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Rudolf Hrbek*

The EC and the Changes in Central and Eastern Europe

Political developments in Central and Eastern Europe and the process of German unification present the EC with a major challenge. How has the EC reacted to these changes so far? What contribution can the EC make to overcoming the division of Europe?

The revolutionary changes in Central and Eastern Europe, characterised by the – in some cases sudden – removal of the political-ideological foundations of the previous order – Marxism/Leninism and the governmental monopoly of the Communist Party – have fundamentally changed the European continent.¹ With their acceptance of democracy and market economics these countries are bringing their political and economic systems in line with those of Western Europe. Their external political ties to the Soviet Union via the Warsaw Pact and the Council for Mutual Economic Aid (CMEA) have lost their previous significance; instead the Central and Eastern European countries – partly for the purpose of reinforcing internal changes – are orienting themselves resolutely toward Western Europe. Their efforts to develop a particularly close relationship with the EC, which they consider not only an economic sphere but also a political framework, are unmistakable.²

The EC was largely unprepared to meet this challenge which, once the political-ideological division of Europe has come to an end, involves the future architecture of the entire continent.³ At the core of the deliberations are questions which are closely connected to each other – what this new scenario means for the EC and its continuing process of integration, and how the relations of the European Community to the Central and Eastern European countries should be formulated. What, then, is the overall state of the EC and what stage has it reached in establishing its integrated community as it finds itself confronted with these questions?

Since the early 1980s, when the talk still was of a crisis in the EC and of “Euro-sclerosis”, the Community has

consolidated itself with changes and the supplementation of the EC treaties in accord with the Single European Act (SEA) of 1986, and finds itself heading towards further consolidation in a dynamic development process. In particular:

□ Even if the SEA has failed to live up to many of the far-reaching demands and expectations of the on-going reform debate, it does nevertheless represent a piece of progress towards integration.⁴ The EC member countries agreed that the internal market should be in place by the end of 1992. They pledged to direct their cooperation on economic and monetary policy towards the goal of convergence, which is also the precondition for a future Economic and Monetary Union (EMU). They extended the involvement of the Community to research and technological development, as well as to the environment. They also extended the terms of the Rome treaties in the area of social policy with statements of intent on improvements to the working environment in particular, and on increased dialogue between employers and trade unions. The member countries thus stressed that they wanted to give the social

¹ George Schöpflin: Das Ende des Kommunismus, in: Europa-Archiv, No. 2, 1990, pp. 51-60; Hans-Peter Schwarz: Auf dem Weg zum post-kommunistischen Europa, in: Europa-Archiv No. 11, 1989, pp. 319-330.

² According to Ferenc Bartha, president of the Hungarian National Bank, in an article in Handelsblatt of 3rd/4th April 1990: “Joining the EC will sooner or later be on the agenda for every Eastern European country.”

³ Special working groups have been formed in the EC Commission, led by the Commissioner responsible in each case, to examine such questions. The European Parliament organised a temporary committee for the examination of the effects of the process of unification of Germany on the EC.

⁴ On this, cf. Rudolf Hrbek: EC Reform Inch by Inch, in: INTERECONOMICS, No. 3, 1986, pp. 130-136; Werner Weidenfeld: Die Einheitliche Europäische Akte, in: Aussenpolitik, No. 4, 1986, pp. 375-383; as well as many articles in the special edition of Integration (No. 3, 1986) dedicated to the SEA.

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dimension proper attention in EC development. Under the banner of "economic and social cohesion" lies the intention of reforming the structural funds in order to redistribute resources to the benefit of the weaker member countries. European Political Cooperation (EPC) was given a contractual foundation and was linked with the European Communities. Finally, the SEA contains modest provisions for institutional reform: for most of the decisions regarding the completion of the internal market a qualified majority in the Council of Ministers is now sufficient; for these decisions the so-called cooperation procedure has been introduced, which gives the European Parliament a chance to exert greater influence;⁵ in future, all treaties on membership and association will need to receive the approval of the European Parliament.

□ In order for the Community to realise the reform and development package of the SEA, the EC Commission submitted a concrete package of measures which contained the following:⁶ a reform of the agricultural policy through a reduction of expenditure and surpluses, a consolidation of the financial system, and a thorough reform of the structural funds including an increase in their volume. The "Delors Package" was passed in the first half of 1988, during West Germany's presidency.⁷ This was also important in that it paved the way for further measures designed to complete the internal market.

