

**THE FUNDAMENTALS OF THE EUROPEAN COMMUNITY AND THE BLACK  
SEA ECONOMIC COOPERATION  
- A RENEWED INSTITUTIONAL ARCHITECTURE FOR THE BSEC -**

**A THESIS  
SUBMITTED TO THE FACULTY OF MANAGEMENT  
AND THE GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
OF BILKENT UNIVERSITY  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION**

**By  
AYŞENUR TOPTAŞ  
JULY - 1993**

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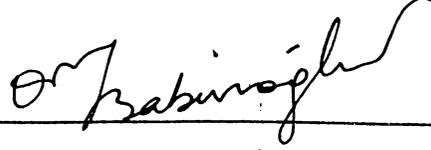
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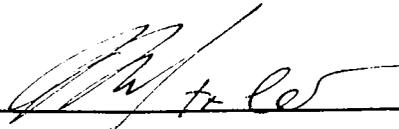
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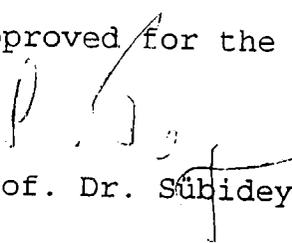
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## ABSTRACT

### THE FUNDAMENTALS OF THE EUROPEAN COMMUNITY AND THE BLACK SEA ECONOMIC COOPERATION

- A RENEWED INSTITUTIONAL ARCHITECTURE FOR THE BSEC -

AYŞENUR TOPTAŞ

M.B.A in MANAGEMENT

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There are significant differences between the basic principles and goals of the European Community (EC) and of the Black Sea Economic Cooperation (BSEC). For example, EC has been protecting its market against the products of the non-member states by means of the "Common Customs Tariff" and the "Import Quotas". But the BSEC does not introduce any restrictions on trade among the non-member states. In addition, the EC has been aiming "unification" in the political and monetary fields. Because of these reasons, it is wrong to evaluate these two structures within the same category.

The most important objectives of the BSEC are to promote the trade volume between the member states, and to develop the "collaboration" on the areas that has strong chance of success. In order to realize these objectives, the members should maintain the peace in the region, and they should establish a strong "institutional architecture". Meanwhile, by considering existing problems in the BSEC region, a "multistage development plan" should be prepared. The application of that plan by the suggested institutional architecture will be the most accurate approach.

**Key Words:** The European Economic Community (EEC), the Treaty of Rome, the European Council, the Commission, the European Community (EC), Milestones of the European Collaboration, Maastricht Treaty, the Black Sea Economic Cooperation (BSEC), BSEC Declaration, Institutional Architecture, Secretariat of the BSEC, BSEC Council of the BSEC, Commission of the BSEC.

## ÖZET

### AVRUPA TOPLULUĐU VE KARADENİZ EKONOMİK İŐBİRLİĐİNİN TEMELLERİ

#### - KEİP İÇİN YENİ BİR ORGANİZASYON YAPISI -

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Avrupa TopluluĐu (AT) ve Karadeniz Ekonomik İŐbirliĐi Projesi (KEİP)'in temel prensipleri ve hedefleri arasında çok önemli farklılıklar bulunmaktadır. ÖrneĐin, AT "Ortak Gümrük Tarifeleri" ve "İthalat Kotaları" ile kendi pazarını üye olmayan devletlerin ürünlerine karşı korumaktadır. KEİP ise, üye olmayan devletlerle ticarete sınır getirmemekte, ancak üye devletlere belirli işbirliği alanlarında öncelik tanımaktadır. Ek olarak, AT politik ve parasal alanlarda da "birleşmeyi" amaçlamaktadır. Bu nedenlerle AT ve KEİP'in aynı kategoride değerlendirilmeleri yanlıştır.

KEİP'in en önemli amaçları, üye ülkeler arasında ticaret hacminin çeşitli teşviklerle arttırılması ve başarı olasılığını yüksek alanlarda ekonomik işbirliğinin geliştirilmesidir. Bu amaçları gerçekleştirmek için, üye ülkelerin bölgede barışı sağlamaları ve güçlü bir "organizasyon yapısı" oluşturmaları gereklidir. Aynı zamanda, KEİP bölgesinde yer alan sorunları dikkate alarak, bir "aşamalı yakınma planı" hazırlanmalıdır. Bu planın, KEİP için önerilen organizasyon yapısı tarafından uygulanması en doğru yaklaşım olacaktır.

**Anahtar Kelimeler:** Avrupa Ekonomik Topluluğu, Roma Anlaşması, Avrupa Konseyi, Komisyon, Avrupa Topluluğu, Avrupa İşbirliği'nin önemli olayları, Maastricht Anlaşması, Karadeniz Ekonomik İşbirliği, KEİP deklarasyonu, Organizasyon Yapısı, KEİP Sekreteryası, KEİP Konseyi, KEİP Komisyonu.

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## CHAPTER I

### INTRODUCTION

#### I.I PURPOSE, SCOPE AND METHODOLOGY

Turkey has been involved in two major international economic cooperations. The first one is the European Community (EC) and the second one is the Black Sea Economic Cooperation (BSEC). During the last two years, Turkish businessmen and academicians have been trying to compare the economic benefits of these two structures within the light of the recent political reshaping which has taken place in the world (i.e., as it is known, in 1991, socialism has collapsed in the former USSR and in Eastern Europe. Consecutively, the former USSR has been divided into independent states).

The BSEC has been established in 1992 with an idea emanated from Turkey and it is just one year old. But the EC was established 35 years ago, in 1958, under very different political and economic conditions from those of the BSEC. However, after the BSEC has been established, especially the Turkish press has given an impression that the BSEC will accomplish the objectives of the EC within the BSEC region. These evaluations have created the major motivation for this thesis for making a detailed research on these two structures in order to contemplate their fundamentals.

At the end of the research study, after discovering the fundamentals of these two structures, a "multistage development scenario" has been built for the BSEC and a renewed institutional architecture has been proposed. During the scenario building process, the necessary steps to be taken have been identified by considering the current political and economic conditions existing in the BSEC region.

The next two chapters of this thesis have been devoted to the EC. The related research has covered the period starting from the Treaty of Rome to the Maastricht Treaty. At necessary points, the post-Maastricht developments have also been explained.

In the second chapter, historical backgrounds, basic policies and the development of the EC's current institutional system have been explained together with the current decision making procedures among these institutions.

In the third chapter, the progress of the European Collaboration is explained within the period between 1950-1992. Also, in this chapter, milestones of the European Collaboration have been identified and their major outcomes and collaborative initiatives have been explained. In addition, a special section has been added to explain the EC's collaboration process in the monetary field.

The last two chapters have been devoted to the Black Sea Economic Cooperation. In the fourth chapter, historical steps establishing the BSEC have been explained together with its objectives and its current institutional structure. Meanwhile, in this chapter the importance of the BSEC for Turkey has been stressed. Also, the opportunities for the Turkish firms within this cooperation have been explained, by considering the current difficulties as well as opportunities.

In the fifth chapter, a "multistage development scenario" has been built for the BSEC, for achieving its objectives. While developing the scenario, the existing conditions in the BSEC have been taken into account and the necessary steps to be taken at each stage have been identified for solving the existing problems in a logical manner.

Also, in this chapter, a new "institutional architecture" has been proposed for the BSEC, for coordinating and promoting the economic collaboration in this structure. This is achieved mainly by considering the institutional architecture of the EC as a model and appropriately incorporating that model to the BSEC. The "stage specific" functions and structures of each institution have also been explained together with their mutual relations.

While making these studies, it has been attempted to clarify the essential differences between the EC and the BSEC. In this way, it has been aimed that readers of this thesis will be capable of evaluating these two structures within their own domain.

Before passing on to the other chapters, it should be mentioned that this thesis study is mainly of a research type and it is based on a strong literature survey and information collection. Making analytical studies on the details of the economic data related with the BSEC and EC has been intentionally avoided, because it has been accepted that such a study should be the subject of another MBA thesis. However, reliable data sources are given as a reference.

## CHAPTER II

### THE ESSENTIALS OF EUROPEAN COLLABORATION

#### II.I THE INITIAL STEPS TOWARDS THE TREATY OF ROME

##### II.I.I Preliminary Actions

After World War II, the European countries decided to control the strategic coal and steel production plants with a common European organization since Germany had used the coal and steel sources in the Ruhr valley in an aggressive manner during World War II.<sup>1</sup>

For that purpose, in May 1950, French Foreign Minister Robert Schuman and Jean Monnet<sup>2</sup> proposed that the production of coal and steel should be controlled by a "higher authority" (Schuman Plan). According to this plan, the higher authority would be an organization that is comprised of the European states. For that purpose, in April 1951, the foreign ministers of six European countries, Belgium, France, West Germany, Italy, Luxembourg and The Netherlands,

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<sup>1</sup> *In fact the basic reason behind the attempts for European unification was to maintain harmonious development in order to avoid the superiority of a single European country. Although it is not explicitly stated in the literature, after WW II, Europe has learned the danger of a single superior country on the continent.*

<sup>2</sup> *Jean Monnet is known as the real architect of the European integration.*

signed the Treaty of the European Coal and Steel Community (ECSC) and on 23 June 1952, ECSC formally came into being.

Meanwhile, the previous attempts to form the European Defense Union (EDU) had failed. The aim of the EDU was to establish a defense union (i.e., a European army) among the European countries including West Germany. In this way the West German army would be controlled by a supranational organization. However, the French government wanted to keep its national army and the EDU failed. The difficulty to bind the European countries with a defense union became evident after this failure.

As a result, the ECSC countries started to look for other possible ways to increase the European Cooperation. In 1955, at the Messina Conference, a committee was established to study the prospects of the further integration. This committee was chaired by the Belgian Foreign Minister, Paul Henri Spaak.

### **II.I.II. The Treaty of Rome**

In 1956, the Spaak committee presented its report to the Foreign Ministers of the six ECSC countries at the Conference of Venice which was accepted as the basis for the further negotiations. In this report, priority was given to economic integration rather than political integration.

After negotiations, in March 1957, the treaties establishing the European Economic Community (EEC) and the European Atomic Community (Eurotom), were signed in Rome by the six European countries. The first six signatory countries were Belgium, France, West Germany, Italy, Luxembourg and the Netherlands. However, the Treaty of Rome officially came into force on 1 January 1958. This treaty was concluded for an unlimited period and consisted of 248 articles, 15 annexes, four "declarations of intentions" and three protocols.

In the preamble of the Treaty<sup>3</sup>, the signatory countries declared their intentions as being to "lay the foundations of an ever closer union among the peoples of Europe". The essential aim was declared as being to "improve the living and working conditions of the peoples of the Member States".

In Article 2, the objectives of the EEC were declared as being to create a Common Market and to approximate the economic policies to be achieved,

- a) A harmonious development of economic activities,
- b) A continuous and balanced economic expansion,
- c) An increased economic stability,
- d) A raising of the standard of living and
- e) To have closer relations among the Member States.

---

<sup>3</sup> After this stage, the major reference point is the Treaty of Rome. See, *the Treaties Establishing the EEC, Abridged Edition, 1987.*

In order to achieve these objectives, in Article 3, the following actions were decided to be taken. They were:

- a) Customs duties on the import and export of goods among the Member States would be eliminated together with the other measures having an equivalent effect (i.e., free movement of goods).
- b) A Common Customs Tariff and a Common Commercial Policy would be applied towards third countries.
- c) Member States would eliminate all the obstacles for the free movement of persons, services, capital.
- d) Common agriculture, transportation and competition policies would be applied by the Member States.
- e) Member States would approximate their laws to maintain the proper function of the Common Market.
- f) A European Social Fund would be established to improve employment opportunities and to raise the living standards of the workers.
- g) A European Investment Bank would be established to create fresh resources for economic growth.

In Article 9, it was mentioned that the Community would be based upon a Customs Union. So, the creation of a Common Market based upon a Customs Union was the building block of the EEC. The following paragraphs will explain the essential points of the Common Market and the Customs Union. However, their progress will be explained in Chapter II together with the overall progress of the EC.

## II.II. THE COMMON MARKET AND CUSTOMS UNION

According to the Treaty, the Common Market would be progressively established within a transitional period of 12 years, which might be extended to 15 years and it would have an irrevocable character. The Common Market would be based on a customs union covering the whole trade of the Member States.

### II.II.I Major Tools of the Common Market and Customs Union

According to the Treaty of Rome, the Customs Union would be established through a Common Customs Tariff (CCT). In this way, the Member States would progressively eliminate their respective customs duties for the goods coming into their country from another Member State. In this manner the intra-community trade would be promoted.

For the third countries, all the member states would apply the Common Customs Tariff. The logic of the CCT was to protect the Common Market from the lower priced imported goods since they might distort the intra-community trade. That's why through the CCT, the imported goods would be levied and the collected customs duties from these third country products would constitute an important part of the Community's "own resources". The related time tables were given in the Treaty having a binding status to complete the Customs Union within 12 years.

## II.II.II The Free Movement of Persons, Services and Capital

### i) The Free Movement of Persons

Article 48 of the Treaty requires the "abolition of discriminations based on the grounds of nationality for the citizens of the member countries". This article constitutes the legal basis of the labor mobility concept<sup>4</sup>. The goals of the community for labor movement can be summarized as follows.

