

**Senate Committee on  
Banking, Commerce & International Trade  
and the  
Senate Subcommittee on California-European  
Trade Development**

**Senator Michael J. Machado, Chair**

*Presentation by  
The Honorable Dr. Guenter Burghardt  
Ambassador and Head of Delegation  
of the European Commission to the United States*

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**SENATOR MICHAEL J. MACHADO:** I want to thank all of you for being here. I'd like to welcome the Consuls General that are representing the various countries: the United Kingdom, Italy, Austria, Greece, Finland, Ireland and Germany. It is a pleasure to have you here in Sacramento to be a part of this, I think, somewhat historic meeting to learn about the European Union, the importance of the EU to California and vice versa and with our very special guest, Ambassador Burghardt.

Also joining us, we have Lon Hatamiya, secretary of the Trade, Technology and Commerce Agency. Thank you for joining us, Lon. And I have my colleagues, Senators Betty Karnette and Jack Scott. We're also pleased to have Dr. Jacobus Aarts who's an EU Fellow, and Dr. David Andrews who's director of the European Union Center of California. And from the Governor's Office, we have Mr. Michael Flores, Secretary of Foreign Affairs for the Governor's Office. And to those who I may have missed, I apologize, but want to welcome you, also, for being here.

Let me begin by expressing my appreciation to you, Ambassador Guenter Burghardt, head of the European Commission Delegation to the United States, for your gracious acceptance of our invitation to speak to us today about the California-

Europe economic partnership, especially as it pertains to international trade, along with several other topics that may come up as part of the discussion. I understand that this is your first official visit to California and, indeed, we want to welcome you to our great Golden State. Your visit marks the first visit to the California State Capitol by a European Union Ambassador in nearly a decade. So, we're very pleased with that. And you come to us with very distinguished credentials as head of the European Commission Delegation since 1999. Prior to that, as the Commission's Director General for External Relations and the Commission's Political Director since 1988. And you worked closely with the European Commission President as Deputy Head of Cabinet, and you began your work at the European Commission in 1970 holding numerous other senior positions.

The Ambassador is a Ph.D. in law from the University of Hamburg where he was Assistant Professor of Law and EC law from 1966-1970.

What's important about today, I think, is to recognize that the United States and the European Union's partnership, the world's largest commercial relationship, and each other's largest trade investment partner. Last year, bilateral trade between the EU and the U.S. exceed \$557 billion. Investment in the U.S. by European Union countries likewise has grown steadily. By the end of last year, the EU's direct investment totaled over \$802 billion in the United States, which represented 65 percent of the total foreign investment in the U.S.

While the United States and European Union are each other's largest trading partner, among the 50 states California has the distinction of being the largest trading partner with the EU. California exports to the 15 EU nations exceed \$27 billion. It represents 21 percent of the total exports and it makes the EU, by far, California's single largest export market.

The EU is also California's largest single foreign investor, amounting to 46 percent, or roughly 53 percent of the total investment in the state. In terms of employment, exports to the EU provide employment to over 224,000 Californians, and EU investments support over 284,000 jobs. Our economies, particularly in California, are indeed interdependent, and as individual European countries

strengthen their bond of a single presence through the European Union, I think it's important for us to have the opportunity to learn more of how trade may be viewed through a unified Europe. Even though there are some issues with respect to individual trade relationships, the fact nevertheless remains that we are very interdependent.

The committee looks forward to gaining the European Union perspective on trade with the U.S., and in California, in particular. Again, welcome, and let me say simply that although we are separated at times, Mr. Ambassador, by large geographical distances—the North American continent and the Atlantic Ocean—we in California, nonetheless, greatly value and appreciate the many long-standing, economic, cultural, religious and educational ties that we have with Europe, and that we have had with Europe for many centuries. We very much appreciate your distinguished presence here today and look forward to your remarks. Welcome.

**AMBASSADOR GUENTER BURGHARDT: (INAUDIBLE/TAKEN FROM PREPARED TEXT) *Mr. Chairman, I am delighted to join you today and wish to thank you and the other members of the committee for this unique opportunity. My participation in this public hearing underscores the high importance with which the European Commission regard the multi-faceted and mutually beneficial relationship between the European Union and the State of California.***

So, it is our collective responsibility together to represent the European community and especially in this part of the United States where the Commission is not directly represented, but where our presence is to be felt throughout our cooperation with the Consul Generals of the Member States.

Let me also say that I am accompanied here by a senior staff of my delegation who is a native of California, Ms. Patricia Moll, in order to give you the sense of Californian's sensitivities being well-represented amidst my staff and we, the rest of the staff, benefiting largely from the "know-how" Patricia Moll is bringing into that work.

**SENATOR MACHADO:** We're pleased that she has distinct California ties, also.

**AMBASSADOR BURGHARDT:** Yes. As you have requested, I will briefly address three related issues to launch what I am certain would be a productive discussion. First, the transatlantic partnership which has become even more important politically and strategically in the wake of the events of 11 September. Second, the current European Union agenda, including the successful launch of the Euro as a legal tender currency, and its very positive implications for California business, and number three, the vital and expanding relationship between the European Union and California on which you have already mentioned a number of key figures which, by the way, we have taken the pains to present you in the form of a colored chart which is available to you and to the audience, I understand, so that we can refer to this presentation.

Now, as far as the transatlantic partnership goes, it is the new Europe and the unification of the old continent after the Second World War, which has made Europe increasingly able to act as the key global partner of the United States. And after 11 September, we realize that our strategic partnership is even more crucial to making progress on a number of international issues from the common fight against terrorism to the successful launching, for instance, of a new world trade round.

It is now almost six months ago that those terrible events happened, and after that time, I think we have become aware that we are talking here about a kind of historical event, a landmark event, which can influence the development of things for quite some time. If I put this into context, I would compare the kind of tectonic event of the 11th of September with the end of the Second World War which led to the establishing of a number of international institutions and the inception of the European Union process. And to take another landmark event, 1989-1990, the implosion of communism which has allowed us to speak about Europe whole and free, and make a new beginning to unify the whole of the continent and on that basis, to establish a very strong transatlantic partnership. And in this respect, September 11 was a real turning point in the history of the international

community as a whole, and presents a formal double challenge not only to the United States, the European Union as such, but also to the development of the relations between the two of us. It underscores the need to generate even greater commitment and common purpose to push ahead with the New Transatlantic Agenda which since 1995, has served as an organizing framework for European Union/U.S. relations.

Time does not allow for a detailed overview of all aspects of the New Transatlantic Agenda, but it is important to note that its four chapters include: 1) working on the basis of and expanding our common values; 2) jointly addressing regional and global challenges; 3) managing the bilateral and multilateral aspects of our all important economic relationship; and last but not least; 4) to have this work underpinned by people-to-people dialogues between our civil societies, including the university and business communities, on both sides of the Atlantic.

As you may know, a Transatlantic Business Dialogue, for instance, was launched in 1995 and I was happy to learn yesterday that the CEOs of the Boeing Company and BA (British Airways) from Great Britain have accepted to be the two cochairmen this year to invigorate the Transatlantic Business Dialogue. Coming from that part of business, it may be a good omen for the United State and the European Union to make progress on some of the questions of aviation industries in the transatlantic framework. And let me also mention the importance of what we call the legislative dialogue, which is a dialogue not only between the European Parliament, as such, and the U.S. Congress in Washington, but also between legislators, for instance, from important states of the United States. This is very important because if we can get legislators together at early stages when new issues arise, then we create common legislative frameworks or compatible ones rather than different ones which afterwards have to be sorted out though very painful negotiations.