Dynamic Development

□ Everyday life in the EC has been and will continue to be directly affected by efforts towards the completion of the internal market. Even if the deadline of realising a single economic sphere by the end of 1992 is most unlikely to be met, due to the inevitable differences of opinion about a number of extremely difficult problems (e.g. in the sensitive area of tax harmonisation) or connected with the need to adopt Community law in national legislation although there is insufficient time to complete the task, many of the planned measures have indeed now been passed and many of the affected parties in the member countries are preparing themselves for the new situations they will meet in the

internal market.⁸ Another indication of the fundamental changes connected with the internal market programme are the responses to this process of integration by third countries which, for instance, are attempting to increase their direct investments in the EC.

□ With the passage of the so-called "Delors Plan"⁹ the EC member states decided on a difficult and ambitious programme for the creation of an Economic and Monetary Union (EMU), thus adding a new dimension and quality to the monetary and political cooperation begun in 1978 with the European Monetary System (EMS). In mid-1990 the next phase on the way towards this goal will be introduced and the inter-governmental conference planned for the end of 1990 will concern itself with institutional prerequisites of the EMU.

□ The inter-governmental conference has even wider-ranging duties. The resolution passed by the European Council in December 1989 to summon the conference, as well as EC internal discussions since then, suggest there will be a comprehensive agenda: the contractual changes decided upon will probably not only involve further expanding the Community's functional scope but also various institutional reforms. The initiative launched by Kohl and Mitterrand just before the special summit in Dublin in April 1990, towards the establishment of a Political Union by 1993, suggests a further item for the agenda.¹⁰ Even if the meaning of the term "Political Union" remains vague – the foreign ministers of the member states have been detailed to develop ideas on the concrete form this could take by the next summit in June 1990 – the initiative is a clear indication of the stronger political dynamics of the integration process resulting largely from the recent events in Central and Eastern Europe.

□ Finally, the Community has received new requests for membership; Austria, Norway, Malta, Cyprus and Turkey have either signalled their interest or submitted applications to initiate entry negotiations. The EC has made it clear that, for the time being, it is giving priority to the deepening of the Community, i.e. the completion of the internal market and establishment of the EMU, and that accession talks cannot begin before 1993 at the

⁵ On this, cf. remarks by Hans-Joachim Glaesner: *Das Verfahren der Zusammenarbeit* (Art. 149, Abs. 2 EWGV), in: *Europa-Recht*, No. 2, 1988, pp. 122-128; see also Werner Ungerer: *Die neuen Verfahren nach der Einheitlichen Europäischen Akte: Eine Bilanz aus der Ratsperspektive*, in: *Integration*, No. 3, 1989, pp. 95-106.

⁶ On this, cf. Rudolf Hrbek: *The Arduous Beginnings of EC Reform*, in: *INTERECONOMICS*, No. 6, 1987, pp. 273-281.

⁷ Cf. Claus-Dieter Ehlermann: *Die Beschlüsse des Brüsseler Sondergipfels: Erfolg einer Gesamtstrategie der Delors-Kommission*, in: *Integration*, No. 2, 1988, pp. 56-63.

⁸ As an example of this, cf. the research report on "Anpassungsstrategien von Unternehmen und öffentlichen Verwaltungen an '1992'", in: *Integration* No. 2, 1989, pp. 83-87.

⁹ On this, cf. Norbert Klöten: *Der „Delors-Bericht“*, in: *Europa-Archiv*, No. 9, 1989, pp. 251-260; see also Wolfgang Harbrecht: *Wege zur Errichtung einer Europäischen Zentralbank: Zum Delors-Bericht*, in: *Integration*, No. 4, 1989, pp. 162-173.

¹⁰ Cf. the overview "Deutschland und Politische Union. Themen des Europäischen Rats", in: *Frankfurter Allgemeine Zeitung* of 27th April 1990, p. 6.

earliest. Under the new slogan of the "European Economic Space" (EES), the possibilities are being discussed for the creation of a single economic zone which would extend beyond the EC internal market and would in particular include the EFTA countries.¹¹ Switzerland, for example, has shown great interest. With the new orientation of Central and Eastern European countries to the EC this aspect of the European unification process takes on additional significance.