- a) The abolition of all discriminatory measures among nationals of the member countries,
- b) The right to apply for jobs anywhere within the six countries, the right to be employed and to stay in the member countries.

In order to realize the above goals, the Council of Ministers made decisions as follows,

- a) Dissemination of information about available jobs and labor, as well as other procedures to meet the supply and demand under conditions which would avoid serious danger to the standards of living and employment in the various areas and industries.

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<sup>4</sup> See Juliet Lodge, *The European Community and the Challenge of the Future*, Chapter 6 pp 110-123.

- b) Removal of administrative difficulties.
- c) Close collaboration among national labor organizations and arrangement of social security systems for the conditions of full mobility of labor.

Right after the Treaty of Rome was signed, the Council of the Ministers decided to remove all the restrictions on the right to settle freely in any member country.

However, in the application phase, the regulations related to this subject could be adopted by the Council 10 years after the Treaty of Rome. Also some restrictions were imposed on this subject (i.e., a limited period of residence if a job couldn't be found).

#### ii) The Free Movement of Services

According to the Treaty, all restrictions on the offering of services by insurance companies, banks, financial institutions, trade companies and members of professions would be gradually removed within the Community during the transitional period.

However, the solution of the technical details couldn't be completed up to now, such as the mutual recognition of the professional degrees established in 1988.

### iii) The Free Movement of Capital

Restrictions on the movement of the capital would be progressively removed. If it is necessary for the proper working of the Common Market, restrictions on current payments related to movement of the capital (i.e., interest, dividends, rents, premiums) would be completely abolished not later than the end of the first transitional period.

The freedom of capital movements was viewed as a necessary condition for the achievement of a totally integrated market for all goods and services and for promoting the free movement of labor across borders. Also it was seen as a powerful incentive for governments to adopt economic policies for achieving price and exchange rate stability<sup>5</sup>.

In addition, opening up the EC's capital market was seen as widening the freedom of choice for European investors. In this way persons would make an efficient allocation of their savings and increase their welfare.

In fact, the free movement of the capital is closely related to the free movement of services, especially for the banking and finance sectors.

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<sup>5</sup> *These actions prepared the foundations of the European Monetary Union. In time price and exchange rate stability were viewed as prerequisites for the achievement of the EMU.*

## II.III. THE BASIC POLICIES INITIATED BY THE TREATIES OF ROME

### II.III.I Overview of the Basic Policies

The Treaty of Rome clearly defined the objectives of the EEC (i.e., Common Market) and introduced the necessary policies for achieving them. The basic policies introduced by the Treaty were the

- a) Common Agricultural Policy
- b) Common Commercial Policy
- c) Common Transportation Policy
- d) Common Trade Policy
- e) Common Regional Policy

In time, new policies, such as Industrial, Energy, Telecommunications and Merger Control mechanisms were initiated in order to regulate the other important sectors.

In the application, some of the policies were not successful and some of them are still being debated in the Community, especially the Common Agricultural Policy and Common Regional Policy. The next paragraphs will try to describe a study conducted on some basic policies. Of the basic policies, this thesis will relate the Common Regional Policy and Common Agricultural Policy in a more detailed manner.

### II.III.I.I A Study on the Basic Policies

A research which was conducted by Capplein and Molle<sup>6</sup> tried to assess the impacts of several policies on different regions. They have made a geographical division between the North (N) and South (S) parts of Europe where the Northern Regions of the EC are more rich than the Southern (Mediterranean) regions. Also they have categorized the North and South Regions as Metropolitan, Intermediate, Agricultural/Peripheral and Old Industrialized (where old Industrial plants are located) regions.

Results are indicated as + for beneficial, 0 for neutral, - for negative and ? for unknown or undeterminate. They reached the following conclusions which are shown in Table I.I. It is interesting to see that the Trade policy has not yielded a positive result. But it is also seen that Industrial Policy has reached its goal in the intermediate regions both in the Northern and Southern regions of Europe. The most beneficial regions are the "north intermediate" regions as it is seen Table II.I.

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<sup>6</sup> See Peter Coffey, *Main Economic Policy Areas of the EC Toward 1992*, "Regional Policy", written by Wilhelm Molle, pp 63-95.

Table II.I Schematic view of impacts by policy area and type of region

Effect Policy Area	Metro.		Intermed.		Agri/Perip.		Old Ind.	
	N	S	N	S	N	S	N	S
Agriculture	0	0	+	0	0	-	0	0
Industry	-	0	+	+	0	0	-	-
Energy	0	-	0	-	-	-	0	0
Transport/ Telecom	+	0	+	-	0	-	0	0
Social & Emp.	?	?	?	?	?	?	?	?
Trade	0	0	0	0	0	0	0	0
Macro-Monetary	+	0	+	0	0	-	0	0

Source: Molle and Cappelin (1988)

### II.III.II The Common Regional Policy (CRP)

When the Treaty of Rome was signed there were relatively slight differences among the signatory countries in terms of welfare, level of economic activities and the levels of income. The Common Regional Policy was initiated to achieve "Harmonious Development", which was explicitly stated in the Treaty. Hence, the following objectives were set out within the context of the Common Regional Policy.

- a) Reduce the economic imbalances (welfare, level of income, level of economic activities) among the different regions of Europe.
- b) Encourage economic development and investments in order to promote the overall progress of the national economies.
- c) Maintain and encourage the best use of natural resources.
- d) Plan the infrastructure in order to use the economic resources in consistency with regional and inter-regional aims, such as for Communications and transportation.

In order to maintain harmonious development, the European Regional Development Fund (ERDF) was established in 1975 after years of negotiations. The financial means of this fund are distributed in such a way that it would strongly favor the low income countries.

During the enlargement of the EC, the importance of the Common Regional Policy was enhanced since new members such as Spain, Greece, Ireland and Portugal had joined the EC with lower economic indicators than the previous members. The reconstruction activities were increased and "Then, the size of the ERDF was increased to 3 Million ECU in 1987. In fact, 66 percent of the funds are reserved for four Mediterranean Countries Greece, Spain, Italy and Portugal, which accommodate 36 percent of the EC population but contribute 22 percent of the GDP of the EC 12."<sup>7</sup>

The role and the responsibility of the ERDF was increased after 1984 in a decision of the Council of Ministers. In this decision new tasks were assigned to the ERDF in order to assist small and medium sized companies. Accordingly, ERDF has the following tasks:

- a) Aid to companies on questions of management and organization and guidance for the development of new products.
- b) Improve the infrastructure by stimulating the creation of agencies which compile and distribute information on product and process innovation.
- c) Give support to companies by evaluating the technical feasibility and marketing prospects of new products and production processes.

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<sup>7</sup> See Peter Coffey, *Main Economic Policy Areas of the EC Toward 1992, "Regional Policy"*, written by Wilhelm Molle, pp 63-95.

### II.III.II.I Instruments of the Common Regional Policy

Major instruments of the Common Regional Policy can be divided into two groups as:

- a) Instruments addressed to People.
- b) Instruments addressed to Industries.

However, the first one is less important than the second one. It's aim is to give help to persons who want to change location. The second tool is devoted to encouraging investments in less developed regions by financing the construction of infrastructure to make these regions more attractive to investors.

### II.III.II.II Comments on the Common Regional Policy

Although the logic behind the Common Regional Policy is correct, it is hard to say that this policy has gained success over the economic realities, since the goals of this policy have some conflicts with economic theories. As Wilhelm Molle says, "The models that have been developed to isolate the effects of 'Regional Policy' from 'normal' development showed that the Regional Policy has only had limited effects. Again, interviews with the firms in the less developed regions reached a conclusion that regional policy measures cannot be expected to affect the spatial distribution of economic activities in a big way."

### II.III.III. The Common Agricultural Policy (CAP)

At the end of World War II, agriculture in Europe had been disrupted and recovery was required immediately. In fact, before World War II, agriculture was the largest industry in Europe and it was the basis of the social and economic life. After the war, the dominant role of agriculture on the social and economic life increased its political importance. For political parties the support from the farm vote was seen as crucial to survival.

However when the Rome Treaty was signed, the facts had changed. Food was no longer scarce. Despite this fact, due to its social importance, a special policy was generated for agriculture under Articles 38 and 39 of the Rome Treaty. This policy is called the Common Agricultural Policy. Article 38 of the Treaty required that the agricultural industry should be brought into the Common Market with a "Common Agricultural Policy" (CAP). Article 39-1 of the Treaty laid down the principle objectives of the Common Agricultural Policy as follows:

- a) To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor;

- b) To ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of the persons engaged in agriculture;
- c) To stabilize the markets;
- d) To ensure the availability of the markets; and
- e) To ensure that supplies reach consumers at reasonable prices.

#### II.III.III.I Instruments of the CAP

The CAP has three basic instruments. These are for the protection of the EC market from the third country products. Also, with these instruments, it is aimed to promote the trade of the agricultural products within the Community. These instruments can be described as follows:

##### i) Price Support:

The price support mechanism operates in a simple manner. Ministers of the member states specify a price level for each product they wish to see in the Community, which is known as a target or guide price. Then world offer prices are monitored and if they fall below the acceptable price (threshold price), an import levy<sup>8</sup> (which is the second tool

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<sup>8</sup> *Import levy: An import levy is a tool which ensures that imports are not offered below the threshold price. The levy is calculated as the difference between the lowest recorded world market price quotation and the threshold price, and is payable by importers. The same levy is payable on all imports of particular commodities regardless of the offer price so that price advantages are still held by the lowest offer prices.*

of the CAP) is placed on all imports of the product which is equivalent to the difference between the target price and the world offer price.

**ii) Import Levy:**

The import levy is different and subject to change for each agricultural product. For imported products, if their prices are under the acceptable level, they are ruled out. For major products this method of price support is reinforced by intervention purchase. This instrument is triggered when internal prices fall below a level which is indicated by the Council of Ministers.

**iii) Export Restitution:**

The third instrument of the CAP is the export restitution. The EC pays exporters a subsidy equivalent to the difference between the price at which they buy within the EC market and the price they realize in the third country markets. The amounts of these refunds and the quantities to which they apply are determined periodically by the Commission.

Agriculture became a profitable industry for the agricultural population after the utilization of these tools.

By 1988, due to financial constraints, the EC began to use a budgetary stabilizing mechanism. In this mechanism, the Council determines a ceiling level of production for each agricultural product which is called a "Maximum Guaranteed Quantity". The purpose of this application was to avoid excess production in the EC market. In this way, the amount of subsidy payments would decrease.

However, two distinct reasons have led policy makers to recognize the need for change in the CAP. The first reason is the changes in the EC economy<sup>9</sup> and the second is the failure to achieve the CAP's stated goals. In fact a prime official reason for advocating change has been the CAP's unacceptable cost to the EC budget.

Accordingly, three main targets are determined as the basis for the reform in the CAP. They are stated as follows:

- a) Cutting rewards to farmers,
- b) Limiting the EC's liability, and
- c) Restricting the amount farmers sell.

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<sup>9</sup> *The new technologies increased the productivity. Large landowners started to gain more and more due to the price support mechanism and this situation deteriorated the income distribution. Also, the enlargement of the EC decreased the cost of the agricultural products. Spain increased the EC's agricultural labor by 24 percent and Portugal 12 percent. (Commission of the EC, Agricultural Situation in the Community, Report 1986:278-9).*

### II.III.III.II Comments on the CAP

The steps taken in the 1980s to limit the CAP's budget were successful. Milk surpluses appeared to be under control and cereal stocks were decreased. Despite this progress, the "Reform of the CAP" is still on the European agenda.

In fact, proposals to reform the CAP are almost as old as the policy itself, since CAP has sought to solve many internal problems by treating the world market as residual. As a result, it has dumped the EC's exports and frustrated lower priced imports. Also the USA-EC relations were deteriorated on the GATT agenda at the Uruguay round<sup>10</sup>. The USA started applying import controls on the EC goods by arguing that European imports have been highly subsidized.

However, CAP has significantly increased the wealth of the European agricultural population. Many times, the CAP has been defined as a reward to farmers. That's why the European farmers highly protest the recent EC policy revisions on the CAP, especially the reductions in the subsidy payments and levy adjustments<sup>11</sup>.

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<sup>10</sup> *The GATT Uruguay round has not been completed because of the EC's delay in reforming its Common Agricultural Policy. See Dennis Swan, The Single European Market and Beyond, pp 162-190.*

<sup>11</sup> *See Newsweek 1991 for the agricultural reforms.*

## II.IV THE INSTITUTIONAL STRUCTURE OF THE EC AND DECISION MAKING PROCEDURES

### II.IV.I The Institutional Structure

The institutional structure of the EC has been defined in Article 4 of the EEC Treaty as follows:

"The tasks entrusted to the Community shall be carried out by the following institutions:

- a EUROPEAN PARLIAMENT
- a COUNCIL<sup>12</sup>
- a COMMISSION
- a COURT OF JUSTICE

Each institution shall act within the limits of the powers conferred upon it by this Treaty". Also this article says that "The Council and the Commission shall be assisted by an Economic and Social Committee acting in an advisory capacity".