Now, the pursuit of terrorists and the fight against the root causes of terrorism, I would put these two things at equal importance when it comes to the anti-terrorism agenda, have added a new dimension and have re-energized our

common agenda. The reaction of the European Union to the attacks of 11 September was, as you know, immediate and deeply felt solidarity with the American people. A few days after the event, the President of the European Council, the Prime Minister of Belgium at the time, Mr. Verhofstadt, and the President of the Commission, Mr. Romano Prodi, were received in the White House and had an early conversation with President Bush about the subject of whether out of evil can come good, and whether all this would create a new opportunity to work together on a number of issues.

And with our U.S. partners, we very well know that this is a campaign on which we are for the long haul. We have joined the United States to work closely in the areas of aviation and other transport securities as part of this anti-terrorism agenda, on police and judicial cooperation, on the denial of financing of terrorism, on export controls and on proliferation, and on travel document security, to give a few examples. And the European Union has benefited for its own developments of this challenge from the outside when adopting a European framework regulation to free its assets of terrorist entities. When adopting the European arrest warrant and other measures which have been taken almost at light speed by any legislator's standards in the aftermaths of 11 September. The European Union is also a key partner in the reconstruction of Afghanistan pledging 600 million euros or roughly one-third, which is by far the largest of all contributions at the recent Tokyo donors conference. And speaking in Brussels in early December, Secretary Powell, when he assisted in the signature of an agreement between the United States and Europol, our organization which coordinates the cooperation of police of our Member States, Secretary Powell said, "The European Union's swift and resolute support for the United States reflects the powerful and enduring bonds between our societies and the bedrock values that we share. You are our staunchest foul-weather friend and we know it."

Now the transatlantic partnership also comprises, of course, a very important economic dimension. And this relationship has a substantial impact on the global economy. You mentioned already a few figures, and let me, perhaps, rehearse one

or two of them. Combined European Union and United States GDP is around 56 percent of the world's total, though we only constitute ten percent of the world's population. Commanding over 40 percent of world trade between us, no fundamental progress can be made on global trade issues without the European Union and United States working together. And as impressive as these figures already are, there's another one which demonstrates the importance of our bilateral relationship, and which is a \$2 billion-a-day relationship. It is the aggregate sum of trade in goods, services and investment. It's \$2 billion a day. The U.S. and the EU trade and investment markets are not just closely linked as these figures indicate. They are joined at the hip. We are each other's largest single trading partner, accounting for one fifth of each other's trade in goods and fully one-third of our total trade in services. And our trade is increasingly at the sophisticated, high technology end of the market with much of it not only intra-industry, but intra-firm. Around 40 percent of each other's merchandise exports are intra-firm, which shows the very close integration of transatlantic business structures.

As European Trade Commissioner Pascal Lamy has noted, the EU and the U.S. are the two elephants of the multilateral trade system. Working together, we can help convince our partners to accomplish great things. Working against one another provides healthy fees to law firms in Washington and Brussels (laughter), tarnishes our overall strategic relationship and can be a major source of mutual frustration. Commissioner Lamy and U.S. Trade Representative, Bob Zoellick, have established a forceful working relations in promoting the new WTO round at Doha. Without these forceful and tireless efforts before and at Doha, the new round would probably not have seen the light of the day, as the battle of Seattle ended in a state as we all know.

And at Doha, the U.S. has joined the European Union in supporting a comprehensive menu that combines further trade liberalization, a re-enforcement of rules in fields such as investment, competition, the environment, labor standards, and greater attention to the concerns of developing countries. Of course, the EU and the US have remaining differences in some areas, and also in some new issues

as the day of yesterday has shown to us, but these are far outweighed by our common interests. In the area of competition, for example, the EU and the U.S. have established an excellent record of cooperation. We both believe that there is a link between fair competition and free trade.

Our work together builds on the 1998 launch of the Transatlantic Economic Partnership, which was also promoted by the Transatlantic Business Dialogue. The TEP (the Transatlantic Economic Partnership) provides, in particular, for the expansion of “mutual recognition agreements” that address non-tariff barriers to trade, using the same standards and testing and certification requirements for EU and U.S. producers. And I know at least one business in California who would be quite interested in making full use of these possibilities, and we are open, as you know, to finding solutions to that.

Let me also note that over 98 percent of transatlantic trade is dispute free. On those occasions where we do have disagreements, they must not be allowed to impact negatively on the overall state of the transatlantic relationship, particularly as we focus on our close cooperation in the campaign against terrorism. We must simply deal with those issues in a business-like and responsible manner. Commissioner Lamy and USTR Zoellick have amply demonstrated their ability to do this and have even managed to reach an agreement on the perennial vexing issue of bananas. But their talents, let me say outside my prepared remarks, will be put to a severe test after yesterday’s announcements of unilateral import restrictions of the United States against steel imports, especially from the European Union. Let me simply read out two sentences here and put them on the record which are the immediate reaction of Commissioner Lamy to what was decided yesterday in Washington. I quote, “The United States’ decision to go down the road of protectionism is a major setback for the world trading system. Imports are not the cause of U.S. difficulties in steel, and the measures announced today will not only not provide a solution, but aggravate matters.” And I keep my quote to that, and if you wish to raise this matter in the discussion, I would be happy to give further comments on this issue.



Now, in as far as the European Union agenda is concerned, my second point. The EU's role as the preeminent global economic partner of the United States can only be enhanced by the very recent historic and very successful launch of the euro as legal tender notes and coins at the very beginning of this year.

The successful exchange, or "changeover," of the old national banknotes and coins of the 12 countries of the euro area has far exceeded expectations. In almost all respects, the euro changeover progressed well and rapidly, without any major hitches. This was crucial in furthering acceptance of the new currency by the European public, 307 million people. As of 28 February, the changeover has been completed in all 12 of the participating Member States, and national notes and coins are no longer circulating.

As you can imagine, such an undertaking presented enormous and unprecedented logistical challenges. From 1 September last year, euro banknotes and coins began to be distributed to the banking and retail sectors. More than 15 billion banknotes and more than 50 billion coins had to be shipped throughout the euro area. More than 200,000 automatic teller machines also had to be adapted to the euro, as they supplied around 70 percent of the new banknotes utilized for transactions during the first week of the changeover.

Within the euro area, the elimination of exchange rate risks and the lower transaction costs which followed, together with the far more transparent markets the euro brought with it, have created new opportunities for businesses and forced firms to attain higher levels of efficiency and competitiveness.

These advantages, or course, extend also to California businesses and consumers. Your businesses will also find it easier and cheaper to operate in the euro area, and travelers will no longer lose money exchanging their notes at each border crossing. For U.S. companies with facilities in Europe, it is now possible to rationalize and regroup production, marketing and accounting activities, providing increases in efficiency and reductions in costs, which will translate in the end in higher profitability. For consumers, it is much easier to understand the price of European products and services, since the values of the euro and the dollar are

quite close. American tourists in Rome, for example, will no longer have to divide the price of an Italian cappuccino by two thousand, two hundred and forty-something lira to realize that it is very good, and especially for U.S. citizens, inexpensive compared to the offerings at a Sacramento coffee bar, and they will immediately order a double espresso. (Laughter.)