These brief remarks offer a picture of a Community which has made progress in its areas of responsibility as well as in its system of decision-making, and whose developmental élan is obviously unbroken, particularly if one looks at the far-reaching, ambitious plans for the coming years. This is the overall condition of the EC as it meets the new challenge posed by the events in Central and Eastern Europe. Our discussion of the problems involved distinguishes between the GDR and the remaining states of Central and Eastern Europe because, since the elections in the GDR in March 1990, it has become clear once and for all that questions regarding the GDR do not involve association or membership status in the EC for that country as a separate entity, but rather concern the problems which will arise in the EC as a result of the unification of the two Germanies.

Historical Background

Relations between the EC and the communist Eastern Bloc were determined at the outset by the doctrinaire condemnation of all attempts at integration.¹² The Western European integration projects of the early 1950s were criticised without exception as instruments of aggressive American capitalism and its European lackeys – and the criticism was directed primarily at Western Germany. Successful steps towards integration were interpreted as preparations for a war against the socialist camp, while every failure was seen as evidence in support of the theory of the irreconcilable contradictions of capitalism. In the first official Soviet Communist Party opinion paper, issued in January 1957 by the Institute for World Economics and International Relations in Moscow, and encompassing "17 Theses on the Common Market", the EEC was described as a reactionary undertaking whose chief function was to

serve as the economic foundation for the NATO military machine. This assessment was rounded out by the prognosis that any attempts at Western European integration were ultimately doomed to failure because of the contradictions within the capitalist camp.

Five years later these sentiments were already being modified. In 32 theses on the Common Market, its remarkable viability and swift economic growth were acknowledged in August 1962. However, the appearance of new contradictions was also posited. Showing their "Euro-communist" profile as on other occasions, the Italian communists were at least partially responsible for these revised and altogether more realistic views.¹³

In the spirit of détente, with which was connected mutual recognition of the status quo, i.e. of the realities in Europe, there followed attempts by the Soviet Union to put its relationship with the EC on a new basis. A remark by Brezhnev in 1972 on the realities of Europe was seen as "recognition" of the EC. In Moscow, policies were directed towards a normalisation of relations between the CMEA and the EC. With the CMEA, which was founded in 1949, the Soviet Union primarily pursued the goal of binding its Central and Eastern European partners to itself economically. At the end of 1973, the first official contacts began between the EC and the CMEA, although for a long time nothing came of these contacts due to deep-seated differences.

□ While the CMEA strove for a somewhat comprehensive basic agreement with the EC, the EC rejected this with the reasoning that the CMEA lacked the supranational character necessary for such an agreement.

□ The EC wanted only to conclude a general framework agreement with the CMEA and preferred to work out concrete arrangements regarding trade and economic cooperation separately with individual CMEA countries, thereby addressing the conditions specific to the country in each case. This was an attempt to strengthen the economic and political independence of the smaller Central and Eastern European countries in relation to the Soviet Union.

□ The controversial question of the inclusion of West Berlin in any contractual arrangements between the EC and the CMEA presented a further impediment.

¹¹ On this, cf. "Die EG als europäisches Gravitationszentrum; heikle Strategieprobleme für die EFTA-Länder", in: *Neue Zürcher Zeitung* of 21st/22nd January 1990 (overseas edition, No. 16), pp. 13/14.

¹² On this complex, cf. Gerda Zellentin: *Die Kommunisten und die Einigung Europas*, Frankfurt/Bonn 1964; Rolf Sannwald: *Die Sowjetunion und die westeuropäische Integrationspolitik*, in: Erik Boettcher (ed.): *Ostblock, EWG und Entwicklungsländer*, Stuttgart 1964, pp. 80-114; see also Eberhard Schulz: *Moskau und die Europäische Integration*, Munich/Vienna 1975, especially pp. 72-128.

¹³ Cf. Rudolf Hrbek: *Euro-Kommunismus und EG. Einstellung und Politik euro-kommunistischer Parteien zur europäischen Integration*, in: Hans-Georg Wehling, Peter Pawelka (eds.): *Euro-Kommunismus und die Zukunft des Westens*, Heidelberg/Hamburg 1979, pp. 167-195.

