true for the conference on monetary union, as it is admitting that steps 2 and 3 will not be passed simultaneously by all states (Greece, Portugal, UK). It is also clear that free movement of people across frontiers will be handled by a separate pact among a few EC states, around the six Schengen group of countries.

There is nothing reprehensible about some Europeans creating structures if they are not locked to the others. "A Europe of many spires offers a way to broaden the Community northwards and eastwards, and deepen it at the same time."³⁴ What is wrong with a truly federalist approach, respectful of the specificities of each state and nation?

Conclusions

In addition to the signing of the so-called *European agreements*, Central European countries should already envisage setting up a small Secretariat on the EFTA model. In a second stage, this Secretariat should be strengthened in order to fulfill more and more competencies. Due to the nationalistic susceptibilities of each Central European state, it will be difficult for this Secretariat to evolve as an organization with some elements of supranationality. Those hurdles should nevertheless not stop this Secretariat from being endowed with

33. "(...) The prospect of a role for the Union in *defence matters* should be considered, (...) without prejudice to the traditional positions of other member states."
European Council, Presidency Conclusions, Rome, 14-15 December 1990, (part 1), SN 424/1/90; p. 10.
(Emphasis, R.S.).

34. "Many-Spined Europe," *The Economist*, 18 May 1991.

competencies which go beyond the relatively easy job of administering the free-trade agreements. This Secretariat should be gradually strengthened and act as a *driving-belt* for monitoring the new directives adopted by the Community.

If the European Economic Area is a trustworthy compass, the Central European countries should already, make their legal order compatible with the one of the EC. Above all, they should avoid begin adopting legislations which do not fit the Community rules. Otherwise, they will pay a more important price later and could jeopardize their already limited chance to join the EC in the next fifteen years.

Should one impose on the Central European countries dispositions which would limit their temptations of marginalization? We would rather support the first option, in the interest not only of the Community but also of those countries. This satellization should nevertheless be tempered by a few escape doors like opting out clauses (collective or individual?) and safeguard clauses (sectoral or general?)

A form of full participation of the Central European countries in the shaping (not the making) of the Community rules should also be envisaged. If one asks those states to adopt *de facto* EC norms, they should at least get the right to express their point of view at an early stage of the EC decision mechanism. The exact formula should be looked at but the model foreseen in the negotiations on the EEA could be extended to the Central European countries.

The important issue of arbitration should also be studied. It would be a good idea to create panels by adding a few Central European judges to the European Court of Justice in Luxembourg on disputes arising from EC/Central European law and from competition cases within the Central European free-trade area.

Such a system of integration for the Central European countries is not incompatible with the adoption of the concept of *affiliate membership*. There is no reason that those countries should not fully

participate in some EC organs, *a fortiori* to the ones which do not jeopardize the Community's homogeneity. Such an option could be easily developed in programmes of technological cooperation, environment, and education. One should also look for a formula for associating the Central European countries with the European Monetary System.

There is, finally, another important other lesson which should be drawn from those negotiations on the EEA, i.e., that outcomes do not necessarily correspond to the original intentions of governments. The complexities, subtleties, and paradoxes of the negotiations on the European Economic Area will always serve as a reminder that Europe is diverse, contradictory, and finally elusive.

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