



Why the New Transatlantic Agenda Should, But Won't, Be Reformed

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Theme: The New Transatlantic Agenda (NTA) was established in 1995 with the aim of reducing transatlantic tensions. Ten years later, the number of US-European disputes has multiplied and transatlantic relations are at their worst since 1945

Summary: Following the creation of the European Union in November 1993, the New Transatlantic Agenda (NTA) was launched at the December 1995 EU-US Summit in Madrid in order to establish the basic structural link between Washington and Brussels. Together with the 1998 Transatlantic Economic Partnership (TEP), the NTA provides a vast and complex institutional framework at the senior level for managing transatlantic differences. In fact, the NTA has played a key role in moderating the ebb and flow of transatlantic tensions, especially those involving economics and trade. But the most acrimonious transatlantic disputes involve high politics issues such as the use of force and questions about world order. Paradoxically, these issues also cause the most intra-European dissent. The consequent inability of the EU to speak with one voice on foreign policy has rendered the NTA process unsuitable for addressing the main challenges facing the transatlantic relationship. Indeed, as long as there remain uncertainties about the future of the European constitution and thus the further course of European integration, there will be a lack of transatlantic political consensus over how to reform the NTA. This implies that the main role of the NTA for the foreseeable future will continue to be what it has been during the past decade: to prevent the outbreak of a transatlantic trade war.

Analysis: *Creating the NTA*

It is wrong to believe that transatlantic tensions started when George W. Bush took over the White House in January 2001. In fact, the history of US-European relations since the end of World War II has been the history of difference. The Suez Crisis in 1956 drove a wedge between NATO allies and the Vietnam War provoked heated transatlantic debates during much of the following decade. In 1965, General de Gaulle proclaimed that the 'United States is the greatest danger in the world today to peace', and in 1966 France withdrew from NATO's military structure. In September 1971 the *New York Times* published an article titled 'Why Europe is Shocked' which discussed European frustration with the Nixon administration's dollar policies. During the 1980s, there were bitter transatlantic disagreements regarding Pershing missiles, Willy Brandt's *Ostpolitik* and US President Ronald Reagan's depiction of the Soviet Union as an 'evil empire'. Then, with the Soviet collapse, Europe suddenly lost its geopolitical weight on American scales. Thus, the post-Cold War period has been dominated by transatlantic tension as the US and Europe struggle to recast their relations in the absence of the Soviet threat.

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Both Presidents George H.W. Bush and Bill Clinton were keen to provide some institutional structure to US relations with Brussels. In December 1989, Secretary of State James Baker proposed 'that the United States and the European Community work together to achieve, whether in treaty or some other form, a significantly strengthened set of consultative and institutional links. Working from shared ideals and common values, we face a set of mutual challenges –in economics, foreign policy, the environment, science, and a host of other fields–. So it makes sense for us to seek to fashion our responses together as a matter of common cause.'

One year later, in November 1990, the Transatlantic Declaration committed the US and Europe to regular political consultations at all levels. The meetings were to take place in a bilateral (US administration and European Commission) format. In addition, the Declaration also formalised exchanges between the European Parliament and the US Congress. For the White House, the meetings were intended to exert influence on the developing European foreign policy, in an effort to ensure that the EC did not set an independent path away from the established transatlantic consensus. For Brussels, the Transatlantic Declaration was about gaining recognition and respect as an international actor.

Just six months after the Transatlantic Declaration was signed, however, Yugoslavia began to collapse. Despite mounting frustration in Europe, the Bush administration refused to engage America in the Balkans. Indeed, the US explicitly asked Europe to take primary responsibility for the crisis in Bosnia. Baker, who defined the US national interest in classically narrow terms of secure borders and material survival, in 1991 said: 'We have no dogs in this fight'. Clinton, who came into office in January 1993, continued this non-engagement policy for another two years until September 1994, when the US finally intervened militarily to secure the Dayton agreement (and then again in 1999 to resolve the Kosovo crisis). By this time, transatlantic political relations had become extremely tense. Despite the creation of the EU in 1993, the Balkans had made it clear that an effective European foreign policy was still more of an ambition than a reality. Europe's inability to maintain order in its own backyard provoked the contempt of the Clinton White House, and as a consequence the meetings authorised by the Transatlantic Declaration did not measure up to expectations.