Political Change

A mitigation of these differences of opinion was first apparent in the middle of the 1980s following Mikhail Gorbachev's rise to political power in the Soviet Union. To be sure, it was the growing interest of the Soviet Union in better and more extensive economic relations with the members of the EC – a consequence of the critically worsening economic difficulties – as well as the lobbying by the smaller CMEA countries which was responsible for the new, accommodating attitude of the CMEA, that is to say of the Soviet Union.

In June 1988 "The Joint Declaration on the Establishment of Official Relations between the EC and the CMEA" was signed.¹⁴ The agreement took account of the interests and demands of the EC; the integration of West Berlin into the jurisdiction of the EC treaties was explicitly recognised. The agreement laid the foundations for bilateral agreements between the EC and individual CMEA member countries on trade and economic cooperation.¹⁵

□ The agreements with Hungary in September 1988 and with Poland one year later aimed to expand mutual trade and economic cooperation. With regard to trade, a step-by-step dismantling of quantitative restrictions was agreed upon; and while the year 1995 was targeted for

the completion of this task, the EC actually dismantled such trade restrictions at the beginning of 1990. The integration of Hungary and Poland into the EC's system of generalized tariff preferences grants a number of these countries' products tariff reductions which normally are given only to developing countries. Included under economic cooperation are energy, environmental protection, financial services, occupational and management training, and statistics. An extension to other areas is both possible and planned.

□ In April 1989 an agreement on facilitating trade in industrial products was made with Czechoslovakia. In view of the far-reaching changes in this country an agreement similar to those made with Hungary and Poland is under preparation.

□ In December 1989 an agreement modelled on those with Hungary and Poland was concluded with the Soviet Union for trade and economic cooperation. The target date for completing the dismantling of quotas remains

¹⁴ Published in EC Official Journal, No. L 157/35 of 24th June 1988.

¹⁵ On the following, cf. Horst G. Krenzler: Die Europäische Gemeinschaft und der Wandel in Mittel- und Osteuropa, in: Europa-Archiv, No. 3, 1990, pp. 89-96; see also Christian Meier: Ost/West-Verträge: Gestern unterschrieben, heute überholt, in: EG Magazin, No. 1/2, 1990, pp. 11-14.

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Hans Günther Oberlack

HANDELSHEMMNISSE DURCH PRODUKTSTANDARDS

Ökonomische Aspekte ihrer Beseitigung

Large octavo,
261 pages, 1990,
price paperbound, DM 59,-
ISBN 3-87895-384-4

The varying product regulations represent a considerable impediment to the completion of the European Internal Market. The discussion on the removal of these trade barriers has until now largely dealt with the legal and technical aspects. This study develops criteria for the economic assessment of various possible trade regimes. The question which lies behind this is, whether the demands which have often been raised that the regulations offering the highest level of protection should be introduced throughout the Community have any economic justification, or whether the mutual recognition of the different national rules would perhaps be the best way of removing barriers due to varying standards. (Only available in German.)

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1995. Cooperation also covers the peaceful use of nuclear energy and thus the EURATOM treaty.

□ In February 1989 talks were begun with Bulgaria. These were largely unsuccessful to begin with, but are soon expected to yield results in light of the recent political changes there.

□ The EC had already concluded a trade agreement with Romania in 1980 – Romania did not want to follow Moscow's policies – but the Community suspended the extension of this initial agreement in 1989, citing the serious human rights violations by the regime in Bucharest as the reason for doing so.

Association Offers

Along with these bilateral activities of the EC, the western industrialised countries of the OECD decided in mid-1989 to support materially the process of economic and political change in Hungary and Poland. The commitment of the Group of 24 (G-24) extends to five essential areas: food aid for Poland; easing of market entry for Poland and Hungary; support for professional training; investment promotion; cooperation in the area of environmental protection. The financial commitment made by the EC in the 1990 budget amounts to ECU 300 million. With instructions to the EC Commission to coordinate the aid provided by the G-24, the EC has taken on an additional important function in this area.

The political substance of these multilateral activities was demonstrated in December 1989 on the occasion of a ministerial meeting of the G-24 in Brussels. The foreign ministers of Hungary and Poland reported on the situation of the reform processes in their respective countries. The conference then decided on two new initiatives. The first was to make available a special stabilisation fund for Poland totalling \$ 1 billion. In the second, the G-24 countries expressed their readiness to extend the economic aid programmes planned for Poland and Hungary to other Central and Eastern European countries if the necessary reforms were begun and initial results were positive in these countries too.