In addition, the Treaty of Rome established the European Investment Bank (EIB) as an autonomous financial institution. The role of this institution will be explained in section II.IV.I.V.

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<sup>12</sup> After 1992, the Treaty of Maastricht replaced the term "Council" with the "European Council".

In the EC institutional system, the Parliament, the Council, the Commission and the Court of Justice constitute the core institutions. Only these institutions have roles in the legislative field.

During the initial years, it was claimed that this institutional system is not democratic enough, since the Parliament had been given only a consultative role, while the Council was the sole legislator and in time, new institutional balances were set up to strengthen the institutional democracy and institutional efficiency<sup>13</sup>.

With the 1987 Single European Act (SEA), the roles of the EC institutions and their interactions during the decision making process are defined in a more democratic manner. For example, the Parliament gained the co-decision power with the Council and the Commission. Also with the 1992 Treaty of Maastricht the power of the EP was increased.

The following sections will try to relate the current structure and the functions of these institutions by taking into account the changes made by the Single European Act and the Maastricht Treaty. The interactions among the EC institutions during the decision making procedure will be explained in section II.IV.II.

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<sup>13</sup> For details about the institutionalization of the EC, see Roland Bieber, "An Ever Close Union", Chapter VII, written by Luciano Bardi and Gianfranco Pasquino.

## II.IV.I.I The European Parliament (EP)

### i) Structure of the EP

Article 137 of the EEC Treaty defines the structure and the role of the European Parliament (EP) as follows. "The European Parliament, which shall consist of representatives of the peoples of the States brought together in the Community, shall exercise the advisory and supervisory powers which are conferred upon it by this Treaty"<sup>14</sup>.

Currently, the EP has 518 representatives. The representatives in the EP are the peoples of the community states elected by "direct universal suffrage"<sup>15</sup>. The number of representatives in the Parliament has increased in time due to new memberships. The current number of elected representatives by each member state is as follows:

Belgium	24	Ireland	15
Denmark	16	Italy	81
Germany	81	Luxembourg	6
Greece	24	The Netherlands	25
Spain	60	Portugal	24
France	81	United Kingdom	81

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<sup>14</sup> See *Treaties Establishing The European Communities, Abridged Edition*, pp 259-262.

<sup>15</sup> *Direct Universal Suffrage* means an election based on secret and free votes of the citizens over the eligible age.

The elections of the representatives are performed with a uniform procedure in all member states for a term of five years. The EP elects its President and its officers among its members. Decisions of the EP are made by a qualified majority of the votes after the SEA in 1987.

#### **ii) The Functions of the EP**

Originally, the EP had "advisory and supervisory" powers, but it had limited control powers. In addition, the decisions of the EP were not binding on either the Commission or the Council. However, Council and Commission decisions should receive the opinion of the EP. In fact, this was a consultative role.

Later on, the EP started to expand its scope of action in order to obtain the attributes of a typical West European parliament.

The EP acquired the right to control the EEC budget in 1975. Since 1975, the EP has the sole right to approve the EC's budget. In 1977, the Commission accepted the introduction of proposals after they had won the EP majority support. In 1984, under the Draft Treaty establishing the European Union, the EP gained the opportunity of debating and voting on Commission programs and international agreements presented to it. Also the EP has gained the authority for approving the Commission's political program.

After the Single European Act in 1987, the EP obtained the power to vote on the new membership applications to the Community and the EP has started to join the decision making mechanism in an effective manner.

The power of the EP is also increased with the 1992 Treaty of Maastricht. This time the EP has acquired the right to vote on the appointment of the Commission as a whole. Also, the EP has gained the right to reject a proposed legislation.

The effective participation of the Parliament in the decision making mechanism increased the legitimacy of the Union. The role of the EP will be further emphasized in the EC policy making mechanism section.

## **II.IV.I.II      The European Council**

### **i) The Structure of the European Council**

According to Article 145 of the Treaty "the Council shall consist of representatives of the Member States appointed by their respective governments. Each Government shall delegate to it one of its members". This means that each of the representation groups are led by the minister of the respective government who is permanently responsible for European Affairs.

The ministers in the Council are called "The Council of the Ministers". The Council presidency rotates every six months among the Member States according to the alphabetical order of the names of the states as written in their own language. The Council is required to act with a majority of its members. According to Article 148-2, the votes of the Member States are weighted as follows:

Belgium	5	Ireland	3
Denmark	3	Italy	10
Germany	10	Luxembourg	2
Greece	5	The Netherlands	5
Spain	8	Portugal	5
France	10	United Kingdom	10

#### ii) The Functions of the Council

The Treaty clearly states that the Council "has power to make decisions". This statement explains the authority of the Council in the institutional structure. In the Treaty there is no such statement for any other institution. However, after the SEA, the EP has acquired the right of co-decision with the Council.

The EC's actual legislature is the Council. The Council lays down the essentials of the EC level decisions and it may impose certain requirements for the implementation phase.

Also, the Council reserves the right, in specific cases, to exercise directly implementing powers itself after gaining the permission of the Commission and after receiving the opinion of the EP.

The Council ensures the coordination of the general economic policies of the Member States by using its basic function which is "decision making".

#### II.IV.I.III The Commission

##### i) The Structure of the Commission

The structure of the Commission is defined in Article 157 of the Treaty as "The Commission shall consist of seventeen members, who shall be chosen on the grounds of their general competence and whose independence is beyond doubt". Also, according to this article "the members of the Commission shall neither seek nor take instructions from any Government or from any other body". In practice, Germany, France, Italy and the United Kingdom have two Commission members while the other Member States have one Commissioner. The members are appointed by the Governments of the Member States for a term of four years. The selection of the Commissioners is highly political. However, the Court of Justice is the responsible organ to control the commissioners' performance and independence.

The president of the Commission is appointed by the Council for a term of two years. Then the president selects the other members. Finally, the EP votes on the appointment of the whole Commission.<sup>16</sup>.

The Commission is supported by a bureaucratic system which is headed by a secretariat. The secretariat consists of 12,000 officials, translators and interpreters<sup>17</sup>. Also several Directorates work on EC subjects in the secretariat.

#### ii) The Functions of the Commission

The responsibilities of the Commission are defined in Article 155 of the Treaty as follows: "In order to ensure the proper functioning and development of the Common Market, the Commission shall:

- a) Ensure that the provisions of this Treaty and the measures taken by the institutions pursuant thereto are applied,
- b) Formulate recommendations or deliver opinions on matters dealt within this Treaty, if it expressly so provides or if the Commission considers it necessary,

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<sup>16</sup> This right was given to the EP after the 1992 Maastricht Treaty.

<sup>17</sup> The EC has nine official languages.

- c) Have its own power of decision and participate in the shaping of measures taken by the Council and by the European Parliament in the manner provided for in this Treaty,
- d) Exercise the powers conferred on it by the Council for the implementation of the rules laid down by the latter."

Another responsibility of the Commission is defined in Article 156 as follows, "The Commission shall publish annually, a general report on the activities of the Community." Also, the Commission has the responsibility of preparing and implementing the budget of the community after its approval by the Parliament and the Council. Although the Treaty describes the functions of the Commission in these articles, it is necessary to explain them further in a more practical manner.

In practice the Commission is the "think tank" and the "policy generator" of the EC. Mainly, the Commission prepares proposals in an independent manner for the development of the Community. The basic aim is to serve the interests of the EC without regarding national interests. That's why the Treaty strictly requires the independence of this institution. However, the independent proposals are prepared through a process of consultation with leading Euro-level interest groups and national experts.

Also the information coming from the European and foreign offices of the Commission plays an important role during the proposal preparation process.

The operation of the Commission requires a close collaboration with the Council and the Parliament while executing its activities. The relations of the Commission with other EC institutions will be explained in the "EC decision making procedures" section.

#### II.IV.I.IV      The Court of Justice

Article 165 of the Treaty relates that "The Court of Justice shall consist of thirteen Judges". Also the Treaty states that "the Court of Justice shall be assisted by six Advocates General". The Judges and Advocates General shall be chosen from persons whose independence is beyond doubt and who possess the qualifications required for appointment to the highest judicial offices in their respective countries. Each EC country nominates one judge to this organization. There is an additional member to enable the court to reach decisions by a majority vote. The most important tasks of the Court of Justice are as follows<sup>18</sup>; the Court of Justice shall,

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<sup>18</sup> For details, see *The Treaties Establishing the European Communities, Abridged Edition, Articles 164-187.*

- a) Review the legality of acts of the Council and the Commission other than recommendations or opinions.
- b) Have jurisdiction in any other dispute between Member States related to the subjects of the Treaty, if the dispute is submitted to it under a special agreement among the parties.
- c) Have jurisdiction to make preliminary rulings concerning the interpretation of the Treaty and the validity and interpretation of acts of the institutions of the Community.

#### II.IV.I.V The European Investment Bank (EIB)

The European Investment Bank which was created by the Treaty of Rome is an autonomous institution within the Community. The members of the EIB are the Member States of the EC, who have all subscribed to the Bank's capital. The EIB finances the projects that serve mainly the following objectives<sup>19</sup>:

- i) Supporting the economic advancement of less developed regions,
- ii) Improving the transport and telecommunications infrastructure,

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<sup>19</sup> For more information on the EIB, see the *European Investment Bank, 1992 publication of the EIB*.

- iii) Improving the quality of life and promoting urban development,
- iv) Supporting the activities of the Small and Medium Sized Enterprises through global loans, and
- v) Enhancing the international competitiveness of industry and its integration at Community level.

The EIB has its own legal personality and it is managed by a Board of Governors. The Board of Governors consists of twelve ministers designated by the Member States, usually Finance Ministers. Also, the Bank has its own Management Committee and an Audit Committee.

#### II.IV.II EC Decision Making Procedures

The EC has an unique character among the international organizations since, it has a decision making process whose outputs are both binding upon the Member States and take precedence over the national legislation. The primacy of Community law over national laws has been clearly established by the European Court of Justice<sup>20</sup>. After pointing out this uniqueness, it will be more interesting to investigate how the EC makes the decisions and how it applies these decisions.

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<sup>20</sup> See Nicholas Cochester and David Buchan, *Europower "The Essential Guide to Europe's Economic Transformation in 1992"*, pp 131-143.

Traditionally, EC decision making results are known mostly by the results of the Commission-Council dialogue. However, we know that the EP has inserted itself to this process with increasing effectiveness since the first direct elections in 1979. By ensuring the participation of the EP in the decision making process, it can be said that the citizens of the EC gained power over this process, since the members of the EP are selected by "direct universal suffrage".

In 1992, the Treaty of Maastricht introduced the concept of "Subsidiarity". This means that decisions are to be made at the lowest effective level (i.e., as close as possible to the citizens who will be affected). So, decisions will only be taken at the EC level if that is the only effective way to decide on the issue. All other decisions are left to national governments.

Before proceeding with the EC level decision making process, it is necessary to mention the following facts. The EC decision making procedures are different in the legislative<sup>21</sup>, budgetary and political fields. Also the cooperation and consultation procedures are different on these subjects. In the following sections, the EC level legislative decision making procedures will be described in a more detailed manner than the budgetary and political decision making procedures.

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<sup>21</sup> *Legislative decisions are made to accomplish the policies of the Community.*

This section will try to explain the interactions between the EC institutions during the current decision making procedures. At the beginning of the procedural steps, it will be helpful to examine the types of EC level decisions.

#### II.IV.II.I      **The Decision Types**

The EC level decisions are made under the name of "Laws" which have different effects in the application phase. The type of the Laws are<sup>22</sup>;

- a) **Regulations:** A regulation is a law which is binding and directly applicable in all the Member States without implementing any national legislation. Both the Council and the Commission can adopt regulations.
- b) **Directives:** A directive is a law which has a binding effect on the Member States as to the result to be achieved. However, the Member States are free to choose their own method of application.
- c) **Decisions:** A decision is binding entirely on those to whom it is addressed. It may be not only a member state, but also EC citizens and companies. Primarily, the Council has the power to make decisions, but in particular cases the Commission has the power to adopt Council decisions.

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<sup>22</sup> For details, see *Commission of the European Communities, Current Status, 1988*.

- d) **Recommendations:** A recommendation has no binding effect. In fact it is not a law. Recommendations can be adopted by both the Council and the Commission.

#### II.IV.II.II The EC Decision Making Procedures

The EC institutions have different roles in the legislative and budgetary decision making processes. However, among these procedures the legislative procedure is the most important one. The following section will try to explain the legislative procedure.

##### i) Legislative Procedure:

The EC's legislative procedure has been revised after the Single European Act. Since then, the EP has obtained the cooperation power with the Commission and the Council. This new legislative procedure is called "Cooperation Procedure". The operation of this procedure can be clarified as follows:

**Step I:** The Commission consults Euro-level and national interest groups which are related to the subject and prepares a "proposal". Then the Commission sends the proposal to the Council.

**Step II:** Without doing anything, the Council sends the proposal to the European Parliament and Economic and Social Committee (ESC)<sup>23</sup> for an "opinion".

**Step III:** A relevant committee of the Parliament considers the proposal and may suggest changes in it. Then the Parliament decides in its "first reading" session to reject, change or amend the proposal after a majority vote. The Parliament sends the result to the Commission and the Council. Also the ESC sends its opinion to the Commission and to the Council.

