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Dear Mr. Powell,

The Austrian Secretary General for Foreign Affairs, Ambassador Dr. Thomas Klestil, attended the conference on "The Wider Europe, Relations between the EEC and EFTA", organised by the European League for Economic Cooperation on Wednesday, November 29, 1989.

The Austrian Embassy is pleased to forward to you the text of his speech ("European Integration - the view of a wider Europe") which might be of interest to you.

Yours sincerely,


Werner Ehrlich
Minister

Mr. Charles Powell
Prime Minister's Office
10 Downing Street
LONDON, S.W.1.

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European Integration - the View of a Wider Europe
Thomas Klestil
Secretary General for Foreign Affairs, Vienna

European League for Economic Cooperation
Conference on "The Wider Europe - Relations Between the EEC and EFTA"
Wednesday 29 November 1989
Midland Bank PLC, Poultry, London EC2

Mr. Chairman, Excellencies, Ladies and Gentlemen,

First I wish to thank Lord Rippon and the European League for Economic Cooperation for inviting me to present an Austrian view of a wider Europe, a Europe that, we hope, will be at the same time more integrated than we may ever have imagined.

To speak of developments in Europe these days is not an easy task. What seemed impossible yesterday is already happening today. The pace of change, especially in Eastern Europe, is so extraordinary that even the most vivid imagination is being surpassed by reality. Of course, when almost everything is possible, almost any prediction is legitimate.

Considering this situation I will try to give you an assessment from the vantage point of a country in Central Europe and to outline a few ideas on how we would like to see Europe developing in the future.

As I said, this is a time of dramatic changes not only in Europe but in the world at large. The bipolar system of the post-war era is being gradually replaced by a multipolar one. Ever since 1945 the world has been dominated by the struggle between East and West, a contest of strength as well as of values and ideas. Today, the struggle appears to be decided in favour of democracy, human rights and the market place and Great Britain played a decisive role in achieving this goal. Communism has lost its credibility. It has produced neither prosperity nor a better society. Now, while we are moving away from superpower confrontation we are increasingly confronted with global problems of human survival: hunger, disease, environmental degradation, drugs or terrorism. At the same time a more interdependent world is emerging, interlinking economic and

social processes on a global scale. Some people even talk about the end of the military-territorial world and the emergence of a 'trade world' where technology takes the place of ideology, where access to information and the ability to use it are the decisive factors of economic progress.

In Europe the new dynamism of Western European integration is matched only by the almost explosive force of change in the Eastern half of the continent. While Western Europe is about to transcend the confines of the nation state to achieve greater unity, Eastern Europe, engulfed in a process of liberation from Communist oppression, is rediscovering the vitality of nationalism in the struggle for independence. As totalitarian power structures are cracking and crumbling almost everywhere in Eastern Europe there reappear underneath the old maps and with them old rivalries which we had hoped were gone for good. This makes it all the more urgent for Europeans in East and West to join in a common effort to overcome the legacies of the past and work for a better future in greater unity.

The current revolutionary changes in Eastern Europe offer a historic opportunity to overcome the division of Europe. The gigantic but peaceful demonstrations we are witnessing daily on TV show us the enormous force of the movement for freedom sweeping across the Eastern part of the continent. To channel these energies in a constructive way will require all the statesmanship these nations and the international community can muster. Even under most favourable conditions this will be a process fraught with risks and dangers. The events in Eastern Europe have raised hopes that even under the best of circumstances will take many years, if not decades, to fulfill. To control this revolution of rising expectation will only be possible, if we succeed to instill in the minds and hearts of our fellow Europeans in the East a degree of hope and assurance which will give them the strength to endure the hardship and sacrifice the long march to genuine democracy, the rule of law and economic prosperity will require.

Such a process of peaceful change calls for a longer-term perspective and a concept of management of East-West relations. We must combine a vision of the future with a flexible but clearly focused approach and provide an underpinning of stability during the period of transition. NATO and the Warsaw Pact as well as the ongoing negotiations in Vienna on conventional forces and on confidence and security building measures will have to play an essential role in that regard. The CSCE process, the Council of Europe and most prominently the European Community together with the countries of EFTA and all the other members of OECD will be called upon to support that process of peaceful change.