But some of the greatest post-Cold War transatlantic irritants involved trade, not security. For example, in 1989 Washington imposed duties against a variety of EU agricultural products after Brussels banned imports of hormone-treated beef. US-European differences over agricultural trade policy delayed the conclusion of the Uruguay Round of Multilateral Trade Negotiations by several years until an agreement was finally reached in December 1993. Moreover, the transatlantic relationship was severely strained by the proliferation of unilateral US economic sanctions. In just a four-year period (1993-96), there were more than 60 US laws or executive actions authorising unilateral economic sanctions for foreign policy purposes. These sanctions, which targeted 35 countries accounting for almost one fifth of world export markets, were extremely damaging to US credibility and undermined US leadership on multilateral trade liberalisation essentially aimed at keeping 'fortress' Europe open.

By 1995, the Clinton administration feared that continuing trade conflicts were poisoning the overall US-European relationship, and leaders on both sides of the Atlantic began

calling for a major new initiative or other political gesture to underscore the staying power of the transatlantic alliance. In June 1995, Secretary of State Warren Christopher delivered a speech in Madrid titled 'Charting a Transatlantic Agenda for the 21st Century' in which he called for a major step forward in transatlantic relations: A broad-ranging 'transatlantic agenda for common economic and political action'. In July 1995, German Foreign Minister Klaus Kinkel called for the creation of a Transatlantic Free Trade Area (TAFTA). And in October 1995, the Transatlantic Policy Network (TPN), a group of European and American corporate and political leaders, released a publication titled 'Toward Transatlantic Partnership: The Partnership Project' which recommended linking the economic, political and security elements of the transatlantic relationship.

In an effort to reshape the transatlantic relationship given the new realities of a globalised economy, Clinton and Spanish Prime Minister Felipe González signed the New Transatlantic Agenda (NTA) and an accompanying Joint Action Plan (JAP) at the December 1995 US-EU Summit in Madrid. The NTA, which supplemented the 1990 Transatlantic Declaration in both substance and in process, established the basic structural link between Washington and Brussels by creating an institutional framework at the senior level for managing transatlantic differences. Indeed, while the Transatlantic Declaration was designed to be a relationship of consultation, the NTA was to be one of joint action. The NTA, which covers economics, trade and security, proposed joint action in four major fields: (1) promoting peace and stability, democracy and development around the world; (2) responding to global challenges; (3) contributing to the expansion of world trade and closer economic relations; and (4) building bridges across the Atlantic.

The economic pillar of the NTA was the so-called New Transatlantic Marketplace (NTM), which was to be achieved by 'progressively reducing or eliminating barriers that hinder the flow of goods, services and capital'. The Transatlantic Business Dialogue (TABD), a grouping of senior American and European business leaders, was established to define and promote the specific trade and investment agenda needed to bring the NTM to fruition. The most significant negotiating achievement of the NTM was agreement on a package of Mutual Recognition Agreements (MRA) eliminating duplicative testing and certification in six sectors and covering US\$50 billion worth of trade. The US-EU MRA was signed in June 1997 and took effect in December 1998.

Although the MRA exemplifies the deepest level of cooperation under the NTA, initiating vast levels of network building between transatlantic regulatory bodies, key aspects of the MRA failed to progress and caused considerable tension between US and EU officials and regulators. Moreover, new transatlantic trade disputes erupted due to, among other things, sanctions legislation passed by the US Congress. Not surprisingly, Europeans reacted furiously to the Helms-Burton Act and the Iran and Libya Sanctions Act (ILSA), which threatened to impose 'extraterritorial' sanctions on companies doing business with Cuba, Iran and Libya. Friction also arose when several EU member states resisted importing genetically modified strains of corn, soybeans and other commodities from the US.