The euro is also a catalyst in the process of financial integration, enhancing the widening and deepening of the euro area financial markets. As early as 1999, the total amount outstanding of euro-dominated debt securities made the euro bond market the second largest bond market in the world, and the international issuance of the euro-denominated bonds has even outpaced that of U.S. dollar-denominated bonds for a few months at a time. Federal Reserve Chairman Alan Greenspan has noted that this will play a major role in the future relative positions of the dollar and the euro. I fully agree with him when he said, and I quote, "The world can only benefit from this competition." And let me tell you that I got yesterday the agreement of Chairman Greenspan to host together with me, our European Union 9 May reception, which is our annual reception, The Europe Day, at the Federal Reserve, which is a very gracious gesture on his part and it shows in a way that the dollar has got a twin brother.

At the international level, the euro has become the second most widely used currency, due to the overall weight of the euro area economy and the legacy of the national currencies it has replaced. The euro is second only to the U.S. dollar among the world's official reserve currencies. The gap between the two currencies is still wide, but it will surely narrow over time. According to the latest available data, the euro accounted for around 13 percent of the world's official foreign currency holdings at the end of 1999, compared with a U.S. dollar share of 68 percent. But experience has shown that there is a considerable time lag before the importance of a currency is fully reflected in its use as an official reserve currency.

Perhaps most importantly, the euro has great symbolic and political importance. It shows that we Europeans can work together, with enthusiasm and resolve, in support of an ambitious common project. Holding euro notes and coins

has brought Europe closer to individual citizens than ever before. In a very tangible way, based on the coins in their pockets, they have become stakeholders in European integration. It is worth noting, in the U.S. context, that the Federal Reserve Board was established only in 1913, or 126 years after the Philadelphia Convention. It only took the European Union forty years since its inception and happened before our Constitutional Convention. And let me say, also, because this country, rightly so, has a great feeling of patriotism that these kind of historic achievements allow the new Europeans on the other side of the Atlantic to feel a little bit of that European pride, as well.

Now, the broader European Union agenda comprises a number of other major domestic developments which I would like to mention very briefly. Each of those developments has an important, long-term effect for the next, let me say, 50 years of the European Union process, after we have brought the first 50 years behind us right now.

Each of these, enlargement, the EU's ongoing constitutional process and the development of the European Security and Defense Policy, represents an historic development.

First, with an enlargement to as many as 28 members over the next decade, from the current 15, the EU could eventually have a population of more than 500 million. The December meeting of our Heads of State and Government, which we call the European Council, reaffirmed that the EU is determined to bring the accession negotiations with those candidate countries that are readily prepared for enlargement to a successful conclusion by the end of 2002, thus coinciding with the next wave of NATO enlargement, to be decided in November at the NATO Summit in Prague. If the present rate of progress of the negotiations and reforms in the candidate states is maintained, as many as 10 applicants could be ready for accession: from Cyprus, the eight of the ten countries of Central Europe, and Malta. Through further contractual arrangement including Association and Free Trade Agreements, the EU's expanding zone of political and economic stability will ultimately extend to more than one billion people, including Russia and the New

Independent States, the Balkans, and the countries of the Mediterranean Basin. All this together would represent a very important and strong European home market.

Second, the EU is currently engaged in an ongoing constitutional process, leading to another Intergovernmental Conference in 2004 that will further prepare for the internal challenges of the coming enlargement, notably with respect to streamlining the European Union's decision-making process and enhancing the European Union's capabilities to contribute to greater stability on the international scene.

Many of these issues we face resonate with those addressed by the Philadelphia Constitutional Convention of 1787. I am told, by the way, that a high number of copies of the Federalist Papers are being purchased in Brussels and the national capitals. I still look around to find the American Alexis de Tocqueville. He has not yet shown up. (Laughter.) A Convention on the Future of Europe, chaired by former French President Valery Giscard d'Estaing and representing the European institutions, national parliaments and members of civil society, has been launched last week to identify the possible responses to be considered at the 2004 intergovernmental conference. This convention comprises in its menu the challenge of exploring more effective ways of conducting the EU's internal and external relationship. It's about the European Union's decision-making process and the response to the question: What do we want to deal with at the European Union level in comparison to what our Member States will continue to deal with at their level? All questions which are not entirely dissimilar to some of the things you're discussing in this great country here.

Third, the EU is developing a Common Foreign and Security Policy, to include the development of military and civilian capabilities. The headline goal for this Common Foreign and Security Policy, with a January 1, 2003 deadline, is a military Rapid Reaction Force of 60,000 troops deployable within 60 days and sustainable in the field for one year to address tasks in the areas of crisis prevention and management, peacekeeping and peacemaking, where NATO as a

whole is not engaged. EU Member States have also undertaken to provide up to 5,000 police officers by 2003 for international missions of conflict prevention and crisis management in the Balkans and elsewhere.

American administrations and legislators now can, thus, start seeing unfold what they have sought from Europe for decades, namely a capacity to shoulder more of the security burden, commensurate with the European Union's considerable political and economic weight. And I am quite heartened by the efforts of the current Spanish presidency of the European Union to show that before the end of the year, the European Union, with those capabilities, will be able to take on missions like, for instance, the international police task force in Bosnia or (Operation) Amberfox in Macedonia.

In sum, the EU has and is further developing important assets to promote stability and prosperity in Europe and beyond, thus increasing its value as the strategically most important and natural global partner of the United States.

Among the fundamental questions which arise in the wake of September 11 are the extent to which the U.S. will remain disposed to international cooperation in the wake of its successful coalition building to fight the war on terrorism and the extent to which the U.S. administration will be inclined to turn to the EU as a regional and global partner. In my view, these are the real fundamental questions ahead of us.

Founded on the principle of cooperation between nation states, the EU is particularly well-placed to work with the U.S. in addressing a broad range of global issues. Humanitarian and development aid, conflict resolution, building effective state structures in unstable regions are issues on which the European Union focuses its common foreign policies and to which it devotes very substantial resources, by far the most in the world. And when it comes to official development aid, for instance, the European Union and its Member States account for about 55 percent of world totals with the United States contributing 16 percent of the total.

It is no secret that, prior to 11 September, the EU and the new U.S. Administration started to accumulate important divergent approaches to a number

of international challenges, from the Kyoto Protocol, the International Criminal Court, to a small arms convention, to the Implementation of the Protocol on Biological and Toxic Weapons Convention, and other examples. September 11 should help us to become more focused on finding global solutions to global issues. Unilateralist attitudes must yield to the realization that partners are needed to ensure stability and security and to make progress on many other global common challenges where international cooperation is essential.

Now let me come to my last chapter and which is about the European Union and California. In discussing the transatlantic relationship here in the halls of the California State Senate, I am well aware that California constitutes a vital component of the EU-U.S. economic relationship.

In addition to the sheer size of your state's economy, an economy which is comparable to that of France or Italy, a geographical size comparable to Sweden, constituting nearly one-sixth of the U.S. GDP, California plays the leading role in several of the most dynamic elements of the global economy. One could say that if the U.S. is one of the engines of global economic growth, California represents several of the most important cylinders of that engine.

It is not surprising, then, that California has a substantial and rapidly growing economic relationship with the European Union. Again, Chairman, I am rehearsing some of the figures you already mentioned in your introduction. In 2000, for example, California's exports to the EU totaled more than \$27 billion, or 21 percent of your total exports. The EU is, thus, California's largest export market outside NAFTA. The most important export sectors for California to the EU include: computer equipment, industrial machinery and electronics equipment—all high, value-added products supporting high-paying jobs for Californians. The EU is also an important export market for California agricultural products, which continue to represent a large component of the state economy.