Existing differences in economic strength and development of individual countries and regions and the related perceptions of first, second or even third class status will be one of the greatest difficulties for a wider Europe to cope with. These problems may even be compounded by the fact that power and influence in the future Europe are likely to be defined in economic rather than in military terms. The potential of conflict in the economic sphere may therefore increase considerably in the years ahead.

These problems are particularly severe with regard to Eastern Europe. Since economic structures and attitudes cannot be changed quickly, difficulties will persist long after the present euphoria about greater freedom will have passed. Reforms will be risky and will take years if not decades to succeed. Many of the necessary measures to improve the performance of Eastern European economies will, in the short run, rather lead to a deterioration of economic conditions. As old inefficient structures of central planning are desolving, new market economy structures may not yet function properly. As a consequence the period of transition will be most demanding in terms of economic management as well as political leadership, at the national and at the international level. The stakes are high for the countries of Eastern Europe who have embarked on the process of reform but also for the West who is

called upon to support it. If the process of economic restructuring fails, all of Europe, and not only Europe, will suffer the consequences. If it succeeds all will benefit.

By entrusting the EC Commission with the task of coordinating economic assistance to reform-minded Eastern European countries, the role of the European Community as the focal point of common Western efforts to help Eastern Europe has been rightly recognized. The European Community offers, I believe, the most impressive model for a future all-European system of co-operation and integration. I think that nobody is more aware of the magnitude of this challenge than the EC itself. To meet this challenge a further deepening of integration will be just as necessary as a further widening. Life, too, requires both. So does Europe.

Among the ideas put forward with regard to the widening of the European Community, the concept of concentric circles may be worth exploring. Lord Cockfield who was responsible for drawing up the programme for the Single European Market, once suggested that there might be an inner core of countries committed to full economic and political union, surrounded by states that were part of a solely economic union, bordered in turn by countries committed only to an expanded free trade area. The question, of course, who would belong to which circle, is not easy to answer. Another critical point would also be how the various circles would relate to each other and how movement from one to the other could be achieved. Provided that the European Community would not develop into a military union - a prospect which does not appear too likely in view of present events in Eastern Europe - I could well imagine that the first circle might include, together with the present EC member states, also neutral countries like Austria.

The answers the European Community will give to these and other questions concerning its own future will, without any doubt, have a decisive influence on our efforts to secure the future of Europe itself.

In charting the course for a wider Europe we have also to recognize that no other continent is as closely linked to all the others than Europe. In a recent speech before the Diplomatic Academy in Moscow, Zbigniew Brzezinski reminded his audience that Europe is not a geographical but a cultural and philosophical reality based on common values. And he added that the United States and the Soviet Union represent an extension of Europe to the extent that they partake in these values.

The nature of Europe's identity as a family of nations linked by common values is also reflected in its special relationship to America. The Atlantic dimension of the European security system clearly demonstrates this fact, a fact which is now increasingly recognized by the Soviet Union as well. While Europe and America are partners in the defence of freedom, they are increasingly competitors in the market place. The concern of the United States and others that the EC might develop into a "Fortress Europe" is an indication that the principle of freedom cannot be limited to the political sphere. European strength lies in its openness to the outside world, its acceptance of fair competition and its commitment to a liberal global trading system. To raise economic barriers when the Iron Curtain is being lifted would run counter to Europe's own principles.

George Kennan has recently pointed to two complex problems which, although primarily for the Europeans to solve, will require the involvement of the United States: first the short-term problem of preserving stability throughout the Central and East European region and secondly the long-term problem of working out a new political, economic and security framework for much of the remainder of the continent, to replace the old one, so deeply impregnated with Cold War concepts. I believe that President Bush and President Gorbachev will have these problems in mind when they will meet in a few days in the Mediterranean.

To solve the two basic problems will not only be a major challenge to NATO and the Warsaw Pact but to all states participating in the Conference on Security and Cooperation in Europe. In my view the CSCE process which had already a lot to do with the revolutionary changes in Eastern Europe offers an excellent framework for discussing the many issues related to a future all-European order of peace.