In the spirit of the latter pronouncements, the European Council, too, had declared its intention in Strasbourg on 8th and 9th December 1989 to examine the question of an association with those countries in Central and Eastern Europe which successfully and

purposefully followed their chosen path of thorough economic and political reform. On the strength of this, at the beginning of February 1990 the EC Commission presented a proposal whereby the EC should offer these reform countries the closest political and economic relations possible outside of formal membership. The foreign ministers of the twelve EC countries approved this association offer.

The significance of this step can only be appreciated if one realises that such an offer of comprehensive relations just short of full membership has never been made to countries such as Norway, Sweden, Austria and Switzerland. In other words: from the latter countries' view the EC initiative is formulated in such a way that in their attempts to establish more intensive relations with the EC they have been overtaken by the Central and Eastern European countries. The EC offer leaves open the matter of whether an associate relationship can lead to full membership. In the medium and long term the Community appears to be ready to increase its membership once again.

Differentiated Proceedings

The EC Commission presented two documents to the special summit in Dublin in April 1990. One concerned the development of relations between the EC and Central and Eastern European reform countries.¹⁶ In this document the relations both to the GDR and to the Soviet Union were described as special cases. Reasons cited for treating the Soviet Union specially were the massive scale of the Soviet economy and the unique aspects of the reform process in that country. In addition to trade and cooperative agreements the intention was to encourage the Soviet Union to take on a larger role in the world economic system.

As far as Central and Eastern European countries are concerned, those trade and cooperative agreements which have already been signed or are due to be completed shortly were described as the first step towards normalisation. The document stresses that these countries see the intensification of relations with the EC as a means of re-establishing their European bonds after the artificial separation of the past several decades. The evident aspirations of these countries to be included in the process of building a large European economic sphere are noted favourably in the document. The EC sees two possibilities for supporting this integration process:

□ Multilaterally, within the framework of the G-24, whose work is coordinated through the EC Commission. In addition, in February 1990 it was decided to extend

¹⁶ At the time this article was being written only the rough draft of this document was available.

¹⁷ On this, cf. Peter M. Schmidhuber: EG-Haushalt: Luft für Osteuropa?, in: EG-Magazin, No. 4, 1990, pp. 12 and 13.

measures to the GDR, Czechoslovakia, Yugoslavia, Bulgaria and Romania. A proposal for a detailed plan of action by the EC has been announced for June 1990.

□ Bilaterally, the continuance on the already adopted path of entering into trade and cooperative agreements, along which the next step could and should be a series of association agreements.

These bilateral agreements are undoubtedly the main focus of attention in the EC. The document explicitly lays down political preconditions for the transition to association status, namely, decisive steps towards the creation of democratic and market-oriented systems. This includes the constitutional rule of law, the upholding of human rights, the creation of a multi-party system, free and secret elections, and economic liberalisation towards a market economy.

In comparison to trade and cooperative agreements, the enhanced quality of an association relationship is seen by the EC in the following points:

□ An institutional framework for intensive political dialogue is inherent in such agreements. Along with an Association Council as a governmental advisory and decision-making body, institutionalised cooperation between the European Parliament and the freely

elected parliaments of the associated countries is explicitly called for.

□ The main economic feature of such an agreement is the free flow of goods, not merely the dismantling of specific quotas.

□ The document speaks explicitly of the more ambitious goal, beyond that of the free flow of goods, of considering the free movement of labour and of services and capital, and of determining whether economic laws in the associated countries can be harmonised with those of the EC.

□ In addition to naming a large number of specific areas relating to economic cooperation, the realisation of joint projects is outlined and called for in certain areas such as transport and telecommunications.

□ Within the framework of an association relationship, it is intended that programmes for cultural cooperation should continue to be worked out. Here the document mentions the common cultural heritage and the goal of realising a pan-European cultural identity.

□ Finally the association relationship includes financial cooperation. For 1990-1992, the EC Commission has apportioned the sum of ECU 2 billion. While this

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Hans-Hagen Härtel u.a.