**Step IV:** Upon the receipt of the opinions, the Commission may prefer to work on the proposal by making revisions or it may withdraw the proposal.

**Step V:** If the Commission changes its proposal to reflect the Parliament's wishes, then the Council starts to examine the new form of the proposal. At this stage the Council tries to reach a "Common Position". The Common Position is a breakthrough that is being sought in European Law. It means that twelve governments have an agreement on the proposal by reshaping it or accepting it as it is with a qualified majority. If reshaping is necessary by the Council, then a close Commission-Council dialogue starts. In any case, the Council reaches a Common Position.

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<sup>23</sup> *The Economic and Social Committee has an advisory role and consists of the representatives of employer organizations, trade unions and other Euro-level interest groups.*

**Step VI:** The Proposal on which the Council reached a Common Position is sent to the Parliament again by the Council. Repeatedly, the relevant committee of the Parliament starts to discuss the Proposal and submits the conclusion to the Parliament's "Second Reading" session. Here the Parliament has a time limitation. It should send the proposal to the Commission within three months, whether it accepts, rejects, or amends it.

**Step VII:** The Commission starts to work on the proposal and within one month it sends the final form of the proposal to the Council.

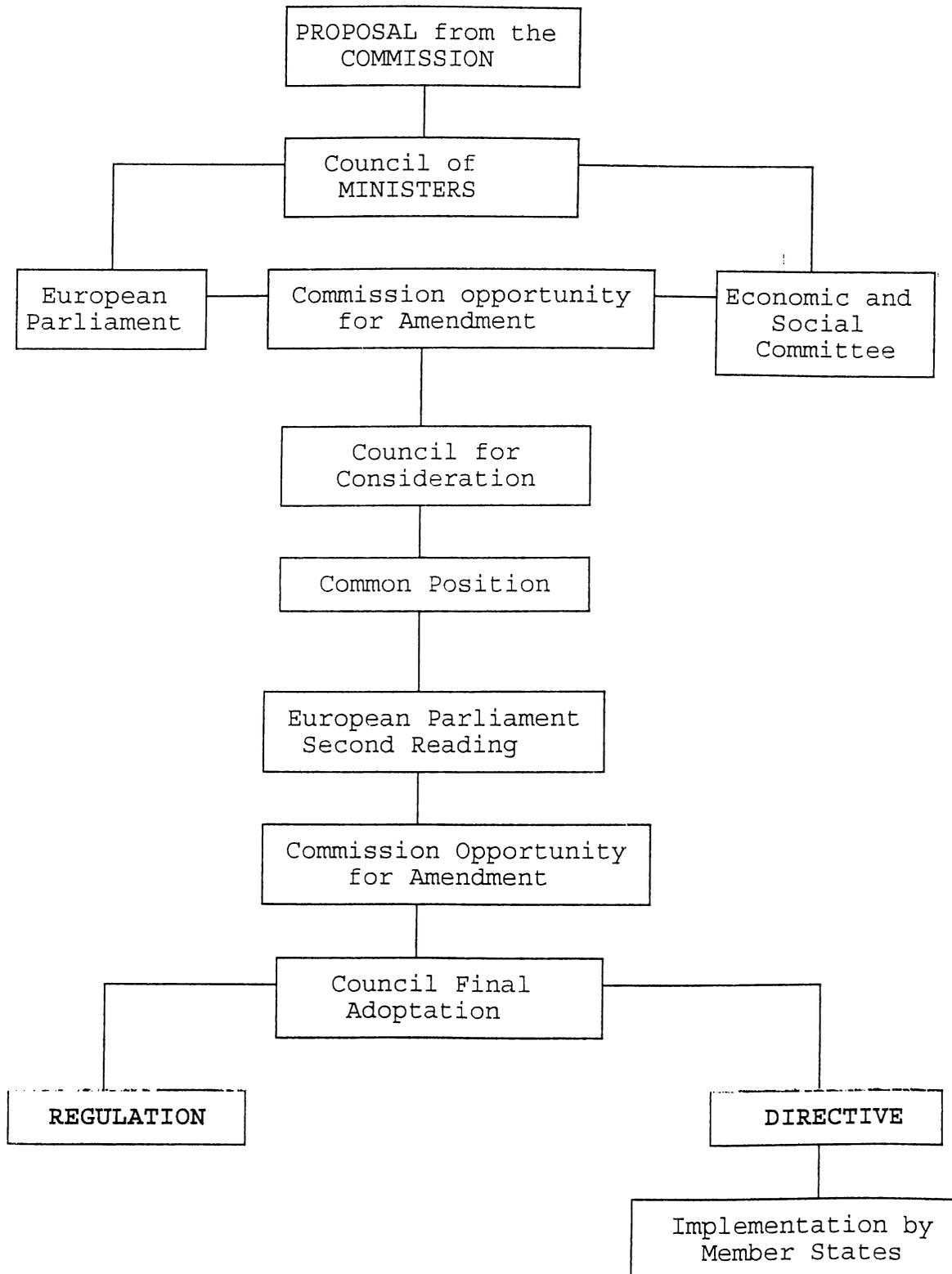
**Step VIII:** Here is the final step. The Council may accept the final form of the Proposal with a majority vote or amend it unanimously. Then a "directive" or "regulation" is issued by the Council depending on the subject. However, in some cases, the EP has the right to reject the application of a final proposal<sup>24</sup>.

The above mentioned steps are illustrated as a flowchart in Fig II.I. In the EC, it is believed that this procedure has increased the legitimacy of the Community, since it has assured the effective participation of the Parliament.

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<sup>24</sup> This right was given to the EP after the 1992 Treaty of Maastricht.

## EC LEGISLATION FROM START TO FINISH



### I.IV.III The Identification of the Institutional Revisions Made by the SEA

The following explanations were already embodied in the previous sections. This section is devoted to identifying the revisions made by the SEA in the decision making procedures of the EC.

Before the SEA, as it was stated in the Treaty of Rome, the institutional bodies, especially the Council were obliged to make decisions by an unanimous vote. The SEA changed this requirement to a "qualified majority"<sup>25</sup> in order to speed up the legislative process. However, the Council is only required to act unanimously on the subjects of "harmonization of legislation concerning turnover taxes, excise duties and other forms of indirect taxation."<sup>26</sup>

Additionally, the SEA gave the Parliament Cooperation Power with the Council in the legislative process. Article 7 of the SEA amending Article 149 of the EEC Treaty states that, "Where, in pursuance of this Treaty, the Council acts in cooperation with the European Parliament". In fact, this was the co-decision power. This process was explained in section II.IV.II.II. In this manner the questions of establishing a more democratic legislation were answered.

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<sup>25</sup> A qualified majority is two thirds of the votes.

<sup>26</sup> See Article 17 of the SEA amending Article 99 of the EEC Treaty.

#### II.IV.IV The Effect of the Treaty of Maastricht on the EC Decision Making Procedures

After the SEA, the objections on the operation of the EC's institutional architecture were not finished. Especially, Britain and Denmark were claiming that the Commission had grasped the power of the local authorities. They also claimed that ceding power to Commission would lead to a dangerous centralization. To counter these objections, the president of the Commission, Jacques Delors announced a novel principle. This was the principle of "Subsidiarity". It would be used to preserve the national diversity and the local autonomy of the Member States. The EC would limit executive jurisdiction only to "appropriate levels" where EC states cannot act alone.

This principle introduced in the Treaty of Maastricht as "bringing the process of European Unity closer to the citizens." This meant that decisions were to be made at the lowest effective level (i.e., as close as possible to the citizens who will be affected). So, decisions will only be made at the EC level if that is the only effective way to decide on the issue. All other decisions are left to the national governments.

Education provides an example of subsidiarity in action. According to the subsidiarity principle, the national governments would be fully responsible for the

content of education and the organization of education systems. The EC's role would be to support and supplement the actions of the Member States.

The reason behind the subsidiarity principle was to answer the complaints of the Member States on the dominant position of the EC institutions over the local authorities and local policies. The subsidiarity principle manifested the increasing centralized power of the EC institutions and the repel of the national governments on this situation.

At the Lisbon Meeting of the European Council in June 1992, the Heads of States or Governments stressed the need for the strict application of the subsidiarity principle, both in existing and future legislation. Then, the European Council and the Commission determined the practical and procedural steps to implement the principle of subsidiarity and a report was presented to the Council at its Edinburgh Meeting in December 1992<sup>27</sup>.

Also, the Treaty of Maastricht increased the power of the European Parliament. The details of this subject were explained in section II.IV.I.I.

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<sup>27</sup> For details, see "EC bulletin", Volume 25-6, p 8.

**CHAPTER III**  
**THE EVOLUTION OF THE EUROPEAN COLLABORATION**  
**(1950-1992)**

**-A HISTORICAL SURVEY AND IDENTIFICATION OF THE MILESTONES-**

As it was explained in Chapter II, after the 1950s, the European States started to increase their collaboration in order to maintain the peace and harmonious development on the continent. Since then, a new era has started in Europe. Gradually, the European countries used their political will to become a single community, which was also integrated by monetary and political means.

Thus, this chapter is devoted to explain the evolution of the European Collaboration. While undertaking this study, milestones of the European Collaboration are determined in a chronological order. In this study, a milestone is accepted as an important event or decision having a special influence on the evolution of the European Collaboration.

**III.I THE EUROPEAN COLLABORATION IN THE 1950s**

**MILESTONE I:** In 1952, the European Coal and Steel Community (ECSC) was established among the six European States. The founder states of the ECSC were; West Germany, France, Italy, Belgium, the Netherlands, and Luxembourg.

The most important collaborative initiative for the establishment of the ECSC was to maintain the joint control of European States over coal and steel production. The most important outcome of the ECSC was the achievement of the first Franco-German collaboration in a European level organization after World War II. In fact, without that, a persistent European Collaboration would be impossible.

**MILESTONE II:** As it was explained in Chapter II, in 1957, the Treaty of Rome established the European Economic Cooperation (EEC) among the six members of the ECSC. At that time, the best way to improve the European Collaboration was to increase the economic relations among the member states. In fact, the ECSC alone was not sufficient to increase the European Collaboration. Also, it was almost impossible to establish a political collaboration because of the strong concepts of nationalism.

The most important collaborative initiative for the establishment of the EEC was to control the growth of German economy and to maintain a balanced economic growth in Europe. In fact, the ECSC was not sufficient to fulfill this objective.

The first important outcome of the EEC was the establishment of the Customs Union in 1968.

In fact, a genuine European Collaboration process was started with the establishment of the EEC with the Treaty of Rome. There were a strong common political will, clear objectives and the essentials of the basic policies for establishing the EEC in this Treaty.

### III.II THE EUROPEAN COLLABORATION IN THE 1960s

**MILESTONE III:** In 1965, the Member States of the ECSC, Eurotom and EEC decided to merge these organizations and called this structure the "European Community" (EC).

The major collaborative initiative for that action was to put the European Collaboration on a single legal ground. However, the EC accepted to advance on the course of the EEC to accomplish the goals of the Treaty of Rome.

**MILESTONE IV:** The first aim of the Treaty of Rome was to establish a Common Market<sup>28</sup> by creating a Customs Union<sup>29</sup> among the first six signatory countries within a twelve year transitional period. The six founder states abolished the customs duties among them in 1968, one and a half year ahead of the schedule by establishing a Common Customs Tariff (CCT).

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<sup>28</sup> The Common Market was defined in the Treaty of Rome as a region in which goods, persons, services and capital move freely covering the whole EEC region.

<sup>29</sup> The Customs Union was the prerequisite of the Common Market because the basic goal of the Customs Union was to eliminate the Customs Duties and formalities among the Member States.

The major collaborative initiative for the establishment of the Customs Union was to create the Common Market as soon as possible.

The most important outcome of the Customs Union was the increase of the intra-community trade volume, because the CCT was led to the adoption of a single customs barrier for all imports from the non-Member States to the EEC. In this way, a trade barrier was established between the EEC and the rest of the world. This was necessary for the promotion of the intra-Community trade. From the establishment of the EEC in 1958 up until the first enlargement in 1972, trade in all products among the six member states increased from 7 bn to 54 bn units of account. Meanwhile, the export of the ECC countries to non EEC countries stood at 9%, whereas intra-Community trade grew by over 16%<sup>30</sup>. In addition, Member States started to reduce the cross-border checks.

### III.III THE EUROPEAN COLLABORATION IN THE 1970s

During the 1970s, the EEC started to enlarge, however it lost its previous momentum. The following paragraphs will clarify the enlargement process and its consequent problems.

The first round enlargement of the EEC was realized after the following developments.

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<sup>30</sup> See Roland Bieber-Renaud Dehousse, 1992: *One European Market?, The Basic Strategies of the Commission's White Paper*, written by Helmut Schmitt von Sydow, pp 79-106.