I do not intend to put before you the various models and shapes of a future Europe that have become the subject of intensive study by many think tanks on both sides of the Atlantic. But allow me to deal briefly with one aspect of this exercise which has a direct bearing on my country. In the Western, especially the American press, a number of articles have recently appeared that promote an "Austrian solution" for the countries of Eastern Europe. It is argued that following the Austrian example would assure Moscow that none of these countries would join an anti-Soviet alliance or otherwise threaten Soviet security. We do not believe that the creation of a belt of neutral and non-aligned states between Western Europe and the Soviet Union would be an attractive prospect for the nations that are supposed to become part of such a buffer zone. It would revive the notion of a "cordon sanitaire" or a "Mitteleuropa" situated between East and West but belonging to none. Such a concept would contradict the goal of building a future undivided Europe. Integration not separation has to be our objective. Only integration will bring durable peace and prosperity to our continent.

This does not mean that there is no room for regional initiatives and forms of co-operation. Quite to the contrary. We have to explore all possible avenues for such co-operation. But it has to be part of a larger concept; not a substitute for it. The quadrilateral meeting of senior ministers from Hungary, Italy, Yugoslavia and Austria that took place recently in Budapest, the initiative by Hungary and Austria for a joint World Exhibition in Vienna and Budapest as well as the General Conference of European Regions which has just met in Vienna are only three examples. The successful work of associations

of neighbouring provinces of different countries such as the Working Group Alps-Adria dealing with practical regional problems across national borders points into the same direction.

In addressing the historic task of overcoming the division of Europe, Western Europe will have to overcome its own internal divisions. This includes also the division between the European Community and the European Free Trade Association. EFTA countries have always been aware of the importance of such an endeavour and have made great efforts to narrowing the gap between the two groups.

Before speaking about EFTA's future let me briefly refer to its past. The idea of creating a European Free Trade Association was first discussed in 1958 after the "Maudling negotiations" between the newly founded European Economic Community and the seven other Western European countries ended in failure. The EEC at that time was not prepared to accept the idea, launched by the "outer seven", to form a free trade area covering all of Western Europe. It was thought impossible to reconcile the concept of the Treaty of Rome aiming at a single market and ultimately at political union with the concept of free trade and economic co-operation without creating supranational institutions. Today, three decades later, the two concepts are still as fundamentally different as they used to be.

Since April 1984 EFTA countries have tried to develop their bilateral relations with the European Communities on the basis of the Luxembourg Declaration which aimed at the creation of a homogenous, dynamic European Economic Space. This exercise has led to a number of bilateral and multilateral agreements in specific fields, but has remained of rather limited scope. The gap between EC and EFTA has in fact considerably widened since the Community is pressing ahead with the completion of its internal market. EFTA therefore seeks a more substantial participation in EC endeavours.

The proposals of President Delors in his speech before the European Parliament on 17 January 1989 marked the beginning of a new dialogue. As you know EFTA-countries and the EC-commission are now

exploring the content and the institutional framework of an agreement which should create a common European Economic Space comprising all 18 member states of EC and EFTA. In these talks the EC-Commission has adopted a global approach including the four freedoms (free movement of goods, services, capital and persons) as well as flanking policies. However, agriculture has been excluded and not all EFTA-countries accept the idea of a customs union. These are serious shortcomings which will have economic as well as institutional consequences for the shape of the European Economic Space.

The conditions the EC Commission has attached to the establishment of an EES raise also a number of difficult and complex questions. The EC-Commission expects EFTA-countries to accept the relevant *acquis communautaire* of the past and to integrate it in their legal systems, without enabling these countries to be equal partners in terms of decision making in the future.

This is an essential and vital issue of the whole Delors-process. The participation of EFTA countries in joint decision-making with the EC, in substance as well as in form, will have to be solved in a positive way. The process of integration will obviously not end with the completion of the Internal Market. Therefore, we must make sure that the autonomy of decision-making will not lead to a situation where EFTA countries are left with no other choice, but to accept whatever the EC has already autonomously decided.