**ENTWICKLUNGSLINIEN IM
INTERNATIONALEN STRUKTURWANDEL**

**Spezialuntersuchung im Rahmen der
HWWA-Strukturberichterstattung 1991**

In what direction and with what speed does structural change take place in a highly developed economy which is strongly integrated into the international division of labour such as that of the Federal Republic of Germany? What is the pattern of structural change in other industrial countries? What evidence is there to back up the opinion that "structural" causes are mainly responsible for misdevelopments such as high unemployment and the slowing-down of productivity growth? Answers are given to these questions in the latest special analysis produced by the HWWA-Institute within the framework of its "Structural Report" to the Federal Ministry of Economics, Bonn. (Only available in German.)

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proposal satisfies the Council, the European Parliament is demanding an increased amount.¹⁷

This overview shows the will of the EC, as it broadens and deepens its relationships with Central and Eastern European countries, to invest politically as well as economically and to link these countries as far as possible with the EC integration process.

German Unification

The second major problem area relates to the consequences of German unification for the EC and is connected to the question of how much the EC can financially afford to support the unification process. After the opening of the Berlin Wall on 9th November 1989 and the total collapse of the communist party (i.e. SED) leadership it was clear to everyone that the two Germanies would swiftly grow together. The prospect of German unification prompted some considerable confusion on the part of West Germany's EC partners, since no one was prepared for this completely new turn of events.¹⁸ The uncertainty as to what these developments entailed was articulated by Bonn's partners in a long list of concerns.

□ There is some concern that German involvement in the EC will dwindle if the national goal of German (re-)unification supersedes commitment to the EC. Such considerations are an expression of the ever-present, fundamental doubt regarding the reliability and predictability of German policy and the permanence of German ties to the West. Even if the Germans themselves consider these concerns and reservations unfounded, they should still be taken seriously and such fears should be constructively allayed. Two reactions are important in this context. Firstly, the policies of the Federal Republic must be seriously and convincingly involved in deepening EC integration; that is, it must push for the completion of the internal market and the creation of the EMU, and must make clear during preparations for the inter-governmental conference that Bonn desires substantial progress towards integration. Secondly, it is important that German policy should properly bring out the European dimensions of German unification. It is the task of the Germans to clarify that unification does not involve incorporation of the GDR into a German nation state, but rather involves the incorporation of the GDR into a European framework to

which the Federal Republic feels irrevocably bound, with German laws being penetrated and replaced to an increasing extent by Community law.

□ A second fear is that the German financial contribution to the EC will diminish because of the particularly strong demands made upon it by the adjustment processes occurring in the GDR. This argument can be met, however, by citing the generally healthy state of the West German economy, which leads one to expect that the costs of unification can be borne without a reduction in German contributions to the EC. It is also important to point out that the revitalisation of the GDR within the framework of the EC internal market will offer other EC countries increased opportunities as well. And finally, if the expectations of positive results from German unification and the changes in the GDR are fulfilled, then the productive capacity of a strengthened Germany should also come to benefit the EC within only a few years. However, in order to fruitfully and permanently allay the fears regarding German solidarity with the Community, Germany will have to demonstrate this in its day-to-day dealings in a great variety of individual areas.

□ The third concern is that Germany will be a more dominant EC partner as a result of unification.¹⁹ This fear relates to the almost unavoidable structural problem of a community which is composed of unequal members. The problem of German dominance in the EC was already apparent in the past, quite aside from the current question of German unification. The most effective means of meeting this objection is through substantial reform of the EC decision-making processes. If, for example, majority decisions in the Council were the rule and the European Parliament gained more powers, then the member countries would have much less individual clout. In addition, any further expansion of the EC would automatically dilute the weight of each individual member. And finally, it should be mentioned that mutual respect on the part of EC member countries is a universally accepted maxim, that the members jointly bow to the principle of sustaining concordance and always have regard to the acceptability of decisions, possibly as part of a larger package. These features are no small part of the reason why the EC is attractive as an organisational framework to the Central and Eastern European countries.

□ Another fear relates to the possible negative consequences of German monetary union for the macroeconomic development of individual EC countries and of the EC as a whole. The fears concern inflation, higher interest rates and the shorter supply of credit, but

¹⁸ Cf. for example Robert Picht: *Deutsch-französische Beziehungen nach dem Fall der Mauer: Angst vor „Großdeutschland“?*, in: *Integration*, No. 2, 1990, pp. 47-58.