### III.III.I The First Round Enlargement of The EEC

During the negotiations for establishing the EEC, the United Kingdom had claimed that the logic behind the Treaty would restrict her national sovereignty. Instead, the British government had proposed establishing the European Free Trade Area (EFTA), where the tariffs among the members would be eliminated, but each member country would preserve its freedom of trade relations with non-members. In 1959, one year after the establishment of the EEC, the EFTA was established among the United Kingdom, Norway, Sweden, Denmark, Austria, Portugal, Iceland and Switzerland with Finland as an associate member.

However, the logic of the EEC and the logic of the EFTA was different, because EEC was aiming to protect the EEC market from the other countries in order to promote the trade in its territory, whereas the EFTA had no restriction on the trade relations with third parties.

At a later date, the UK felt politically isolated by remaining outside the Community. The UK had also perceived the rapid growth of the EEC market. Hence, the British government decided to make a membership application to the EEC in order to revitalize her economic situation. In addition, at that time the UK had started to lose its dominant position in the Commonwealth market due to the changed world trade pattern.

In August 1961, the UK made its first application for full membership. However, in 1963 General De Gaulle broke off the negotiations because of his deep mistrust of the intentions behind the UK's application for membership. For that reason the UK application was rejected. In 1967 the UK applied for the second time, but the French government was still resisting. General De Gaulle left the political arena in 1969 and in 1972 the UK became the seventh member of the EEC and when Denmark and Ireland became EEC members in 1973 the number of EEC members increased to nine.

### III.III.II      **The Consequent Problems of the EEC After the First Round Enlargement**

Following the first round enlargement of the EEC, the momentum of the legislative process started to decrease. Even the process of removing technical barriers had slowed down considerably because of the adaptation problems of the new members. More than that, the oil shock of 1970s obliged the member states to use internal economic policies and they neglected significantly their obligations to the EEC.

Thus, the loss of legislative momentum led the Commission to initiate less than 100 proposals per year during the 1970-1980 period. Because of this decline, European firms and citizens lost their confidence in the future of the Common Market.

Mr. Helmut Schmidt explained this situation in his own words as, "While the Council got stuck with the technical details of the pending proposals, the Commission and the European Parliament were increasingly aware of the macroeconomic damage and the loss of confidence for the future of the EEC."<sup>31</sup>.

**MILESTONE V:** In 1979, the European Monetary System (EMS) was established. This was the only milestone of the 1970s.

The most important collaborative initiative of this milestone was to protect the intra-Community trade from currency rate fluctuations.

The most noticeable outcome of the EMS was the creation of a Stable Currency Area which based on hypothetical currency named ECU. The success of the EMS led the policy makers to think on a Monetary Union. The Delors Committee has fulfilled this mission, and with the 1992 Treaty of Maastricht, the creation of EMU has officially started.

The details of the EMS and the collaboration of EC in the monetary field will be given in section III.VII of this chapter.

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<sup>31</sup> See Roland Bieber-Renaud Dehousse, 1992: *One European Market?, The Basic Strategies of the Commission's White Paper, written by Helmut Schmitt von Sydow, pp 79-106.*

### III.IV THE EUROPEAN COLLABORATION IN THE 1980s

Starting from the mid-1970s, the Commission was very upset with the decline of the legislative momentum because the creation of the Internal Market was significantly neglected. On June 1981, the Commission raised the alarm, but that year no tangible results were obtained. In November 1982, the Commission prepared a paper on "relaunching the internal market". Urgent problems were stated in this paper. Then the Council, at its meeting in Copenhagen in December 1982, decided to take action on the thirty proposals of the Commission which were prepared on the priority subjects related to the internal market and specific deadlines were determined. Thus the Copenhagen Meeting triggered the period of "revitalization".

Meanwhile, in 1981 Greece entered into the EC as the tenth member and the second round of enlargement started.

#### III.IV.I The Period of Revitalization

After two years of negotiations, the EEC countries made their commitment for the revitalization and the creation of the Single European Market (SEM). Finally, the Council, at its meeting in Brussels in March 1985, addressed the Commission to prepare a detailed program and a realistic timetable to create the SEM by 1992. Also, the Council wanted the Commission to prepare a detailed report before its next meeting.

**MILESTONE VI:** In June 1985, the Commission prepared a document named the White Paper. This document introduced the proposals which were necessary for completing the Single European Market.

The collaborative initiative of this milestone was to speed up the efforts to complete the Common Market.

The most important outcome of the White Paper was the Single European Act (SEA). In 1987, the SEA was put the measures of the White Paper into application.

In fact the most fruitful result of the revitalization process was the issue of the "White Paper". The White Paper is of significant importance in the progress of the European Community. This is among the most important milestones of the 1980s. That's why the following section is devoted to an explanation of the White Paper.

Meanwhile, in 1986, Spain and Portugal entered into the EC and the number of EC members reached 12.

### **III.IV.II The White Paper**

The White Paper was prepared by a British Commission member, Lord Cockfield. That's why the White Paper is also known as the "Cockfield Report". This Paper set out the

essentials and the logical sequence for the creation of the Common Market. The contents and the importance of this paper can be described as follows.

As it is known, the EEC progress had slowed down during the 1970s. During this period no recordable progress was achieved on the removal of the free movement of goods, services and capital. The White Paper guided and speed up the creation of the SEM. Later, the European unification was based on the targets of the White Paper. After the White Paper was accepted by the Member States, the Single European Act was signed in 1987 to implement the proposals of the White Paper.

First of all, the White Paper stated the compliance of the Commission for the time wasted during the negotiations<sup>32</sup>. Paragraph 7 of the paper says, "The time for talk has now passed. The time for action has come. That is what this White Paper is about."

At the conclusion of the White Paper, in paragraph 219, the reason and the urgency for creating the SEM were explained in a cautionary manner with the following statement. "Europe stands at a crossroads. We either go ahead or we drop back into mediocrity. We can now either

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<sup>32</sup> *After the Copenhagen Meeting in 1982, the Heads of the European Governments repeated their political will and their commitments to achieve the SEM first at Fontainebleau and second at the Dublin Meetings in 1984.*

complete the integration of the European economies or through a lack of political will, we can allow Europe to be no more than a free trade area."

According to the White Paper, the measures that needed to be taken were classified into three parts. They were:

- i) Part one: Measures for the removal of Physical Barriers
- ii) Part two: Measures for the removal of Technical Barriers
- iii) Part three: Measures for the removal of Fiscal Barriers

i) The Removal of Physical Barriers<sup>33</sup>

The White Paper has paid special attention to the removal of physical barriers at the customs posts. Why? Because the passports and the occasional search of personal belongings at the customs posts were the obvious proof of the continued division of the Community for an ordinary citizen. Moreover, these barriers were imposing unnecessary delays, formalities and costs for trade and business.

Although the customs duties and quantitative restrictions were abolished, the customs posts at internal frontiers had continued to exist to control illegal actions such as the drug trade, terrorism and immigration.

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<sup>33</sup> The following information is mostly taken from the content of the White Paper.

The target of the Commission for 1992 was explained in the White Paper as follows. "By 1992, the Commission wishes to arrive at the stage where entry checks are abolished for the Community citizens arriving from another Community country."

**ii) The Removal of Technical Barriers**

The removal of technical barriers means that goods and people moving within the Community should not find obstacles inside the different Member States as opposed to meeting them at the borders. In order to achieve this goal, the White Paper proposed the determination of the "European Standards". However, during this period, each country was obliged to recognize the standards of the goods which were lawfully produced in another Member Country. This principle is called "Mutual Recognition"<sup>34</sup>. The main purpose of this decision was to eliminate the barriers on trade which were aroused due to the differences in national standards.

**iii) The Removal of Fiscal Barriers**

For the removal of the fiscal barriers, the White Paper proposed the harmonization of the tax systems of the Member States. However, this was among the most complex subjects

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<sup>34</sup> *Mutual Recognition is based on a decision of the Court of Justice. The Court of Justice decided that the sale of the Cassis de Dijon wine in Germany is legal, although the level of alcohol in this drink was too high for German wine standards.*

with which the Commission had been faced. However, the details of this subject are out of the scope of this thesis.

### III.IV.III      The Single European Act (SEA)

**MILESTONE VII:** After the acceptance of the White Paper by the Council, the Single European Act was signed by the Member states on February 1986 in The Hague city of the Netherlands. The SEA came into force on July 1987. After the Treaty of Rome, the SEA was the second material from which the EC assumed legal power.

The collaborative initiatives of the SEA were the followings;

- i) To accelerate the completion of the Common Market by putting the measures of the White Paper on the legal background of the European Community.
- ii) To revise the institutional operation in a more democratic manner.
- iii) To emphasize the requirement of collaboration in the sphere of foreign policy and the establishment of the Economic and Monetary Union.

The most important outcome of the SEA was the 90 % completion of the Common Market in 1991. Also, the Delors Committee was finished to prepare the essentials of the Economic and Monetary Union (EMU) in 1988.

### i) Specific Aspects of the SEA

The first aim of the SEA was to put the measures of the White Paper into a legal framework in order to create the Common Market<sup>35</sup> in a period expiring on 31 December 1992. Without such a legal background, it would be possible to have difficulties in the application because of the differences in national preferences and priorities.

It is known that, the Treaty of Rome had required the establishment of the Common Market on the basis of the Customs Union. Although the Customs Union had been realized by the end of 1968, the creation of the Common Market had not been achieved up until 1987.

This event has shown that the Treaty of Rome alone had not been successful for achieving the Common Market, although it had strong binding requirements. The SEA was required in order to create the SEM. Ideally, there should not be a necessity for the SEA as the second legal basis of the EC.

Also, in the SEA, the arguments about the problems on the operation of the institutional mechanism were answered.

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<sup>35</sup> *The SEA uses the term "internal market" instead of Common Market. In literature "internal market", "common market" and "Single European market" are used interchangeably. In Article 13, the SEA defined the internal market as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" which is the same as the definition of the Common Market given in the Treaty of Rome.*

The EC countries thought that the SEA was a chance to revise the institutional mechanism. These changes can be explained as follows.

Firstly, before the SEA, the institutional structures, especially the Council, were obliged to make their decisions "unanimously" according to the Treaty of Rome. The SEA changed this requirement to a "qualified majority"<sup>36</sup> in order to increase the legislative process. However, the Council is only required to act unanimously on the subjects of "harmonization of legislation concerning turnover taxes, excise duties and other forms of indirect taxation."<sup>37</sup>

Secondly, the SEA gave the Parliament Cooperation Power with the Council in the legislative process as it was mentioned in section II.IV.III.

Thirdly, the attempts to establish the European Union<sup>38</sup> among the EC countries in the sphere of foreign policy, and the attempts to establish the Economic and Monetary Union (EMU) were explicitly stated as the future goals of the Community for maintaining the convergence of the macroeconomic policies. The details of the Economic and Monetary System is given in section III.VII of this chapter.

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<sup>36</sup> A qualified majority is two thirds of the votes.

<sup>37</sup> See Article 17 of the SEA amending Article 99 of the EEC Treaty.

<sup>38</sup> The political will of the EC countries to establish the European Union was dictated in the Solemn Declaration of Stuttgart in June 1983. Also the European Parliament had accepted the Draft Treaty Establishing the European Union in 1984.

In conclusion, the SEA had achieved the following objectives:

- i) The SEA established the second legal background for the creation of the Common Market.
- ii) The SEA revised the institutional operation in a more democratic and efficient manner.
- iii) The SEA emphasized the requirement of political cooperation, especially in the sphere of foreign policy, and the establishment of the Economic and Monetary Union as the future goals of the EC.

#### III.IV.IV The Period Beyond The Single European Act

The period of revitalization has continued with an accelerated speed after the SEA. The attempts to establish the EMU started immediately with a commission chaired by Jacques Delors, who was the president of the European Commission. Also, the Commission started to initiate the proposals to create the Common Market.

After 1987, proposals of the White Paper started to be adopted with an accelerating speed for completing the Common Market. At the end of 1991, 34 years after the Treaty of Rome, it became clear that the Common Market would be

completed by the end of 1992, because 90% of the White Paper proposals had been adopted up until that time<sup>39</sup>.

After this success, the EC members started the intensification period in order to increase the degree of cohesion in the community and they decided to take the necessary actions to become a Union. In order to do this, the EC members tried to introduce a new Treaty which will be the third legal basis of the community apart from the Treaty of Rome and the Single European Act.

### III.V THE EUROPEAN COLLABORATION IN THE 1990s

**MILESTONE VIII:** On 7 February 1992, The Treaty of Maastricht, establishing the European Union was signed by the twelve members of the EC at the Council meeting in Maastricht. Since then, EC members decided to become a Union which is more than a community.

The most important collaborative initiative of the Maastricht Treaty was to strengthen the power of Europe in the world economy and politics by creating a Political and Monetary Union. The deadline for realizing this objective determined by the Council as 1999. The Maastricht Treaty has put the all the available collaborative efforts on the course of the Unification

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<sup>39</sup> EC Bulletin, Volume 25-6, "Lisbon European Council", p 12.

The outcomes of the Maastricht Treaty were as follows,

- a) Single Currency concept has accepted to put into application and monetary unification has started as it was envisaged in the SEA.
- b) Political Unification in the field of Foreign Policy has put into application as it was envisaged in the SEA
- c) A Common European Security Policy has accepted
- d) The Citizens of the European States became a "European Citizen" also. It introduced as a formal status.
- e) The "Subsidiarity" principle has put into application. In this way, the decision power of the local authorities has increased and the "work load of the EC structures has decreased. An important aim of the Subsidiarity was to protect the national diversities of the EC members.