Europe is also, by far, the largest source of foreign direct investment in California. In 2000, European investment amounted to more than \$53 billion, or 46 percent of total direct investment in California. This is also of no surprise—with a

highly educated population and industries representing cutting-edge technologies, California is well known for attracting investment. What is surprising, at least to those who are not aware of the depth of the economic ties between California and the EU, is the EU's leading role as a source of that investment.

Taken together, trade and investment, the U.S. Department of Commerce estimates that European trade and investment together supports more than 500,000 California jobs, again largely in highly skilled and well-paid sectors. This fact underscores the need for California to take full advantage of its opportunities with the European Union. The opportunities presented by California's leadership in a number of sectors have certainly been recognized by many European companies. And it would be vain for me here to try to give a full enumeration of all those important European businesses established in your country.

I am sure that, just as the EU and the U.S. are working together in the context of the WTO to promote global economic opportunities, so shall California and the EU continue to develop an ever-closer trade and investment relationship.

And in this context, allow me, Mr. Chairman, to congratulate you and the other members of this committee for your efforts in promoting California's economic relationship with the European Union and other international economic actors. This is indeed a farsighted and entirely appropriate response to the opportunities and challenges of globalization, which have clearly been recognized by the local activities of EU Member States. By my count, no fewer than 45 Member State Consulates are now operating in locations throughout California, and no fewer than 15 Member State chambers of commerce have been established to promote closer ties with Europe.

Let me also note that the European Commission has made a small but, we believe, quite significant investment in the university area in California. The University of California at Berkeley has recently been awarded support to establish a "European Union Center" for teaching, research and outreach programs related to European integration and the transatlantic relationship. A previous award had been made to the Claremont Colleges and the University of Southern California.

The EU Centers initiative, through which the Commission supports a “network” of 15 EU Centers located in universities across the U.S., demonstrates our commitment to the promotion of transatlantic people-to-people dialogue.

Indeed, we have much to learn from each other. In those sectors where California is a global power, and particularly in those areas of high technology now synonymous with Silicon Valley, the European Union is also a leader, or would like to become a better one. We have set the goal of transforming Europe during the present decade, through the development of information technology and digital skills, into the strongest knowledge-based and open economy in the world, an economy that will maximize the potential of information and communication technologies. Several key factors demonstrate impressive progress over the last years. More than one third of the EU population is now using the internet. The gap with the U.S. remains, but is narrowing. Mobile phone use in Europe is growing at an even faster rate. Almost 70 percent of the European population now uses mobile phones compared to 40 percent in the United States.

I am also very aware that the ties between California and the European Union extend to concerns beyond trade and investment. We face parallel challenges in areas such as the environment, energy and migration, to name only a few. California has long been a leader among the 50 U.S. states in promoting responsible environmental policies—a concern shared with deep conviction by the European Union. EU initiatives in energy and transportation policy, also key concerns for Californians, are also underway. These include expanding the use of more accessible, more competitive and cleaner forms of urban transport, developing more practical ways of managing energy use and continuing to promote renewable energy resources.

California has a long and largely successful history of integrating new immigrants into economic and civil life. Indeed, no component of your society here has anymore an overall majority, according to the latest census. This is an area where EU and Member State efforts continue to develop and where we may also be able to learn from each other. In this and in many other areas, California can make



a vital contribution to a stronger partnership between the “New Europe” and the “New World.”

Finally, I believe that state legislators in California and throughout the United States have a crucial role to play in encouraging a positive attitude towards multilateral action to address the shared challenges of globalization. Surely the work of your committee is based on the recognition that global economic interdependence is a fact. It is speeding up rather than slowing down and its impacts must be met by effective multilateral response.

Let me conclude, therefore, by thanking you again, Mr. Chairman, for this opportunity, and I look forward to your questions and comments. Thank you very much.

**SENATOR MACHADO:** Thank you, Mr. Ambassador, for your statement. I'd like to welcome at this point, Senator Costa, our colleague. He also wears another hat. He is president of the National Council of State Legislatures, and as such, he coordinates state issues in terms of trying to formulate federal policy with our federal government. Welcome, Senator Costa.

I really want to express our appreciation to the European Union for their early support and commitment to the efforts, as expressed by President Romano Prodi, to our conflict that we now find ourselves in in the fight against terrorism after September 11, and your comments about the seeking of partnerships and trying to work together, rather than unilateral, to try to address these problems throughout the world. I think it helps bring about bridges that in the past have been somewhat fragmented between nations, but not as a unity between two continents as we're now seeing. I think one of the questions that I find—and it's probably a little off the trade area—is, as we talk about the Europeans looking at some type of continental defense and also the policing actions, how do they see that type of relationship with the United States evolving vis-à-vis NATO? Is NATO still a significant entity or is this something that would then supercede that? And how does the EU and the United States, then, address the question of the ascension nations that may be outside this?

**AMBASSADOR BURGHARDT:** Well, in the area of our common efforts in the field of foreign policy and the capabilities question, there has been a long debate. It was a difficult debate at times, to well understand the relationship between what I would call the two pillars of the transatlantic relationship, which are the North Atlantic Alliance, on the one hand, where the United States is a member, and where our Member States are members in a bilateral, international way, and the European Union/U.S. partnership. So when I talk about the transatlantic relations, I would see it based on both the Alliance on the one hand, and the EU/U.S. partnership on the other hand. Both must be considered complementary, because they're in no way in opposition to each other. Our basic objective since the Second World War has been to make Europe a more stable place. And European unification is the only recipe to do that in a permanent way. An alliance would not be the right recipe for that, because an alliance is geared to one objective, and the objective can come and go. So the European integration process is, in a way, the solid foundation for the transatlantic relationship. But when it comes to using military capabilities, we are, of course, in a situation where the United States is playing in one league and the Europeans in another league on purely military capabilities. I mean, that's a bare fact. If you look into the development of defense budgets, especially after the announcement of the drafted 2003 budget by President Bush, it becomes very clear. And, therefore, the complementarity between us is in using not only the military capabilities but also the civilian capabilities for which the European Union has a much larger resource.

Now there has been a difficult discussion because you may remember that the European Union process in the early 1950's tried to start with building a European Defense Community which was supported by the United States. It failed because it was not possible to get this draft treaty ratified in all parliaments. And so we started with economic integration and we never forgot about the political ultimate objective of that economic integration, and we have restarted to build up foreign policy and security policy capabilities in that new context. So there cannot

have been neither at the beginning nor in the course of times, a real contradiction between these two transatlantic ventures.

Nevertheless, the discussion under the previous administration has not always been an easy one, but I think we have overcome this, and if I listen carefully in Washington to what the Hill and the Administration is expecting from the Europeans, it is to develop our own capabilities which will allow the Europeans to take on more of the job. And this is exactly where our common interest is, because the European Union process would not be complete without such an element. In this country you have a saying which is that, “the military’s the hammer and the toolbox, but not every problem is a nail.” This points to some complementarity of policy action on which we both can use to the best of our possibilities, our respective capabilities.