¹⁹ On this, cf. the article "Macht Einigkeit zu stark? Die europäischen Partner fürchten den deutschen Wirtschaftsriesen", in: *Die Zeit* of 30th March 1990, p. 23.

also the redirection of capital flows.²⁰ We shall have to wait until the German monetary union is in practical operation to see whether these fears are well founded. All the EC countries have come to agree with the political necessity of starting with the monetary union rather than leaving it to be the crowning touch in the process of economic union.²¹ The likelihood cannot be dismissed that otherwise considerable migration to the FRG from the GDR would occur, with negative consequences of its own.

□ Apart from the difficulties and concerns cited above, an attempt was made early on to form a detailed picture of the problems which unification of the two Germanies would entail for the EC. Along with the working groups at the EC Commission, the newly created committee of the European Parliament should also be mentioned.²²

Of considerable importance to the solution of the problem that German unification poses for the EC was the communiqué issued by the European Council of 8th-9th December 1989, which stated: "We seek the strengthening of the state of peace in Europe in which the German people will regain its unity through free self-determination. This process should take place peacefully and democratically, in full respect of the relevant agreements and treaties and of all the principles defined by the Helsinki Final Act, in a context of dialogue and East-West cooperation. It also has to be placed in the perspective of European integration."²³ With that, the eleven other EC members approved German unification and at the same time linked it inseparably to the EC integration process.

Adjustment Problems

After this basic decision, solutions for the practical adjustment problems which the EC will face as a consequence of German unification became the concern. Efforts by the Federal Republic to inform its EC partners and the EC institutions thoroughly about all aspects of the forthcoming German unification, and to discuss with them the problems arising for the EC, definitely contributed to the fact that the proposal

²⁰ Such concerns have been voiced in political and financial circles in several EC countries.

²¹ This solution, which is in accordance with economic rationality, had for example also been recommended by the expert council on macroeconomic development ("Sachverständigenrat") in a special report at the beginning of 1990.

²² On this, cf. the very useful description presented in an Initial Working Document by Mr. Donnelly, a British member of the temporary EC committee, of 7th March 1990 regarding the possible problems which may occur for the EC as a result of the unification of Germany (PE 139.413).

²³ Reprinted in: Agence Europe, No. 5150, p. 9.

formulated by the EC Commission regarding how the GDR should be brought into the EC, was approved without further discussion at the special summit in Dublin at the end of April 1990.²⁴ It is the premise of this concept that a united Germany, too, would be a reliable and loyal EC partner.²⁵ In order to guarantee this, a number of problems and details must be satisfactorily resolved. It is a further premise that the incorporation of the GDR into the EC via German unification is no formal accession to the EC but that the problems confronted in this process are similar to those connected with the admission of a new member country.

For that reason, the EC Commission envisages the incorporation of the GDR into the EC in three stages: the interim phase, which begins with the treaty on the German monetary, economic and social union; the transitional phase, which goes into effect after the formal unification of the two Germanies; and finally the third phase in which Community laws are applied in full. It is the undeniable desire of the EC that the unification process be in accord with Community law as far as possible from the very start. In particular:

□ Starting in the interim phase, Community law should be applied as much as possible. Explicitly mentioned are the provision of state aid for restructuring the economy in the GDR, the question of distortion of competition, especially through the possible formation of monopolies, and the financial and general economic repercussions of the German monetary union.²⁶ The EC favours the direct adoption of the Federal Republic's legislation in the GDR, because this already conforms to EC law. Where that is not possible, the right conditions must be created to allow EC law to come into effect after unification has been completed.

□ For the transitional phase the EC document sees a number of the same problems arising as would occur with the entry of a new member into the EC. It is the general goal of the EC that in this phase only the fewest and smallest possible exemptions and transitional arrangements be necessary. It will be a matter of negotiating specific cases to see whether the conditions of the EC internal market can apply in their entirety in the GDR. A second problem relates to the obligations of the

²⁴ The EC-Commissioner Martin Bangemann expresses a similar opinion in an article in *Handelsblatt* of 27th/28th April 1990, p. 13.

²⁵ This Commission document was also available only in rough draft form at the time of writing; cf. the very informative articles in various periodicals, for example *Neue Zürcher Zeitung* of 21st April 1990, p. 19., or *Handelsblatt* of 27th/28th April 1990, p. 13.