However, the Treaty of Maastricht should be ratified by all the Member States in order to become valid. Most of the Member States were able to ratify the Treaty in their National Parliaments, but in Denmark and Ireland, ratification only occurred after a referendum. The result of the ratifications and further developments will be described in the next sections.

### III.V.I The Basic Missions of the Maastricht Treaty

The Maastricht Treaty has many important aspects. In order to evaluate these aspects, it is necessary to clarify its mission. The following paragraphs will attempt to do that. Basically, the Treaty of Maastricht has the following objectives while establishing the European Union.

- To create a Monetary Unification
- To create a Political Unification in the field of Foreign Policy
- To create a common European Security Policy
- To maintain a balanced and sustainable economic and social progress
- To create a more democratic Union with a Parliament having more power
- To create more visible attributes in the life of an ordinary European Citizen

The Treaty of Maastricht accepted the implementation of the Delors Plan for achieving the Monetary Unification in order to achieve these objectives. In the last stage of this plan, all European states will use the same currency and the monetary policy will be controlled by a single European Central Bank. The details of this subject are found in section III.VII.III.I

Also, the Treaty of Maastricht introduced the Common Foreign and Security Policy (CSFP). This Policy was introduced to "give the Community a voice in International Affairs and lead to a Common Defense Organization".<sup>40</sup> The most important consequence of this concept could be the creation of a single European Army in the future and if it will be realized, the legal right for this action will be taken from the Maastricht Treaty.

In addition, the Maastricht Treaty increased the power of the EP as explained in section II.IV.IV and institutional operation has been simplified by the establishment of the "subsidiary" mechanism. The operation of this mechanism was stated in Chapter II, section II.IV.IV.

Also, in the Maastricht Treaty, some attributes that are visible in the daily life of an ordinary European citizen were introduced. The most important example is the creation of the "European Citizenship". The Maastricht Treaty introduced the European Citizenship as a formal status. In this way, European citizens have received the right to vote and run as a candidate in local elections wherever they live in the territory of the Community. Also the European citizens have gained the right of diplomatic protection and help through the embassy of an any EC country everywhere in the world.

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<sup>40</sup> Walter Goldstein, "Europe After Maastricht", *Foreign Affairs*, Winter 1992/93, p 119.

In conclusion, the Maastricht Treaty started a more cohesive era in Europe and strengthened the position of the EC as a more unified and strong entity in the world.

### III.V.II Comments on the Maastricht Treaty

First of all, the Maastricht Treaty has an historical character because "perhaps it was the first time since World War II that Europe acquired the chance to play a role at being a Union on the world scene, comparable to that of the United States, since Communism had collapsed in the Soviet Union and in Eastern Europe" as was stated in the December 1991 issue of Newsweek.

Also, it was defined as "the Treaty that will guide the development of Europe into the next century"<sup>41</sup> and as a vital turning point since 1958.

However, despite these positive criticisms, the ratification process couldn't be achieved as easily as it was thought. The result of the Denmark ratification in June 1992 was negative. In fact, serious problems were aroused in most of the Member States during their ratifications.

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<sup>41</sup> See Newsweek, December 1991, "At the Crossroads", written by Scott Sullivan, pp 10-15.

So, it can be said that "while government elites were committed to unification, a majority of the voters harbored severe misgivings"<sup>42</sup>.

### III.V.III The Status of the Common Market After The Maastricht Treaty

Today, free movement of services and capital has been started. Banks can now offer services throughout the community on the basis of a single passport issued by their home country regulator. Insurance companies will obtain their passports in mid-1994, while investment firms will have to wait until 1996<sup>43</sup>.

Goods can now freely move within the community. Trucks may now pass the EC frontiers as easily as they cross state lines in the USA. Related formalities are handled where they start and end their journeys.

Except for Britain, Ireland and Denmark, the EC states do not apply frontier controls for persons. However, Britain, Ireland and Denmark say that free movement applies to EC citizens and therefore they must check everyone to detect the outsiders.

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<sup>42</sup> Walter Goldstein, "Europe After Maastricht", *Foreign Affairs*, Winter 1992/93, p 121. In this paper, Walter Goldstein analyzed the post-Maastricht situation in a very detailed manner and this is an extremely interesting paper.

<sup>43</sup> See "The Economist", 9 January 1993, p 30. In this article, the current status of the Single Market has been explained in detail.

Despite these problems, the Commission has assumed that the future proposals and intergovernmental negotiations will solve them. Thus these problems didn't constitute a barrier for the start of the EMU and EMS, as well as for the enlargement of the EC.

Consecutively, at the end of the Council Meeting in Lisbon in June 1992, it was decided to speed up the membership negotiations for Austria, Sweden, Finland and Switzerland.

### III.VI A DISCUSSION ON THE MILESTONES OF THE EC

This section will try to determine whether the milestones of the European Collaboration were achieved just on time when they were required or whether they were achieved beyond the necessary periods by explaining the reason for the delay. Also, this section will try to find out the implications of the "delayed" milestones on the overall progress of the EC.

At the beginning, it will be accurate to say that the European countries surely lost too much time to create supranational political and defence organizations after World War II, when the strong concepts of nationalism were evident. In that sense, the European countries spent a considerable amount of time trying to understand that it is not easy to establish a supranational political control mechanism or a political unification in such an atmosphere.

However, after World War II, politicians were much too sensitive to protect Europe from the destructive effects of wars. That's why in the political atmosphere of that time, the logic behind these efforts were acceptable, although they delayed the creation of an economic community.

Then, in 1958, EEC was established. However, the establishment of the EEC was a delayed milestone in the history of Europe, because of the previous studies made uncalled for the political unification.

The completion of the Customs Union among the six founder states one and a half years before the deadline was the third milestone and it was evaluated as a great success. Timing of this milestone was successful, because it was the basic requirement for the creation of the Common Market. However, the members were too much focused on this subject and they did not attempt to increase their scope of collaboration.

In fact, at that time, a mechanism like the EMS for establishing the fixed exchange rate mechanism should have been created to obtain a more successful result on trade volume. The ignorance on this point shifted the creation of the fixed exchange rate mechanism to 1979. If it had been realized while the Customs Union was created, the progress through to the Common Market would have been much more rapid, since the negative effects of the exchange rate

fluctuations on the intra-community trade would have been eliminated and trade would have been much more promoted.

In conclusion, the establishment of the EMS was a "delayed" milestone in the history of the European Collaboration.

Also, the issue of the White Paper in 1985 by the Commission was certainly a delayed milestone. This milestone should have been realized at the end of the 1970s, after the economic crisis of the oil shock had passed. As an important remark, the White Paper was prepared upon the directive of the Council in 1984, despite the fact that the Commission was ready to issue it at the beginning of the 1980s. The Commission had emphasized this fact in this paper and seriously criticized the Council.

In 1987, the Member States signed the SEA to implement the proposals of the White Paper in order to complete the Common Market. It was also a delayed milestone but mostly because of late issue of the White Paper. Finally, in 1992, with the Treaty of Maastricht, the era of Political and Monetary unification has been started officially.

As a result, after the mid-1980s, the European Community has started to repair the mistakes of the 1970s.

### III.VII THE EUROPEAN MONETARY SYSTEM (EMS) AND THE ECONOMIC AND MONETARY UNION (EMU)

The unification in the monetary field is the third area which the EC tries to accomplish together with the unification in the economic and political fields. The historical attempts toward this area were started after the completion of the Customs Union among the first six EEC countries.

The Member States saw the need for stable exchange rates in order to have a better intra-community trade. In fact, at that time Member States were conducting half of their trade with each other<sup>44</sup>. The fluctuation in the exchange rates was changing the trade volume among these countries.

#### III.VII.I The Werner Report and Snake in the Tunnel System

In order to cope with the fluctuating exchange rates, a commission which was headed by Pierre Werner, started to study the problem in 1970 and issued a report which was called the "Werner Report". This report had suggested the establishment of a Monetary Union within 10 years in a multistage manner. In the last stage, the single currency, namely, the European Currency Unit (ECU) would be used instead of the national currencies.

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<sup>44</sup> See Peter Coffey, "Main Economic Policy Areas of the EEC Toward 1992", pp 1-27.

Then, "The Snake in the Tunnel" system was created in 1972. This system was based on the theory of the Optimum Currency Area (OCA). The OCA is defined as "a group of countries linked together through a fixed exchange rate"<sup>45</sup>. This system basically asked the Member States to fluctuate their currencies within +/- 2.25% and to band against the US dollar. In this way, it was aimed to keep the fluctuations of the exchange rates in a fixed and stable pattern.

It should be noted here that the Snake system didn't introduce the ECU. However, due to the oil shock of 1973 and due to the consequent economic problems of the Member States, the Snake system couldn't be successful.

### III.VII.II The European Monetary System (EMS)

Between 1973 and 1979 the theory and the prospects of monetary unification were studied by European academicians and government authorities. The creation of a system called EMS was supported for many different reasons by different Member States. The ex-president of the former West Germany, Helmut Schmidt, had complained in 1979, "who ever heard of a single market with eleven currencies?" In this statement he had reflected the following idea of the proponents of the EMS. The idea was "If the EC wants to be unified and if the EC wants to operate the Single Market in a perfect manner,

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<sup>45</sup> See Jeffery Harrop, *"The Political Economy of Integration in the European Community"*, Chapter 7, *"Monetary Integration"*, pp 126-146.

the single currency is the most inevitable one". Perhaps this statement can be criticized by economists in many different ways, but they are beyond the scope of this thesis.

Finally, the EMS came into operation in March 1979. Belgium, Denmark, France, Ireland, Italy, Luxembourg, The Netherlands and West Germany became fully active members of this system.

#### III.VII.II.I Essentials of the EMS

Basically, the EMS was established to create a stable currency area where trade is protected from the exchange rate fluctuations. The major goal of this system was to create a stable currency area where national currencies are stabilized with respect to an artificial currency unit, namely, the European Currency Unit (ECU).

However, the usage of a common currency in the territory of the EC, is the goal of the Economic and Monetary Union (EMU). Therefore, Patrick Coffey defined the EMS as "a de-facto monetary union somewhere between the old Snake Arrangement and a full economic and monetary union". It is a preparatory stage toward the EMU.

The design and operation of the EMS was different from the Snake System in many ways. The most important one is

that the EMS introduced the European Currency Unit (ECU). That's why the ECU is the building block of the EMS.

**i) The European Currency Unit (ECU)**

The most important difference between the Snake System and the EMS was the creation of the European Currency Unit (ECU). The ECU was created artificially in order to have a common currency unit as a reference to national exchange rates. But it was also intended to replace the national currencies in the future (i.e., in the EMU).

Mostly, the ECU is defined as "a basket of currencies of the member states". The weight of each currency in the ECU is calculated according to economic indicators of the member countries, such as the GNP and the volume of international trade. These weights are revised every five years by the Commission. The first review was made in 1985 in order to include the Greek Drachmi. The second revision was undertaken in 1989 to include the Spanish and Portuguese currencies in the ECU.

The current weight of the national currencies in the ECU are indicated in Table III.I.

Table III.I

Currency of	% in the ECU	Currency of	% in the ECU
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Germany	30.1	Luxembourg	0.3
United Kingdom	13.0	Denmark	2.45
France	19.0	Ireland	1.1
Italy	10.15	Greece	0.8
The Netherlands	9.4	Spain	5.3
Belgium	7.6	Portugal	0.8

Source: Carlos Costa, *European Affairs*, 3/90

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Today, "both savers and borrowers have recognized the advantages of operating through ECUs instead of national currencies. They receive a more stable return, avoiding the unforeseen effects of volatile changes in national exchange rates" according to Jeffery Harrop.

In the EMS system each national currency has to keep its exchange rate, with respect to 1 ECU, within specified limits (i.e +/- 2.25%, except for the Italian Lira which is 6%). Through this mechanism, more stable exchange rates among the EC currencies are obtained. If they exceed or fall below the threshold levels (i.e., 75% of the limit), the related government is required to intervene in the exchange markets and is required to make changes in its domestic economic policy.

"The exact value of the ECU in terms of each currency is fixed every day by the Commission and these rates are published in the Official Journal of the European Communities (C series)"<sup>46</sup>.

### III.VII.II.II Evaluations on the Performance of the EMS

The EMS is criticized in many ways, mostly for the German hegemony on this system. "Under the EMS, countries other than Germany peg their exchange rate to the German Mark and give up an independent monetary policy in order to obtain low inflation through the strong discipline of the Bundesbank"<sup>47</sup>.

However in an official evaluation, "The obligations imposed on the Member States by the EMS and the way in which they operate have led to a greater convergence between the economic and monetary policies of the Member States, with the result that it is generally held to be a success. This is demonstrated most notably by the 3% rate of inflation recorded in the Community in 1986, the lowest rate in 20 years"<sup>48</sup>.