So far no satisfactory solution for real EFTA-participation in the EC-decision-making process is in sight. According to the Commission's view only some consultative mechanism, the so-called decision shaping, can be envisaged. The EC insists on its autonomy of decision making and pursues a two-pillar concept where the EC would be the one pillar and EFTA the other. EFTA would have to speak with one voice and only to the Commission as the only negotiator on the EC side, a procedure which could seriously limit the so-called "osmotic" effects of consultations.

I hope that the exploratory talks between the EC Commission and EFTA countries will clarify the possibilities and limits of the global approach. As matters stand now, we can't see how an European Economic space agreement will actually provide for full participation of EFTA-countries in the internal market. Significant improvements of EC-EFTA integration with respect to substantial parts of the four freedoms would, of course, be valuable and welcome but ultimately such an arrangement should not be considered as a substitute for EC-membership. In order to participate in EC-integration as equal partner with equal rights, Austria for instance, irrespective of the outcome of the Oslo-Brussels process, which it fully supports, will nevertheless continue to pursue its efforts to attain EC-membership.

For a country at the crossroads of East and West, Austria has a long tradition of participating in European integration. As a pluralistic Western democracy with a free market economy, post-war Austria has always shared the basic values of the free nations of the world. Soon after regaining its full independence Austria joined the Council of Europe. Together with Great Britain it was a founding member of EFTA. Since 1972 it is linked to the European Communities by a free trade agreement. With more than seventy percent of all its international economic transactions being carried out with the European Communities, Austria has a bigger stake in the emerging internal European market than some of the EC Member States. It should therefore not have come as a surprise that Austria submitted its application for EC membership in July of this year. In seeking membership Austria does not only follow an economic imperative. Its application also reflects the country's conviction that growing European unity is the most effective means of safeguarding peace and prosperity.

Austria does not go empty-handed to Brussels. As a highly industrialized country, it would be a net contributor to the EC budget - a point which should not remain unnoticed in London.

Austria would also contribute to the transfer of resources within the Community and thus participate in the financing of economic and social structures in EC member states.

To play an active and constructive role in fostering a climate of stability and prosperity in Europe has always been a tenet of Austrian foreign policy. Over the past 35 years, permanent neutrality has become part of Austria's identity. It has also been widely recognized as Austria's specific contribution to peace and stability in Central Europe. We are convinced that neutrality serves not only our own interests, but that of Europe as well.

As you may know, Austrian neutrality commits us not to accede to military alliances and not to permit foreign military bases on our territory. The decision to adopt the status of permanent neutrality was taken in 1955 by a sovereign act of Parliament, without external pressure. Austrian neutrality is not mentioned in the Austrian State Treaty, nor is it guaranteed by any foreign power. Therefore, there are no foreign custodians or interpreters of Austria's neutrality.

The wish to maintain our neutrality does in no way diminish our resolve to accept the rights and duties of a member of the European Community. Concerning those largely hypothetical cases where neutrality may prevent us from fully participating in EC-decisions, we are convinced that a way can be found to safeguard Austria's interests without compromising those of the EC. Austria would do everything in its power to ensure that its actions would not hinder the functioning of the Community.

As far as the political finality of the European Community is concerned, it is quite obvious that at the present stage the concept of "European Union" means different things to different people. If European Union means a community of values, a common commitment to democracy and a free market economy, common endeavours to seek for peaceful solution in international conflicts, and common efforts to promote development, then of course, there is no reason why a permanently neutral country should not be able to take part in such a union.

We are, of course, aware of the fact that the Community may not deal with the question of enlargement prior to 1993. We are not discouraged by such a prospect. The normal procedure concerning our application has been set in motion and we will make good use of the time available in order to prepare ourselves as thoroughly as possible for the forthcoming negotiations. We are glad to note that an inter-directorial working group has already been established by the Commission in order to deal with the Austrian application.

We will pursue our application with vigor and determination. We are confident that the political environment created by the dynamism of European integration in the West and the historic developments towards democracy, human rights and the rule of law in the East will be conducive to our efforts to join the European Community. The more the danger of war on this continent recedes, the more the commitment to the same basic values takes root in the whole of Europe, the better will be the chances of achieving our objectives of full and equal participation in the process of European integration.