In an effort to move beyond these disputes and restore momentum to the process of trade liberalisation, in March 1988 EU Commissioner Sir Leon Brittan presented an ambitious 'big bang' proposal for the NTM that called for accelerating the removal of trade and investment barriers between the EU and the US, with the ultimate goal of creating a transatlantic marketplace by 2010. But the proposal was fiercely resisted by several EU governments, most notably France, which feared that the US would use negotiations with

the European Commission to pry open the European audiovisual and agricultural sectors, and the Dutch, who feared the NTM would undermine the WTO. For its part, the Clinton administration would have had found it difficult to agree to the elimination of tariffs on textiles and other politically sensitive items, given that trade is a highly divisive issue within the Democratic Party.

Thus a greatly watered down version of the Brittan initiative was renamed the Transatlantic Economic Partnership (TEP). It was announced at the May 1998 EU-US Summit in Birmingham, and was primarily focused on eliminating trade barriers and overcoming regulatory obstacles. Indeed, whereas the NTM was essentially a proposal for a transatlantic free-trade agreement and was therefore politically controversial, the TEP calls for a step-by-step removal of barriers to trade and investment and therefore moves the process away from the political and into the technical sphere. The two sides also signed the Transatlantic Partnership on Political Cooperation, a compromise on the issue of sanctions, which provides for active EU support for certain US policy goals in return for exemptions from specific provisions of US sanctions laws.

In March 2002, the EU and the US launched the Financial Markets Regulatory Dialogue, which provides a forum for discussing bilateral financial and regulatory issues with a view to fostering an efficient and transparent transatlantic capital market. In April 2002, the US and the EU completed long-running negotiations on a set of 'Guidelines on Regulatory Cooperation and Transparency' intended to reduce regulatory-based trade disputes. In May 2002, US President George W. Bush and his European counterparts launched the Positive Economic Agenda (PEA), designed to reduce trade friction. And at the June 2004 EU-US Summit in Ireland, the two sides launched the 'Roadmap for US-EU Regulatory Cooperation and Transparency' which outlined a range of specific regulatory cooperation activities.

A major feature of the TEP was its multilateral focus. It referred initiatives on investment, competition, public procurement and the environment to 'appropriate multilateral fora' which implicitly spelled out a commitment to a new WTO round. Indeed, US-EU cooperation played a major role in producing an agreement to launch a new round of multilateral trade negotiations at the WTO trade ministerial held in November 2001 in Doha, Qatar (it was also viewed as an act of international solidarity after 9/11). The agenda at Doha called for a comprehensive three-year negotiation to cover trade in services, industrial tariffs and agriculture, and to be completed by 2005.

These ambitions, however, suffered a major setback with the collapse in acrimony and confusion of the WTO meeting in Cancún in September 2003 over the contentious issues of agriculture and rules to govern foreign investment in developing countries. Although the US and Europe had closely aligned positions on agriculture, and the failure at Cancún had to do with disputes between developing and developed countries, some analysts believe the debacle could also mark the beginning of the end of the TEP. Given their shared interest in pushing ahead with the Doha Round, the EU and the US worked hard to defuse bilateral trade disputes. But the failure at Cancún has removed an important incentive for transatlantic cooperation.

Assessing the NTA

The decade since the NTA was launched has been the greatest period of transatlantic economic integration in history. The combined US\$2.5 trillion economies of Europe and

the US now form the strongest, most interdependent economic partnership in the world, accounting for 41% of world GDP, 32% of world imports, 27% of world exports, 58% of the world stock of inward foreign direct investment and 77% of the world's outward stock.

Foreign investment, which is the backbone of the transatlantic economy, has boomed. US companies invested more capital overseas during the 1990s –more than US\$750 billion– than in the previous four decades combined; roughly half of the global total went to Europe. The assets held by US companies in the UK alone are equivalent to their assets in Asia, Latin America and the Middle East combined. The US invests twice as much in Ireland as it does in China, and US assets in Germany are greater than total US assets in all of South America. Europe now accounts for half the total global earnings of US companies.

And European companies have never been as exposed to the US as they are now. European investments in the US have grown to more than US\$850 billion, which is nearly one-quarter larger than America's stake in Europe. European companies are the number one international investors in 44 of the 50 US states. There is more European investment in Texas alone than all US investment in Japan.