There’s one overriding constraint in order to make that happen in an amicable and constructive way, and this is to discuss and to consult and to agree on the objective we want to pursue. If we do that, then everybody can use its best own ways to achieve it. But if the objective is being imposed by one partner on the other, then we start to get a problem and this is where the determination and commitment for multilateral and common action is so important.

**SENATOR MACHADO:** Senator Karnette.

**SENATOR KARNETTE:** You know, as state legislators, and I represent the Long Beach and the Los Angeles Ports and I’m sure other people can speak to the Oakland ports, I’m a little bit—I don’t know exactly what we as state legislators in California—exactly how we can effect what we need to accomplish. Now, true, we can talk to our congressional delegation. But, I know you mentioned Boeing is on one of the committees that’s working with you. I don’t know quite what...

**AMBASSADOR BURGHARDT:** The Transatlantic Business Dialogue.

**SENATOR KARNETTE:** --on aviation, and Boeing, one of the Boeing plants is in my district in Long Beach. And I noticed you mentioned travel documents early on. Now, I don’t quite get how we can help here in this state. I mean—I

I know—I'm very interested in goods movement. I'm very interested in exports and imports, job creation. And I'm not quite sure what the EU, how that can—will it make it easier for us in Long Beach and Los Angeles at the ports? I'd like to know how. Can you help me out there?

**AMBASSADOR BURGHARDT:** Well, I mean, you raise a very complex issue which is about the interaction in the decision-making process in your country, on our side, and how the various components of that process relate to each other. While the United States is a federal state, the decision-making process takes place in Washington, as you say, but there are many important issues on which the states remain responsible.

**SENATOR KARNETTE:** For example, the Coast Guard, and is very important in protecting our port, is very important. But, and we talk to the federal government about how to help us and so forth, but maybe Senator Machado can help me here or somebody.

**SENATOR MACHADO:** I think the essence of, perhaps, what the Senator is asking is, much of our trade has been bilateral with European member countries, European Union member countries. So, now we deal with a growing European Union and solidarity within that. From a California perspective with individual firms that have trading arrangements, does the Union provide more opportunity? If so, then how does that—and does it pose to change traditional bilateral relationships that might have existed prior to? Or again, as another example of complementarity, were the actions of both directions to provide a greater sum than the individual?

**AMBASSADOR BURGHARDT:** Yes, well, I mean, what we are about on the European Union side to do and to which effects which go even beyond our borders, as I explained on certain examples, is to create a regulatory framework from which not only our domestic business and industry and other actors benefit, but also those with whom we are working.

**SENATOR KARNETTE:** Alright, let me ask you then. If we're getting things in from various countries into the ports, and these countries are members of the European Union, the regulations could be simplified.

**AMBASSADOR BURGHARDT:** I mean that's exactly one of the examples. There where regulation is, as you say, simplified, or where a framework is being set which is about a larger area than a state here or a Member State in the European Union, everybody, including the economy of a state or Member State benefits from that. So there's a common interest. But there are different contributions everybody can make. Maybe I should give you an example which we lived through in the early '80s in the European Union, when, for the first time, we were confronted with the issue of car emission standards and how far to regulate on those car emission standards and how far to go on them. And this was an issue where, on the European Union side, very quickly, our Member States and the vested interests, those interested in that issue, agreed that it would be better to have a European Union-wide regulatory framework than just having each Member State to regulate on this. So this is why we, as the European Union, got hold of that issue. We're now looking outside and getting inspiration from what others did. It would have been vain for us to look at the United States, as such. We looked at California, because California used to have the most advanced car emission standards. And we came to the conclusion, at the European Union, that it was better that our ambition would immediately be directed to achieving the level of state of the art of the most advanced part of the United States in order to have an edge on the long-term when it comes to the competitiveness of our industries. So we discovered California as having something particular to contribute as an example on how to do it. And it had to do in the United States with the fact that you had a leverage as a state here to legislate on an issue while at the same time, there were some regulations also at the federal level. But it did not exclude that a state could go further than the federal level could go.

So there are interactions of this nature when it comes to, let's say, administration-to-administration or legislators-to-legislators. The more wider issue

which we started off to say is, how do our constituencies in California, business or you refer to ports, and how do they benefit from something happening on the European Union side and how can they get their share of the opportunities out there? This, then, depends on what issues California is particularly involved and capable of doing. I don't know exactly, when you refer to the ports, on what kind of problem you have in mind. I mean, when you refer to your ports, its ports of entry to the United States. Normally, I would suppose there are federal regulations which we would have to meet regardless of whether it's an Italian or a Spanish or a Belgium company wanting to come in.

**SENATOR MACHADO:** Mr. Ambassador, when Senator Karnette refers to ports, she's talking about her Port of Long Beach. (Laughter.)

**SENATOR KARNETTE:** I'm talking about Oakland, too, and Stockton and Sacramento.

**SENATOR MACHADO:** She is very protective of the access and the use of that port. (Laughter.)

**AMBASSADOR BURGHARDT:** And she wants to select those good friends who are allowed to come in.

**SENATOR KARNETTE:** I want things to go well and run smoothly.

**SENATOR MACHADO:** You raise a very interesting issue, and after that Senator Costa has a question. The EU and the U.S. constitute two great economic pillars and we're very much intertwined, interdependent. Yet, and as we discussed earlier over lunch, we're also still with conflicts that date back many, many years, particularly with differences with how we look at our industries, agriculture, and as specifically as was brought out, the wine industry, manufacturing in some instances. An example of that has occurred within the aircraft industry which California is a significant proponent of that, and indeed with other technology. As the EU is coming more and more together, are those issues best dealt with, do you believe, on a bilateral basis between the U.S. and the EU or are they topics to be dealt with at the WTO?

**AMBASSADOR BURGHARDT:** Yes. It's a very good area to illustrate the answer to your question when we refer to trade and our efforts to improve the trade environment, because there's three levels on which, in fact, we are working. There is the bilateral relationship. We can do a lot by agreeing bilaterally on solutions which then apply to what is possible in terms of trade and movements between the European Union and the United States. It's a huge part of our agenda. It's very often where some of these specific issues arise.

Then there is the regional level. I already explained in my remarks how the European Union reaches out to, in fact, all of our neighboring countries in the greater European economic area context, through free trade agreements, association agreements, harmonization of legislation, financial assistance programs, in order to integrate them into the structures of the European economy. And that goes from Russia to Morocco, the southern and the eastern Mediterranean including Israel, including Turkey and so on.

At the same time, the United States are about to shape a kind of economic environment in the western hemisphere. NAFTA is an example, the FTAA is another very ambitious project. So there are a lot of things we can both do on a regional basis. And I'm not saying that we would divide the world among ourselves, and the Europeans deal with one part and the United States with the other part. The European Union is also, has already a free trade agreement with Mexico, for instance. We are negotiating right now, a free trade agreement with Mercosur and Chile, while the United States, and especially USTR Zoellick, have come to the conclusion that the United States should also reach out to other countries and try to liberate trade on such a basis. So it's reaching into the European area, so we are interconnecting this.

And then number three, we have the global level. And the global level is the WTO, it's a new global round, and the strategy behind all that is to make those three levels interact with each other. In a way, put them sometimes into competition so that when we feel that there are countries out there who are not very interested to work with us in the context of Doha or the WTO, we can tell them, well

it's really in your interest to participate with us, because if you don't, we have other means to come to the very far-going liberalization of world trade which would leave you out. So you better work with us on the global level. And this is why my remark on something which happened yesterday came in because, to do that, we need to have a common concept, a common objective and to use all those dynamics, the bilateral one, the regional one, the global one. And if we cut the dynamics, for instance, at the bilateral level, then this has a negative effect on the whole exercise. And this is why it's so important that with the new administration, we had set up such a very constructive relationship between the two main negotiators. And that's why I was saying that their talents are being put to a severe test. I'm sure they will withstand that test, but it will not be easy.