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<sup>46</sup> *European Documentation, Periodical 1/1990, "European Unification", p 53.*

<sup>47</sup> *See Frederick van Der Ploeg, "Macroeconomic Policy Coordination Issues During the Various Phases of Economic and Monetary Integration in Europe", European Economy, "One Market, one Money", 1991, p 148.*

<sup>48</sup> *European Documentation, Periodical 1/1990, "European Unification", p 53.*

### III.VII.III The Economic and Monetary Union (EMU)

Up until the Single European Act, the EMS had proved its success. It was the time to start the process of full economic and monetary union. Therefore, the SEA required the establishment of the Economic and Monetary Union in a progressive manner. The Commission was asked to prepare a detailed report to determine the schedule and the technical aspects to achieve this goal<sup>49</sup>.

#### III.VII.III.I The Delors Plan

As it is required by the SEA, a commission which was chaired by Jacques Delors, who was the president of the Commission, started to analyze the subject. The Delors committee published its report in April 1989. This report was suggesting a three stage plan toward the realization of the full Monetary Union.

In June 1989, the heads of the member states expressed that the Delors report had fulfilled its task, and stage 1 officially started in June 1990, as it was proposed in the Delors Plan. Also, the Council asked the Commission to prepare the necessary Treaty changes for the application of stages 2 and 3 (the Maastricht Treaty did this). The proposed steps of the Delors Plan can be summarized as

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<sup>49</sup> See Article 102-a of the Single European Act.

follows as they were repeated in the Treaty of Maastricht<sup>50</sup>.

- ' i) **Stage I:** In the first stage, which was officially started in June 1990, the member states were required to accomplish the following tasks.
  - a) The member states will increase the degree of convergence among their macroeconomic policies by sustaining low inflation (which has already been achieved through the EMS), economic growth, control of government debt, stable currency and low interest rates.
  - b) The Member States will adopt the measures on freedom of capital movement before the beginning of stage 2.
  
- ii) **Stage II:** During the second stage, a new independent EC institution, the European Monetary Institute (EMI) will be established and the national Central Banks will become the members of this institution.

This institute "will help to create the conditions for the transition to the third stage, it will strengthen the co-ordination of the monetary policies with a view to ensuring price stability. It will also make preparations for the establishment of the European System of Central Banks

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<sup>50</sup> *The proposed stages of the Delors Plan are inserted into the Treaty of Maastricht as the legal steps that each member state should follow for the realization of the EMU.*

(ESCB), for the conduct of a single monetary policy and the creation of a single currency in the third stage, and oversee the development of the ECU."<sup>51</sup>

In 1996, heads of governments will make an evaluation whether the community is ready to pass to stage 3 or not. Before 1 July 1998, the Council will decide which member states will participate in the third stage (a majority should be ready). Other countries can participate in stage 3 after they meet the required conditions.

In stage 2, the usage of the ECU will be promoted by EMI in order to replace the national currencies in stage 3. At the end of stage 2, two independent EC institutions will be established. These will be:

- the European Central Bank (ECB), and
- the European System of Central Banks (ESCB).

The national central banks and the ECB will constitute the ESCB. In the third stage the ESCB will conduct the single monetary policy which will be initiated by the ECB. The ECB will replace the EMI of the second stage and the ECB will be the sole monetary authority at the third stage in which the full monetary union will be established.

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<sup>51</sup> See Treaty of Maastricht, edition of the "The Independent On Sunday", 11 October 1992.

iii) Stage III: At the starting date of the third stage, exchange rates of the national currencies will be irrevocably fixed and the ECU will become the common currency.

This can be explained as follows, "At present one ECU is worth 0.81 pound. If that rate still applies when the ECU becomes the common currency, a product costing 81 pounds will be priced at 100 ECUs"<sup>52</sup>.

Also, at the starting date of stage 3, national governments will lose their sovereignty over their monetary policies. The EMI will be replaced by the ECB which will conduct a single independent monetary policy. So, at stage 3, the full monetary union will be started in an irrevocable manner. The latest starting date of this stage has been determined in the Treaty of Maastricht as 1 January 1999.

However, in the Treaty of Maastricht, it was accepted by the member states that "Britain will not be obliged or committed to move to the third stage without a separate decision to do so by its government and parliament"<sup>53</sup>.

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<sup>52</sup> See *EMU/EMS, Commission of the European Community, 1992, p 7.*

<sup>53</sup> See *"The Treaty of Maastricht" for a detailed explanation on Britain and the EMU.*

CHAPTER IV  
THE BLACK SEA ECONOMIC COOPERATION  
(BSEC)

IV. I        HISTORICAL STEPS TOWARDS THE BSEC

IV.I.I      The Emergence of the Idea

The idea of establishing the Black Sea Economic Cooperation belongs to Dr. Sukru Elekdag. Mr. Elekdag proposed this idea in 1989. When he started to elaborate the idea, historical developments had occurred in the world and a new era had started in Europe. The most visible case was the collapse of socialism in Eastern Europe. Peace and cooperation were the dominant concepts in all of Europe. Meanwhile, the independence claims of some of the USSR republics became evident.

Mr. Elekdag thought that "this climate, suitable for international economic cooperation, if reflected to the Black Sea Region through a scheme promoting regional economic cooperation, would contribute to the promotion of peace, stability, security and prosperity in this area"<sup>54</sup>.

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<sup>54</sup> Dr. Suikru Elekdag, *Turkey ECONOMY*, May 1991 p 30.

Mr. Elekdag defines the objective of the BSEC in his own words as "the main objective of the BSEC is to create favorable conditions and establish institutional arrangements among the Black Sea countries for the development and diversification of their economic relations by making efficient use of the advantages arising from geographical proximity and the complementary nature of their economies. For this purpose a flexible organization will be set up, aiming in the long run for the free circulation of people, commodities, capital and services. But it has to be underlined that this is the long term objective of the Black Sea Economic Cooperation"<sup>55</sup>.

By the end of 1989, Mr. Elekdag started to introduce this idea by means of a few newspaper<sup>56</sup> articles and by means of his speeches.

This idea gained strong momentum within a relatively short time. President Ozal gave his full political support to this project and official studies were started by the Turkish Government. In fact, without such a political support, it would have been very difficult to achieve the current situation. In fact, President Turgut Ozal has made special contributions to the development and progress of this project.

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<sup>55</sup> Dr. Sukru Elekdag, *Turkey ECONOMY*, March 1992, p 31.

<sup>56</sup> Mr. Elekdag's first article on the BECR was published in *Cumhuriyet*, 20 February 1990.

Indeed, the Soviet Union and all its republics in the Black Sea region look on this cooperation scheme with enthusiasm. The full support of the former Soviet Union was declared after the negotiations between President Ozal and President Gorbachev were completed. The project is also supported by Rumania and Bulgaria.

#### **IV.I.II The Initiation of Intergovernmental Negotiations: The Ankara Conference**

Upon the initiative of the Turkish Government, the first multinational conference for discussing the establishment of the BSEC convened in Ankara on 19 December 1990.

Official delegations from the Soviet Union<sup>57</sup>, Bulgaria, Rumania and Turkey worked for two days on a draft document prepared by Turkey. The basic principles of the proposed cooperation were outlined at this Conference.

At the conclusion of the Ankara Conference, it was officially declared that the Black Sea countries have agreed on the establishment of the BSEC. Also, the participants have agreed to discuss the technical details at the expert's level.

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<sup>57</sup> At that date, the former Soviet Union was not yet divided into independent states. The current independent states were represented within the Soviet delegation.

#### IV.I.III The Expert Level Studies and Successive Developments

As it was decided in the Ankara Conference, in 1991, senior officials of the related states convened in Bucharest, Sofia and Moscow. The chronological list of these meetings are as follows:

Bucharest Meeting	12-13 March 1991
Sofia Meeting	23-24 April 1991
Moscow Meeting <sup>58</sup>	11-12 July 1991

During these meetings of the senior officials, a common understanding has been reached on the basic objectives and the principles of the BSEC.

Finally, at their Moscow meeting, senior officials reached an agreement on the content of the "declaration" document and it was planned to be signed in Istanbul in order to establish the BSEC in a formal manner.

However, after a short period of time, the former USSR divided into independent states and the concept of socialism collapsed. Due to the consequent political uncertainty, the "declaration" couldn't be signed.

The political situation cleared by the end of 1991 and the Turkish government invited Bulgaria, Rumania and the new

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<sup>58</sup> Greece and Yugoslavia joined the Moscow meeting as observers.

independent states around the Black Sea, namely, Azerbaijan, Georgia, Moldavia, the Ukraine, Russia and Armenia to the Istanbul Meeting. The main purpose of this invitation was to discuss the future of the BSEC within the light of the recent political developments.

#### IV.I.IV The Istanbul Meeting

At the meeting in Istanbul on 3 February 1992, the participant governments declared their political will to continue with the Black Sea Economic Cooperation Region (BECR) and renewed their commitments to sign the "declaration" which was finalized at the Moscow meeting. After the parties renewed their will to continue, they decided to have their Heads of State or Government sign the "declaration" in Istanbul in June or July 1992.

At the conclusion of this meeting, the Istanbul Statement was issued (Appendix A.I). In that Statement, it was declared that Greece and Yugoslavia could join the BECR if their formal applications would be received by the Turkish Foreign Ministry by the end of May 1992. consequently, on 28 May 1992, Greece made its application to become a founder member of the BECR and according to the Istanbul Statement it was accepted. Meanwhile, after the official visit of the Turkish Prime Minister, Suleyman Demirel to Albania, it was decided that Albania could join the BECR. After diplomatic negotiations this was accepted by the other members.

After these developments, experts of the parties convened once again in Bucharest on 27-28 May 1992. At this meeting it was decided to sign the "declaration" in Istanbul on 25 June 1992. Also at this meeting priority fields of the BECR were discussed (Appendix A.II).

#### **IV.I.V      The Genesis of the Black Sea Economic Cooperation:                  The Istanbul Summit**

As it was decided in Bucharest, the Heads of State or Government and the Foreign Ministers of the parties were invited to Istanbul together with their senior officials.

On 24 June 1992, one day before the summit, Foreign Ministers of the Parties convened in Istanbul. At the conclusion of this meeting a document was issued under the name of "Summary of the Chairman". Some of the important points in this document were as follows:

- a) Albania had fulfilled all the procedural requirements and it was accepted to become a founding State.
- b) It was decided to establish working groups which would explore future cooperation opportunities and formulate concrete proposals in the areas agreed upon during the latest meeting of the experts in Bucharest.
- c) The chairmanship of the meetings of the Ministers of Foreign Affairs would be carried out on a rotational basis for a duration of six months. The first sessional

chairman would be the Minister of Foreign Affairs of Turkey, Mr. Hikmet Cetin.

- d) It was decided to change the name of the "declaration" to the "Summit Declaration of the Black Sea Economic Cooperation".
- e) The adoption of a political statement with the title of the "Bosphorus Statement" was recommended to the summit.

One day after the meeting of the Foreign Ministers, on 25 June 1992, the Heads of State or Government of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldavia, Rumania, Russia, Turkey and the Ukraine signed the "Summit Declaration on the Black Sea Economic Cooperation" and BECR formally became valid. The full text of this declaration is given in Appendix A.III.

#### **IV.I.VI The Bosphorus Statement**

After the signing of the "Summit Declaration on the Black Sea Economic Cooperation" on 25 June 1992, on the same day the Bosphorus Statement was issued (Appendix A.IV). The important points of the Bosphorus Statement were as follows:

- a) Rules of the Free Market Economy will be accepted in the BSEC.
- b) Solid and effective mechanisms will be set up to achieve a higher degree of economic cooperation.

- c) The parties will act in a spirit of friendship and good neighborliness and enhance mutual respect and benefit. Also, they will establish cooperation and dialogue in the relations among them.
- d) The parties will solve the serious conflicts and disputes in the region according to the principles of the CSCE documents and they will establish and restore peace and justice.
- e) The parties declared that the Black Sea Economic Cooperation will help the processes and structure of the European Integration.

#### IV.II THE FUNDAMENTALS OF THE BSEC

In the "Summit Declaration on the Black Sea Economic Cooperation" the fundamentals of this organization were explicitly stated. The complete manuscript of this declaration has been given in Appendix A.III, but as it is observed, the Summit Declaration text is not divided into major sections such as Objectives, Principles, and Policies. Also, the economic and political objectives are randomly sequenced in the text.

The purpose of this section will be to try to analyze this declaration under the headings of Principles, Objectives and Policies and to try to evaluate the important aspects of the Black Sea Economic Cooperation other than a point by point repetition of the declaration.

#### IV.II.I The Objectives of the Black Sea Economic Cooperation

From a first glance at the summit declaration, it can be said that the major objectives of the Black Sea Economic Cooperation are divided into two groups. These are:

- a) Political Objectives
- b) Economic Objectives

Meanwhile, environmental protection is mentioned as a common objective.

The following paragraphs will explain the Political and Economic Objectives of the Black Sea Economic Cooperation.

##### IV.II.I.I The Political Objectives

The basic political aim is mentioned in Article 8 as the assurance of peace and stability in the Black Sea Region by the promotion of friendly and good-neighborly relations. Also, the recognition of democracy based on human rights and fundamental freedoms, social justice, and the maintenance of peace and security on the basis of the principles laid down in the Helsinki Final Act, CSCE documents and the Charter of Paris for a new Europe constitute the other important political objectives.