Moreover, these ties became stronger, not weaker, during the first term of the Bush administration. Despite the souring of transatlantic relations over Iraq, European affiliates in the US posted record earnings of US\$60 billion in 2004. And although transatlantic trade disputes steal the headlines, squabbles over bananas, beef or steel represent less than 1% of overall transatlantic economic activity. In any case, these disputes have not altered the business perception of the security and predictability on either side of the Atlantic. Indeed, it may be the economic relationship that is keeping the transatlantic political relationship together.

Given the mutual stake in transatlantic prosperity, then, it is not surprising that the NTA has been most effective in dealing with economics and trade. Beyond this, however, the NTA has also facilitated increasingly close transatlantic cooperation on counter-terrorism and stopping the proliferation of weapons of mass destruction (WMD). The June 2003 EU-US Summit in Washington led to the signing of the Mutual Legal Assistance (MLA) and Extradition Agreements and the launching of negotiations on a Transatlantic Aviation Agreement. In addition, there have been joint statements on container security and on customs cooperation, as well as the EU-US Declaration on Non-Proliferation of WMD. The US and Europe have also taken the lead on multilateral counter-terrorist efforts, helping to create the UN Counter-Terrorism Committee and the G8's Counter-Terrorism Action Group.

And although commentators on both sides of the Atlantic have found it fashionable to argue about the growing gap in values, US-European differences over the environment, the death penalty and genetically-modified food are essentially tactical, not strategic, in nature. Europe and the US share more in common than perhaps any other two regions of the world and hold similar views on core values like democracy, the rule of law and the need for an open international trading system. In a March 2005 paper titled 'A Difference that Makes a Difference: The US and Europe on Values and Culture', Emilio Lamo de Espinosa writes that 'the idea that a new cultural divide is emerging across the Atlantic is a gross misrepresentation of reality' (consider, for example, the transatlantic appeal of Michael Moore). Indeed, overlapping interests and compatible values make each the other's partner

of choice. Where the US and Europe disagree is often over the means to achieve common ends.

Indeed, the NTA has not managed to significantly reduce transatlantic tensions, despite shared interests and values. Even after the addition of the so-called 'early warning system' in 1999, which was designed to prompt early discussions on regulatory matters that were causing trade friction, the level of misunderstanding and outright disagreement at the highest levels of government has increased. This is due largely to broad structural problems. For example, the security issues that engage the US and Europe have moved beyond the European continent to the broader 'out-of-area' world arena, especially to Asia and the Middle East; after all, European security is basically assured. It is these out-of-area issues that have most tested transatlantic relations. Due to different strategic cultures and the asymmetry of military power across the Atlantic, the US and Europe often differ in how they engage the outside world. Given its unique capabilities and responsibilities, the US sometimes prefers to keep Europe on the sidelines as it pursues a go-it-alone approach.

This brings into focus another shortcoming of the existing NTA process, which has to do with the confusing structure of the EU itself. Despite closer European integration and the continued development of the Common Foreign and Security Policy (CFSP), Europe still does not speak with one voice on many issues. The fact that two or three individuals show up to represent Europe at EU-US Summits demonstrates that none of them has the authority of the single US president. While the US president arrives at a summit with the ability to negotiate, the EU leadership is constrained by the consensus existing among the member states. As a result, US presidents tend to regard the EU as being divided and confusing and not worth engaging. This impression is reinforced by the eagerness with which heads of government of almost all EU member states pursue their own independent relationships with the US president. What European leader would turn down an invitation to Crawford for fear of offending his EU counterparts?

Moreover, most US presidents end up focusing on 'high politics' such as the use of force, while the EU still has a reputation in Washington of being an institution that focuses on issues of 'low politics' such as trade, industrial and environmental policy. This is why most US administrations believe that the most effective way to deal with Europe on security issues is bilaterally with EU member states at the national level or through NATO. It is no surprise, therefore, that the Bush administration unilaterally decided to reduce the number of summits with the EU to one per year.