**SENATOR MACHADO:** Would you care to elaborate for the committee the example that you cited earlier today about the similar situation in Europe and how they dealt with the problem of overcapacity in the steel industry as compared to what it looks like is happening here in the United States?

**AMBASSADOR BURGHARDT:** Well, with pleasure, because it is a subject on which the situation out of yesterday could make us forget a lot of commonalities which we have.

**SENATOR MACHADO:** For the members, what the Ambassador is talking about is the tariff that was recently imposed on steel imports.

**AMBASSADOR BURGHARDT:** Steel has always been a difficult issue for many countries, including for the European Union, when it comes to making that industry competitive and dealing with over-capacities and noncompetitive structures. And we have been in discussions with the Hill and with the industry, with the administration over this issue for the past two years. We have some experience in Europe to which you refer, Senator. We went through two very painful restructuring exercises in Europe. We have done away with 50 million tons of over-capacity in steel during the 1980s and the 1990s. We have done so without taking recourse to unilaterally-imposed import restrictions. We have done so, admittedly, with very important subsidies which, in fact, were paid by the



European taxpayer. We have bailed out some of that industry in order to allow it to concentrate. Today in Europe, you have three major consortia of steel producers. That is—and you have a number of smaller, very competitive mills as you have them in the United States. But we almost have come to the highest degree of concentration which is useful, by the way, for the economy, and we have done so at great cost.

Now we had said to the United States, your problem is not the imports. Your problem is to deal with what is called here “legacy costs” of great integrated steel complexes. Some people mentioned the figure of 12 billion U.S. dollars for pension funds and other costs in relation to labor which has left the industry. Now this is the impediment for the industry to restructure, because as long as the debt is there, nobody will be interested in marrying such an attractive partner. And our analysis is that import levies will not allow this country to deal with the problem. So we have the negative effect on as a protectionist act which is against the strategy which I lined out in trade liberalization. At the same time, these negative measures do not solve your own domestic problem. So we have a lot of sympathy with the problem which is behind there. We have given some advice. We have given it in writing. And we **(tape change lapse)** been not enough consultation with us and that those measures were, in fact, announced in a way which was quite unexpected by many of us in their intense forcefulness, not to say brutality.

**SENATOR MACHADO:** Thank you. Senator Costa.

**SENATOR COSTA:** Thank you very much, Mr. Chairman. Mr. Ambassador, I, too, want to thank you for your efforts to come here and to be here for the committee this afternoon. To confirm your anecdotal story of interest between Europe and California, I've been able to participate on a number of trade missions and I was very interested in 1990, three days after our General Election, to be in Sweden meeting with the Foreign Minister and to have him ask me 72 hours after our General Election why the “Big Green” initiative in California had failed, and whether or not I thought the Southcoast Air Quality Management Plan would work. Obviously, they were looking carefully and then they were very

pleased to tell us when they took us to Volvo, that they were in the efforts to pursue clean air invoking catalytic converters. And I explained to them in 1990 that Volvos in California had catalytic converters for a number of years already.

But, there is an interest, obviously a bilateral interest, as Chairman Machado has mentioned. I have a number of questions that deal both with the global and the specific aspects of trade. Having been keenly interested in developments in Europe over the last 20 plus years from the European Common Market, to the EU, to what possibly these days may be viewed in the future as the United States of Europe, as to what your take is on the progression of the current status of that effort within the EU. Obviously, the successful adoption of the euro is a market progress in that direction. But, just as Chairman Machado mentioned, we have our federal system here and we have our individual states which are limited to—in terms of their direct access to—negotiate treaties and to expand or broaden markets. Although, I was very pleased or interested in the information you provided as it relates to California and the EU. What do you think are the long-term aspects of the progression of the European Union these days toward that expansion and development? Is internal resistance still being experienced?

**AMBASSADOR BURGHARDT:** Well, I would not call it internal resistance. I think, we have to do with the process here in which there are many actors, vested interests, but also common objectives. And one has to get, as you say, very often Europeans have to get their act together. That's the general description of the process.

**SENATOR COSTA:** We have to get our act together sometimes, too. Your notion in terms of the steel exemption is nothing more than a political fix, as we know.

**AMBASSADOR BURGHARDT:** Also, when it comes to the number of telephone numbers you need in order to reach somebody, I think we are almost at parity sometimes. But the question on where this will lead and what the obstacles are is one which will now be addressed in a kind of head-on way by this European convention. So far, we have progressed in two ways. We have progressed on the

basis of a method which was called the Monet method, Jean Monet, to create facts—and facts starting with the European coal and steel community, by the way, in the early 50s. To create facts which then create their own dynamics and which push the process forward because more and more vested interests would be there who would ask for more Europe instead of less Europe. So that is a kind of homeopathic way to enter into a process which we call a process of integration.

At the same time, we had to cope with challenges from the outside, which very often showed to our Member States where it was more useful for them to work together instead of working individually. And we have to do in Europe with a situation where, so different, so much different from the situation of the United States 250 years ago, that we cannot say that our aim is to the United States of Europe. Because United States of Europe would indicate a United States of America, a federated state.

**SENATOR COSTA:** Right.

**AMBASSADOR BURGHARDT:** We will come to some kind of federal structure. We already have federal structures with the euro and other examples. But the notion, rather, which is the one which you hear most when people try to describe the objective which we're after is a federation of nation states. So we will have much more to go for the compatibility between the nation state as the remaining surviving basic factor of our societies. But the nation state, having understood that in order to survive as a nation, you need to share some of the sovereignty and work together through common institutions. And this is why it's a federation because the common structure is a federal structure, however you like or not like the word. But based on the continuity of the nation state for the rest. And that will make the particularity of whatever construction will, in the end of the day, appear on the European Union side.

Now, when I say this European convention will address this head on, so far, we did it through a sequence of what we call intergovernmental conferences. Intergovernmental conferences are diplomatic negotiations among representatives of governance on what more they want the European Union structures to do. Since

those representatives have to cope with very complex issues, the compromises they arrive at are sometimes very difficult and complex in themselves. And this is why another method has now been chosen to put some clarity into the process in a way which associates more the citizen or the forces of society with the process, and not just the diplomats in Brussels or in the capitals. And this is why we call this a European convention. And this convention will have to address very simple issues. The first issue being: what do we want, at the European level, to take on as the common task? And what do we want Member States to continue to do on their own? A little bit the same question you have here and which was settled in Philadelphia and then went through a number of amendments and practices.

Now when you come to an answer to that question, what the European Union level is supposed to do, then you must answer the next question on how to equip the European Union level, with what kind of institutions, what kind of decision-making process, how to make sure that big Member States and small Member States find their stakeholdership in such a venture. Subjects you had in '87 between Virginia and Massachusetts and New York and the smaller states. The question on how much should such a constitution provide a protection of individual rights, fundamental rights, charter of fundamental rights, and many other questions.

**SENATOR COSTA:** But in the long view would you suggest to us today that the European Union is moving in that direction?