²⁶ Whether Community laws are – from a legal point of view – completely applicable during this phase can by all means be interpreted differently, thus giving rise to areas of conflict.

GDR to its previous CMEA partners; it will vary from case to case as to which of these obligations can be assumed. In this one must carefully evaluate what benefits the EC can derive from the GDR's Eastern relationships.

□ Particular attention in this phase is given to the preservation of the market competition rules of the EC. The industry of West Germany alone should not be allowed to control the production facilities of the GDR. And for that reason the EC laws on the monitoring of state aid and on merger control should be applied to their full extent.

□ The statements which have been made on the financial implications of the incorporation of the GDR into the EC may surprise many people.²⁷ To be sure, the GDR should partake fully and completely in the structural funds, but nevertheless, strictly according to EC regulations. Here the document classifies the GDR simply as a region with industries in decline and a weak agricultural structure, which means that the lion's share of the regional fund will not be available to the GDR. It is generally insisted upon that any increased financial needs arising from the incorporation of the GDR should not be borne at the cost of other EC member countries; this points to the necessity of working out a new financial system.

All problems are certainly not solved with the approval of the idea of incorporating the GDR into the EC in stages; only guidelines are laid down. On the whole it will be a difficult matter and will often require controversial negotiations to satisfy all parties involved, or at least to solve the individual problems to an acceptable degree. Certainly the loyalty of the Federal Republic to the EC, which is an important principle in the EC system, will be tested repeatedly.

Consequences

The consequences for the EC of German unification and the intensification of relationships with the Central and Eastern European countries can now be summarised.²⁸ On the one hand these are problems, but they are also possible stimuli to the integration process.

□ One of the problems is that a strengthened commitment of the EC in Central and Eastern Europe

might be accompanied by a reduction of its commitment in the Mediterranean and developing countries. These countries have already voiced their concerns and interests; the EC must respond appropriately. The involvement of the EC in Central and Eastern Europe constitutes a shift of the EC centre of gravity, which could also lead to economic disadvantages for a number of peripheral countries in the EC. The position of Germany takes on additional weight and importance.²⁹ The result is not only fear of possible German dominance or even hegemony, but also a return to thinking in terms of the balance of power, which many had thought were now a thing of the past. A further problem could develop if Germany makes any demands in connection with EC institutional reform that the country should be allowed more votes in the Council or a greater number of seats in the European Parliament to reflect its increased importance. With an eye to the typical features of the EC decision-making process, a cautious approach on Germany's part is not only fitting but also quite tenable. At any event, though, the EC now faces negotiations regarding a new, viable financial system which experience shows are likely to be difficult.

□ The changes in Central and Eastern Europe and the corresponding commitment of the EC can also act as a spur to the EC integration process. Energetic steps towards deepening the EC are now to the good, in order to ensure the lasting incorporation of Germany, in order for the EC to enhance its scope for positive action relative to the USA and the USSR, and not least, to meet the demands which the Central and Eastern European sphere has imposed on the Community. Furthermore, at a time in which the military component of power is clearly being reduced, the EC can become more significant with its political and economic potential. As coordinator of the G-24 the EC Commission can increase its importance and prestige; the European Parliament has participatory rights when the finalisation of association agreements is on the agenda.

In the light of these considerations, the inter-governmental conference planned for the end of 1990, from which important signals and decisions are expected, is of inestimable significance. The developments in Central and Eastern Europe simultaneously offer the EC a great challenge and also great opportunities. In order to meet this challenge and to use such opportunities effectively the deepening of the EC is indispensable.

²⁷ Bernard Friedmann, the German member on the European Court of Auditors' board of governors, painted a generally favourable picture of the amount of EC funds likely to flow into the GDR in future when interviewed in *Handelsblatt* of 21st March 1990.

²⁸ A round-table discussion was held on these questions on 9th/10th March 1990 at the Institute for European Politics in Bonn. A paper by Wolfgang Wessels entitled "Zur europapolitischen Lage und Strategie Anfang 1990" was among those discussed.

²⁹ Cf. William Wallace: Deutschlands zentrale Rolle: Ein Versuch, die europäische Frage neu zu definieren, in: *Integration*, No. 1, 1990, pp. 13-20.