The Future of the NTA

The question, then, is where to take the US-European relationship? During this, the tenth anniversary year of the NTA, many analysts say the US and Europe urgently need to draft some form of New Atlantic Charter that would make clear the nature of the transatlantic relationship. And there is no shortage of proposals.

In September 2003, the Washington-based Centre for Strategic and International Studies (CSIS) launched the 'Initiative for a Renewed Transatlantic Partnership' that calls for the creation of a new action group as an institutional mechanism that allows for more direct consultation between the US and the EU. This approach would create 'a new Atlantic compact for the new century'. In December 2003, the bi-regional TPN published a 30-page document titled 'A Strategy to Strengthen Transatlantic Partnership' that offers recommendations to improve transatlantic relations in the areas of politics, economics and

defence and security. It also calls for the NTA to be replaced with a new 'Transatlantic Partnership Agreement' to be implemented from 2007.

In March 2004, the New York-based Council on Foreign Relations (CFR) sponsored an independent task force named 'Renewing the Atlantic Partnership', whose chairman was former Secretary of State Henry Kissinger, which concluded that Europe and America must forge 'new rules of the road governing the use of force, adapt NATO to meet today's threats coming from outside Europe, and launch a major initiative to bring about political and economic reform in the greater Middle East'.

In December 2004, former Italian Prime Minister Giuliano Amato, former director of the London School of Economics Lord Dahrendorf and former French President Valéry Giscard d'Estaing, in a letter from Europe published in the International Herald Tribune, suggested a new strategic forum in the form of a 'contact group' to fashion what they call a new transatlantic deal. Since then, German Chancellor Gerhard Schröder has suggested convening a wise men's group to re-assess the relative institutional responsibilities of NATO and the European Union.

In February 2005, 55 prominent foreign policy and national security experts from both sides of the Atlantic drafted and signed the 'Compact Between the United States and Europe', a diplomatic agreement that offers specific policy recommendations for dealing with most of the key strategic challenges of the day. And a resolution submitted that same month to the Committee on International Relations of the US House of Representatives marking the tenth anniversary of the NTA called for the revising and transforming it into a 'New Transatlantic Partnership of Action'.

Many elements of a new approach to transatlantic relations are there. On most issues, US and European actors constitute the most important global players, making transatlantic cooperation the only practical way to extend and strengthen global rules and disciplines. At the first meeting of the CSIS Initiative in January 2005, the majority of advisory panelists agreed that ultimately some form of New Atlantic Compact will be important to define a common sense of strategic mission and organisational purpose for the US and Europe. In the near term, however, they concluded that the priority needs to be on 'asserting a new record of successful joint action on the international stage' in order to confirm the practical value of the NTA.

Indeed, any attempt to try for a new grand design encompassing Europe and North America is premature, unrealistic and most likely to fail. The reasons for this stem from both sides of the Atlantic. As the 9/11 Commission Report says: 'Countering terrorism has become, beyond doubt, the top national security priority for the United States. This shift has occurred with the full support of the Congress, both major political parties, the media, and the American people.' Indeed, 9/11 unleashed a fundamental debate about the nature and purpose of America's role in the world, with the US electorate demanding leadership that embodies nationalist certitude. Consequently, any US administration will continue to seek to preserve maximum freedom of action by working through ad-hoc 'coalitions of the willing' because often they are the best way to efficiently secure the American national interest. Moreover, the pace at which the US responds to events is not synchronous with the functioning of Europe's CFSP. Indeed, there are still bad memories in the Pentagon over the Kosovo conflict, in which NATO was reduced to fighting war by committee. Therefore, many US analysts agree that the American Gulliver is unlikely to allow itself to

be tied down by European Lilliputians through a reformed NTA. Consultation, they say, cannot mean inaction.