**AMBASSADOR BURGHARDT:** I personally—it is my personal conviction that we should move in that direction. It is from that point onwards that everybody has his own convictions and tries to weigh into the decision-making process. And I can tell you that my own professional experience of the past 35 years working with this European Union process, teaches me that there is no real other option for our Member States, because to survive in the era of globalization which will even become more—the pace of it will be quicker rather than slower. To survive as a smaller component of a global system, you need a lot of commonality with others. And this will help us to arrive at the conclusion that we need a strong European Union. But, even then, we need the next conclusion, that we need partisan friends

out there and that's where the transatlantic partnership comes in. And we hope it is a reciprocal understanding and not just one on our side.

**SENATOR COSTA:** Well, it's been a very important partnership that has overcome a lot of challenges over the decades. In terms of developing those institutions, and I would suggest that in the last decade or so, significant progress has been made in the sophisticated level of the institutions within the European Union, but is there a prioritization that actually takes place in that decision-making process among the Member States of the EU as it looks toward the question of, for example, focusing on trade versus the expansion of regionalism? I mean, you currently have a, obviously, a significant obligation or certainly an interest in Eastern Europe and its development and the expansion with the falling of the Berlin Wall and all the changes that have occurred with the former Soviet states and what's going on east of, in Eastern Europe. But how do those issues get weighed up in terms of prioritization versus the global trade issues, for example, under the World Trade Organization?

**AMBASSADOR BURGHARDT:** Well, I mean, there are two notions which come to my mind very quickly which we hear very often in our discussion which is deepening and widening, on the one hand, which means pursuing our process of internal integration, the prioritization for which starts with what we call the internal market which is the economic dimension of it heading to the political dimension, the foreign policy dimension and a capabilities dimension. Widening, not to reserve that process to the 15 Member States as they are now—started at six and coming to 15—but offering the same opportunities to the new democracies in Europe and this is where enlargement comes in. But we do not want to have enlargement at the price of diluting the dynamics of our internal process.

**SENATOR COSTA:** Well, your enlargement's been very successful in the case of Ireland and Portugal and...

**AMBASSADOR BURGHARDT:** Yes, it has. Each time it has contributed additional dynamics to the process and we want this to happen next time as well. But since the magnitude of the next enlargement is unprecedented—ten new

members, for instance, has never been the case. And members who come from such a low level of economic development. The ten countries we are speaking about represent not more than five percent of the European Union GDP. It's the economy of the Netherlands. They're 110 million people. So there's a lot of effort to be done, both in terms of economic cost, but also in terms of decision-making, and that's where the convention comes in. We need to refine our decision-making process so that we do not come to a grinding halt when it comes to taking decisions with 25.

And the third element which you pointed to when you talk about the WTO is that this process of deepening and widening, which essentially happened in the European context, is also a contribution to multilateral governance, let's call it, with that broad notion, because multilateral governance is a lot of things which we need to do together including liberalization of world trade. And if you look into the history of the past 50 years, each time we made an important step in bringing the Member States of the European communities and our Union together, we contributed to the launch of a global round. I still remember that the Dillon Round, which was the first one, happened at the time when we created the European Coal and Steel Community. When we started the European Economic Community, we started at the same time the Kennedy Round did. It was the, in fact, it was the European process which triggered the need for accommodating that process with a wider liberalization. And today, we have the Doha round which more or less will coincide with the enlargement of the European Union to Central Europe. In between we have the Tokyo Round and the Uruguay Round. Each time at the very important development. And this is quite natural, because if you have this economic elephant which is the European Union, and which is making a major step in its own integration, it has ramifications for the rest. So we want to make the rest compatible with our own development, and vice versa. And in this venture we cannot take on the task at all. And this is where, again, the transatlantic relationship comes in and the joint determination of the U.S. and the European Union to use the dynamics of our process in order to add to the dynamics of a global process.

**SENATOR COSTA:** I appreciate that explanation. I think it's helpful. Final question, and it's specific in nature, and if you don't have background in it, it would suffice that you can explain to say that you haven't had an personal experience. California and a number of other states in the country, in an effort to embark upon their own trade policy in some sort of way, have initiated trade offices in different parts of the world. And I've lost count as to what our current number is in California. Twelve? Okay, 12, and sometimes, unfortunately, I think we establish these for political reasons, our own internal political reasons. I'm always trying to get a handle on how effective these offices actually are in terms of really expanding beyond what the Department of Commerce and what other avenues that we have in terms of promoting California industries, whether they be aerospace or whether they be agriculture or whether they be high-technology or the like. Oftentimes I talk to my friends in those industries in California and who are very aggressive in Europe and Asia and elsewhere. And when I ask them if they've used the California trade office in London or in Buenos Aires, they look at me quizzically and say: "We have a trade office?" And too oftentimes when they testify before this committee and others to justify their budget each year, I think, I think they take credit for every amount of expenditures that go there whether or not they had any responsibility or not. Do you have any familiarity with these trade offices in Europe or elsewhere and do you know whether or not they really are effective in terms of promoting bilateral trade and the kinds of things that you have in this graph here are? And if you don't, you can simply take the fifth, as we say in this country—

**SENATOR MACHADO:** I think the question ought to be, are individual state trade offices important in the European Union? The broader context should be left to another discussion within ourselves.

**AMBASSADOR BURGHARDT:** Exactly. Well, I mean, I can give you an empirical answer because that is what you are, in fact, asking me to do. When I worked for 30 years on the Brussels side and, if I don't know whether I still have the final, latest figure now, but there were at least a dozen American states having offices in Brussels. As, by the way, and I don't want to enter into a territory my

German colleague here in the room knows better than I, some of the German states have offices in Brussels. But, maybe for other purposes.

**SENATOR COSTA:** I'm sure they're not political.

**AMBASSADOR BURGHARDT:** In fact, the answer to the question of what the practical use of such representations or presences are, depends a little bit on the question of Senator Karnette which we had some difficulty to exactly circumscribe a moment ago. It also depends on the kind of culture of, let's say, the balance between the involvement of state and the self-regulation of business. There are certain tasks which also on the European side, and again, on an empirical basis, business is taken on quite by itself. The big businesses for instance, don't need much other people's help because they have a lot of know-how organized within their own structures. But there is a huge chunk of our economy, our business, which needs some accompanying measures from state authorities in order to find their way. And there's where states, by the way, come in, and where our Member States, very largely, come in, and not so much the European Union and such, because it's about trade promotion. We are not, as a European Union, involved in trade promotion. We are involved in setting the regulatory framework for the rest of our Member States and our business are in competition for opportunities out there. So the answer to your question broadly would be, there is a mix between informing and helping people to find their way. Informing business in California about what is going on in the case of the European Union. I know that you have two offices, one in London, one in Frankfurt. The question you might ask yourself is whether it would be useful to add one in Brussels for that purpose, but that's of course, something which the Secretary here and the committee would want to consider. There is a mixture between informing, being well-informed about what's going on, informing your own stakeholdership, your own forces of your economy about those opportunities. That's also sometimes a kind of lobbying effect when it comes to represent a particular interest you may have in the regulatory framework setting where a state has a particular interest or is particularly far-advanced in



relation to others. So it is something where you have to figure out whether the money which that might cost is well invested.

**SENATOR COSTA:** It seems to me your suggestion is that those offices can have a benefit, but it really depends upon to what degree the state provides meaningful oversight and develops criteria and demands as to what expectations they have out of those offices. And that's part of our job.