Moreover, a grand transatlantic project will be hampered by the lingering uncertainties about further European integration. Indeed, the EU will face an existential crisis if voters reject the European constitution, which needs the approval of all 25 EU member states for it to take effect. A 'no' vote would probably end the process of further EU integration and enlargement, and might possibly place at risk the progress that has been so far achieved. Some economists have even called into question the long-term viability of the euro in the absence of further political union. A 'no' vote would also impede the development of a more coherent collective European foreign and defence identity. Indeed, coalitions would emerge in which certain EU countries would forge ahead with projects that others are reluctant to endorse. And the fact that Germany and France would probably lead a 'hard core' within the EU would make European politics inherently divisive. This core would have one view of foreign policy, while the periphery, including many Atlanticist countries, would have another. A Europe thus divided would find it difficult to develop stronger foreign policies for dealing with external threats. Given this uncertainty, then, it seems understandable that any US administration would be unwilling to spend time and energy on forging a grand strategic venture with Europe, especially when the urgent need presently calls for the development of specific common solutions for specific common challenges.

Euro-scepticism may be on the rise in Europe, but in Washington too there is growing ambivalence (even hostility in some quarters) to further European integration. Indeed, there are signs that America is reconsidering its traditional support for European unification. For example, an article published in the November/December edition of *Foreign Affairs* titled 'Saving NATO from Europe' argues that the proposed European constitution would seek to balance rather than complement US power. The article says that by structure and inclination, the new Europe would focus on 'aggrandizing EU power at the expense of NATO, the foundation of the transatlantic security relationship for more than half a century'. This would confirm the realist theory that every international hegemon evokes a countervailing alliance of weaker states. But it is unlikely that any US administration would view such a development as being in the American national interest. Indeed, a February 2005 essay published by the American Enterprise Institute (AEI) titled 'Up with Europe. Down with the European Union' asks the question: 'Does America really want a strong Europe?'

Although US Secretary of State Condoleezza Rice urged Europe in February 2005 to bury past disagreements and open 'a new chapter' in the transatlantic alliance, she also made it clear that Washington viewed the EU as a partner and not as a counterweight to US power. In this vein, US Undersecretary of State for Political Affairs Nicholas Burns, speaking at Chatham House on 6 April, outlined a more pragmatic transatlantic agenda for the year ahead. 'Iraq remains the centre of our concerns', Burns said. Although he acknowledged the need for a more effective daily working relationship between the US and Europe, he also said that 'for the United States, NATO will continue to be that core channel'. The US wants to 'use NATO more, and more effectively, as the principal transatlantic forum for strategic discussions on the most vital issues of the day', Burns said. As far as reforming the United Nations is concerned, Burns said the US wants to make the proposed Peace-Building Commission, aimed at improving the UN's post-conflict peace-building capabilities, a 'centrepiece of the UN's mission'. But Burns was decidedly ambivalent

about expanding the UN Security Council.

Yet another constraint to reforming the NTA involves the distracted nature of governments on both sides of the Atlantic. The Bush administration has embarked on an ambitious domestic agenda of social security, tax and tort reform. On foreign policy, the US is focused on areas beyond Europe, including Iran, North Korea and the rise of China. European governments, on the other hand, have their own pressing distractions, which include ratification of the constitution, managing the integration of ten new members into EU structures and re-launching the Lisbon Agenda of economic reforms to make Europe more globally competitive.

But perhaps the main impediment to reforming the NTA lies in the fact that the most consequential transatlantic disputes involve competing and seemingly irreconcilable models for security and economic growth. These include, among others, an epic battle to determine the economic world order of the future that sets the so-called Anglo-Saxon pro-free market economic model against the so-called European economic model that favours stability over economic growth. Neither side is likely to give much ground without a fight. Indeed, during his February 2005 visit to Europe Bush signalled his mood for compromise when he said: 'I'm looking for a good cowboy'.

Conclusion: The main challenges to transatlantic cooperation involve three areas: those that exist within Europe, those that lie between Europe and the US, and those that reach beyond the Atlantic. The most intractable transatlantic disputes involve those challenges that fall into the latter category. It is true that the US and Europe share common interests in most areas of international affairs, and every major global challenge in the world today is one they face together. But it is also true that while the US and Europe are partners, they are at the same time latent rivals. Although the need to reform the NTA is not in dispute, there is insufficient political will at the highest levels of government on either side of the Atlantic to do so. As a result, the NTA will continue to do what it does best: prevent transatlantic trade disputes from escalating into a full-blown trade war.