**SENATOR MACHADO:** That's part of the debate that we have regularly.

**SENATOR COSTA:** Thank you for your time. I have a conference call...

**SENATOR MACHADO:** Mr. Secretary, you wanted...

**SECRETARY LON HATAMIYA:** Mr. Chairman, Senators, let me first of all, thank you very much for giving me this unique opportunity to be here with you today. Mr. Ambassador, usually I'm sitting where you are and answering these questions as you just saw from Senator Costa. Thank you very much for your diplomacy in answering that question. (Laughter.)

I have worn many different hats as it comes with regard to trade. As a former trade official, I spent countless hours in Brussels, in other Member State capitals. So I understand very distinctly what the federal role is. And I think the questions that have been raised today is, what's the most appropriate role for the State of California to play with the EU. And I think you answered that very distinctly and I think that a number of the issues you talked about, and I want to thank you for your insightful comments today, because they've been very enlightening to me and, hopefully, to all of us today.

It seems to me that the best use of our opportunities are to expand the practical information—the trade policies developed in Washington and in Brussels—and we'll leave it to the experts there. They have their hands full with those issues. I believe California has a role to play in providing, again, practical, day-to-day experience and how we engage in, for example, the next round of the WTO, where we have commonalities. There are many. And I understand that this evening you'll be meeting with a number of our high tech business leaders in

California where they will provide that information and oversight of the impacts upon trade policy.

I, again, believe that's really a role that the state can play. And it seems to me from your comments today, that you confirm that. What role, though, can we play in terms of being more active with the Transatlantic Economic Partnership and, taking it more specifically, I think the business dialogue? I know there have been California businesses that have been involved in that, but I think the State can play a greater role in encouraging our businesses to be even more instrumental in the development of policies as they effect our own economies. And I think that this state has probably a more diverse economic base, probably similar to the European Union's, than any other place in the country. We represent one sixth, as you've already said, of the trade from the entire United States to the EU. So I believe we have a lot more to offer than other places, and that's my question to you.

**AMBASSADOR BURGHARDT:** I think you suggested the answer, and I would not disagree with you on this one.

**SENATOR MACHADO:** Thank you, Mr. Ambassador. Mr. Scott.

**SENATOR JACK SCOTT:** Very quickly. You're talking about expanding the EU. Now what countries are you looking at expanding that to?

**AMBASSADOR BURGHARDT:** We have 12 candidate countries with whom we are engaged in accession negotiations and the 13th candidate country which has not yet reached the state of accession negotiations, which is Turkey. The other 12 are the ten countries of Eastern Europe, ranging from the Baltic states down to Bulgaria, Romania. So it's the three Baltic states, it's Poland, Czech Republic, Slovakia, Slovenia, Romania, Bulgaria. And it's Cyprus and Malta. That makes 12. Ten central European countries plus Cyprus and Malta, it's twelve, plus Turkey, 13. So that is the—now the process depends on countries to ask for membership and then for the European Union to respond to that by finding out whether the conditions for membership are fulfilled. And that process goes through various stages and the final stage of that is negotiating on an accession treaty. And we are in the last phase of that negotiation with ten out of those 13 countries. And

we hope that if everything goes well, we could finalize those negotiations by the end of this year in order to allow the year 2003-2004 to be the year of the implementation of those decisions and have these countries in the European Union as early as possible. So that is the answer to your question, what are the next Member States who are in line for membership.

**SENATOR SCOTT:** And what is your policy toward, say, developing countries? I'm particularly interested in some of the countries, smaller countries that used to be part of the Soviet Union. What do you do in terms of encouraging their economy to develop in a more, we'll say, free enterprise or capitalistic fashion?

**AMBASSADOR BURGHARDT:** By the way, I forgot to mention Hungary when rehearsing the ten. It came to my mind and that would a big, big mistake. But we are doing two things, basically. Number one, we are putting a number of criteria in front of enlargement. For instance, to have a solid democratic system, to have adopted the system of market economy, to acquire the capability of—to compete as a new member within the European Union, to acquire administrative capacity. And there is a condition which we impose on ourselves, which is that our decision-making process is being developed to a point that we can afford enlargement.

So we are working on this. This is the more, let's say, the obligatory part of it. But, there is another part which we call the pre-accession process where, from the early start in 1989-99, the European Union model worked like a kind of beacon, a magnet for these countries. When they became free of the communist system, looking around, where they would see their future, they saw their future to join this revolutionary concept, post-Second World War concept, which others had started and which was never designed to be reserved only for the Western European countries. And this worked as a kind of incentive by itself to do the necessary, undertake the necessary efforts, in order to gear up and to become capable to join such a very ambitious project.

Now this process we have underpinned through very systematic assistance to these countries. We give three billion euro a year out of our European Union budget

to the ten countries of Central Europe in order to help them to acquire administrative capacity, to finance basic infrastructure in the area, for instance, of transport and environment, in order to be able to meet the standards when they become members, or to be able to meet them in a reasonable time frame when they become members. And in order to develop their economy and, in particular, their agricultural structures. So we are investing money in that process. We are not just being here like the attractive bride and being sought after by a number of people around us. We feel that we are responsible to inference that process in a constructive way and to interact with these countries.

One of the things which may not be fully known is that since 1993, we have full free-trade agreements with all of these countries. So we are not saying here we are, here you are, we need ten years to go through a pre-accession process and negotiations and then you become a member and from that day, you have all the advantages of being a member. We are trying to establish already situations up front, which is the first time. We never did that in previous enlargements, to help the countries to acquire the capacities for members. And this is a process which we started in 1990, and which went through Europe agreements, which went through PHARE (Poland, Hungary Reconstruction and Economic Assistance) programs, financial assistance programs. A huge effort which, by the way, one of your southern neighbors here has studied very—from right close by, and when President Vincente Fox came into office, he made a suggestion that maybe NAFTA should look into a way to imitate some of the things the European Union is doing with its members and prospective members. Both members and prospective members. And when we were asked in Washington what that means, and I said, well, some of the things it means: 30 billion euro a year for structural funds, for present members who have to catch up within the European Union. Three billion euros a year as an investment for preparing new members. So, it is a matter where not only the political concept is important, but also an effort, a material effort on our side, in order to make sure that this process doesn't have to take too long, because we don't want to lose the momentum which is a unique one and which would allow us for the

first time in history to unite the European continent and a little bit more than the continent, by the way. And to arrive at a situation where Europe would not be anymore the source of military conflicts and of other catastrophes and, therefore, be the best prepared natural partner of the United States on a global level.

**SENATOR MACHADO:** Mr. Ambassador, I want to thank you for taking the time to make the presentation you made today. It's given us, I believe, a greater understanding of the European Union, its goals and objectives. I am particularly struck by the emphasis on partnership and working together, the concept of regionalism, the fact that investment is often the means to help providing people the ability to participate in a broader and global sense. And the focus on the two pillars. I use that rather than elephants because I have a hard time with the reference to elephants. (Laughter.) But, it's the obligation that we have as the European Union and the United States, to bring about economic stability and, with that, civil stability that is so much needed throughout our world. Again, thank you for taking the time to visit California. We look forward to a stronger presence of the European Union in California, and a fostering and strengthening of direct trade from California to the European Union as part of the building process to a better world. Thank you again.

**AMBASSADOR BURGHARDT:** Thank you very much.

**SENATOR MACHADO:** With that, this committee meeting is adjourned. Thank you.

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