#### IV.II.I.II      The Economic Objectives

As its name implies, the basic goal of the Black Sea Economic Cooperation is to increase the Economic Cooperation among the participating countries. However, since the term "economic cooperation" is a very broad one, the specific areas of cooperation were indicated in Article 13 of the Summit Declaration. These were the priority areas which were determined during the expert's meetings. It would be worthwhile repeating these areas here.

- Transport and communications, including their infrastructure;
- Informatics;
- Exchange of economic and commercial information; including statistics;
- Standardization and certification of products;
- Energy;
- Mining and processing of mineral raw materials;
- Tourism;
- Agriculture and agro-industries;
- Veterinary and sanitary protection;
- Health care and pharmaceuticals;
- Science and technology.

In these areas, the parties declared that they will take concrete steps with the participation of their competent firms.

The main purpose of the economic cooperation was declared to be to increase the trade relations among the participating states and to achieve a higher degree of integration of the participating states into the world economy as well as to establish a Europe-wide economic area.

Also, the Summit Declaration explained the principles of the economic cooperation procedures. The following paragraphs will explain the principles and the instruments to be used to increase the cooperation procedure.

#### **IV.II.II The Principles of the Economic Cooperation**

In the Summit Declaration, it has been stated in Article 9 that the economic cooperation among the participating states will be developed on the basis of the principles of the Helsinki Final Act and the decisions in the subsequent CSCE documents as well as the other universally recognized principles of international law.

Also, in Article 10, it has been stated that economic cooperation will be promoted gradually and while determining the priorities in this process, the participating countries will take into account the specific conditions, interests and concerns of the countries involved and particularly the problems of the countries in transition to the market economy.

In addition to these principles, in Article 7, it has been stated that the economic cooperation will be developed in a manner not contravening the obligations and not preventing the promotion of the relations of the participating states with third parties, including international organizations, as well as the EC and the cooperation within the regional initiatives. In fact, this principle is enough to perceive the mentality of the Black Sea Economic Cooperation.

#### **IV.II.III The Basic Instruments of the Economic Cooperation**

Article 14 of the Summit Declaration defined the basic instruments to be used to promote the economic cooperation. It would be worthwhile to repeat this article here due to its importance. In this article it has been stated that the participating states will act to improve the business environment and to stimulate the individual and collective initiative of the enterprises and firms mainly by:

- Providing support for small and medium sized enterprises;
- Contributing to the expansion of their mutual trade in goods and services and ensuring conditions favorable to such development by continuing their efforts to further reduce or progressively eliminate obstacles of all kinds, in a manner not contravening their obligations towards third parties;

Ensuring appropriate conditions for investment, capital flows and different forms of industrial cooperation; notably by concluding and putting into effect, in the near future, agreements on the avoidance of double taxation and on the promotion and protection of investments;

Encouraging the exchange of information on international tenders organized in the participating states so as to give the opportunity to their enterprises and firms to participate therein, in accordance with the national rules and practices;

Encouraging cooperation in the free economic zones. In order to maintain the necessary financial sources for the promotion of the economic cooperation, the participating countries considered taking the necessary actions. They were given in Article 16 as follows:

They will consider and encourage the conclusion of appropriate credit and financial arrangements at the governmental and non-governmental level.

They will search to mobilize funds, including through international institutions and third parties, for the purpose of expanding their mutual economic and commercial cooperation and implementing specific projects of common interest in the Black Sea area.

- Meanwhile, in this context they will consider the possibilities and the ways of establishing a "Black Sea Foreign Trade and Investment Bank"<sup>59</sup>.

#### IV.II.IV Comments on the Summit Declaration on the Black Sea Economic Cooperation

The most noticeable characteristic of this Declaration is its flexibility. There are no binding requirements and timetables. The principles and objectives are defined in reference to universally accepted rules. No specific principle which has a strong binding character is imposed on the participating states.

In addition, it was stated that the Black Sea Economic Cooperation is open to third parties. So, there is no intention of protecting the region from the non participating countries. But several privileges and incentives are introduced to participating states, such as the free movement of businessman, elimination of double taxation and promotion of investments. As it is understood from the content of the Summit Declaration, the basic intention of the Black Sea Economic Cooperation is to increase the economic cooperation among the member states by using the advantage of geographical proximity.

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<sup>59</sup> Mr. Zekeriya Yıldırım (Chairman of the Board-Garanti Bank) explained the status of this bank in his paper issued at the first Business Council of the BSEC in Istanbul on 31 August 1992.

#### IV.III THE CURRENT INSTITUTIONAL STRUCTURE OF THE BSEC

After the BSEC became valid, the following organizations have been established. These are:

- The Parliamentarian Assembly of the BSEC
- The Secretariat of the BSEC
- The Business Council of the BSEC

Also, the preparations to establish the "BSEC Foreign Trade and Investment Bank" are in progress. The status and the operation of these structures are explained in the following paragraphs.

##### IV.III.I The Parliamentarian Assembly of the BSEC (PABSEC)

The declaration on the establishment of the PABSEC was signed in Istanbul on 26 February 1993 among the Parliamentary speakers of the BSEC members. The "Turkish Minister of Foreign Affairs, Mr. Hikmet Cetin, called the PABSEC a product of hope, expectations and ideals. Also, the Turkish Parliamentary Speaker, Mr. Husamettin Cindoruk, expressed that PABSEC can play an important role in the welfare of the member countries and the stability of the region"<sup>60</sup>.

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<sup>60</sup> Turkish Daily News, 26 February 1993.

In this congress, it has been decided to sign the rules and procedures of the PABSEC at the next meeting of the Parliamentary Speakers in June 1993. For that purpose, a common Parliamentarian group chaired by Mr. Ali Dincer has started the preparations.

Currently, the PABSEC wishes to develop mutual respect and an atmosphere of constructive dialogue among the members to establish peace and security in the region. Also, the PABSEC wishes to increase all types of cooperation among the members.

#### IV.III.II The Secretariat of the BSEC

During the BSEC summit in Istanbul on 25 June 1992, it was decided for the Turkish Minister of Foreign Affairs to conduct the secretariat activities of the BSEC. However, in the near future, the member states wish to establish a multinational secretariat to conduct the necessary activities, such as to prepare the common projects, to monitor their progress, to establish and to maintain links with the World Bank, the ERDF, the institutions of the UN and the financial centers of the world.

According to information obtained from Turkish Ministry of Foreign Affairs, Department of the BSEC Secretariat, the secretariat is currently dealing with the procedures to facilitate the free movement of businessmen in the BSEC region (visa, formalities, etc.)

#### IV.III.III The BSEC Foreign Trade and Investment Bank

The establishment of a BSEC Foreign Trade and Investment Bank was envisaged by the Summit Declaration. After the BSEC Summit, the Turkish Eximbank, the Undersecretariat of the Treasury and Foreign Trade and the Turkish Central Bank have jointly started to prepare a protocol on the establishment of the BSEC Foreign Trade and Investment Bank.

This protocol was discussed within the "working group meeting of Banking and Finance" in Istanbul on 15 September 1992. During this meeting, the member states mostly have reached an agreement on this protocol. Successive negotiations were held at "working group meeting of Banking and Finance" in Athens on 22 March 1993.

According to information received from the "Undersecretariat of Treasury and Foreign Trade", experts are about to finalize the protocol within the light of the previous meetings, but they are currently refusing give a copy of this document to researchers. However, it has been learned that there are still some uncertainties about the monetary contribution proportions of the member states for the capital of the bank.

#### IV.III.IV The Business Council of the BSEC

In order to increase the cooperation among the private sectors of the member states, a meeting was held by the Foreign Economic Relations Board in Istanbul on 30 August 1992.

At this meeting it has been decided to establish a business secretariat in Istanbul to coordinate the business relations of the private sectors of the member states. Subsequently, at the Antalya meeting on 6 December 1992, the BSEC Private Business Council has been officially established within the organization of the Foreign Economic Relations Board.

Also, it has been decided that this organization will have a consultant role in the BSEC and it will have the right to join the official meetings of the BSEC in an observer status.

Currently, this organization has been working on economic data collection and distribution, together with the data distribution about the trade opportunities among the member states.

IV.IV            OPPORTUNITIES AND THREATS FOR TURKISH INDUSTRIES  
                  WITHIN THE BSEC REGION

The Black Sea Economic Cooperation has been offering many benefits for several Turkish industries. The most beneficial Turkish industries (i.e., the stars) of this cooperation will be the following, because of their world wide competent positions:

- a) Telecommunications and Electronics Industries<sup>61</sup>
  
- b) Construction Industries<sup>62</sup> especially in the fields of
  - Highway, Harbor and Railway construction (i.e., transportation)
  - Pipeline construction
  - House, Hotel and Factory construction
  - Power Transmission Line construction
  
- c) Consumer Goods Industries
  
- d) Banking and Finance Industries<sup>63</sup>

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<sup>61</sup> Mr. Emin Baser (Chief Consultant to the President of Turkey) explained the rich cooperation facilities in the fields of Communications and Electronics in his paper issued at the first Business Council of BSEC in Istanbul on 31 August 1992.

<sup>62</sup> Mr. Birkan Erdal and Prof. Dr. Haluk Gercek explained the rich cooperation facilities in these fields in their papers issued at the first Business Council of BSEC in Istanbul on 31 August 1992.

<sup>63</sup> Mr. Feyyaz Berker (Chairman of the Foreign Economic Relations Board), *Barometre*, Issue 14-20 December 1992, p 1.

Also, there may be excellent opportunities for the growth of new industries in Turkey such as the emergence of huge marketing and barter trade organizations doing business with the rest of the world. However, the following paragraphs will explain the things to do to achieve this objective.

Despite all these opportunities, there are also significant threats for the Turkish Firms in the BSEC market. The most important one is the slow operation of the credit mechanism of the Turkish Eximbank. As it was learned from the Head of the Turkish Eximbank, Mr. Ahmet Ertugrul, the credits are given upon the request of the related government, not upon the request of the Turkish firms who wish to undertake investments in these countries.

In this case, Turkish firms are faced with great problems, because they must first convince the authorities of the country that they wish to undertake investments. However, in most of the participating countries there is no stable government mechanism to deal with these subjects. Only the major governmental organizations are operating and it is difficult and time consuming for Turkish investors to contact them in order to engage in negotiations. This situation deteriorates the competitive advantage of the Turkish Firms.

So, the Eximbank credits should be given upon the request of the Turkish Firms. In this way competent Turkish investors can diffuse into the BSEC in more rapid manner.

#### IV.V A SEARCH FOR A MODEL FOR THE BLACK SEA ECONOMIC COOPERATION

The emergence of the BSEC has started many debates on the model of this organization. The basic aim of these debates was to find a suitable model among the other economic cooperations in the world.

Mr. Elekdag answers the EC related suggestions as "the EC has been established under very different social and economic conditions,"<sup>64</sup> among the highly industrialized six European States. In fact, when the EEC was established, the level of the economic relations were too high among the member states and socio-political conditions were suitable for establishing a strongly binding community. Therefore, the EC model shouldn't be followed at this stage.

Mr. Elekdag says, "the economic organizations in South America and the Pacific Basin are showing similarities with the BSEC". At the conclusion of his research, he mentions that the following points should be taken into account

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<sup>64</sup> Dr. Sukru Elekdag, "Economic Organizations in the World Within the Framework of the BSEC". This paper was issued at the first Business Council of the BSEC. In this paper, Mr. Elekdag investigated the other economic cooperations in the world in a very striking way.

during the development process of the BSEC. In fact, in this way, he explained the fundamentals of the strategy to be followed to achieve the objectives of the BSEC. His recommendations are as follows:

- Protectionist and internally-oriented policies are bound to fail. Therefore, it would be appropriate for the BSEC to adopt liberal and externally-oriented policies.
  
- In this connection, it is essential to implement a liberal investment policy in a transparent and stable manner. Member countries should create an appropriate investment climate in order to attract foreign investments.
  
- In order for the BSEC objectives to be achieved, it is essential to have political stability and the conditions for peace and security. Therefore, the BSEC countries should attach special importance to this issue and act, bearing in mind that the success of economic measures cannot be isolated from regional peace and security.
  
- The determination of the BSEC objectives in a realistic, measurable manner and in proportion to the capabilities of the member states, provides for the

smooth and efficient functioning of cooperation. The review of the objectives as BSEC develops and adoption of further steps in economic integration would be an appropriate approach.

- The Member States should not resort to measures preventing the development of the regional market for short term advantages.
- It should be kept in mind that the increase of intra-regional trade will be the most significant indication of success of the BSEC. The failure to achieve the expected level of trade in a few years will create a disappointment and lead to a decline in the support extended to the BSEC.
- In order to overcome the problem of financing, at the initial stage a multilateral clearing system could be considered. In this connection, the establishment of a Foreign Trade and Settlements Bank to finance the intra and extra regional trade would be significant in attracting finances from global capital markets.
- It would be appropriate to design the organization of the BSEC in a flexible manner by assessing the needs and priorities, rather than a rigid one. On the other hand, the BSEC needs a multinational secretariat

composed of capable personnel in order to prepare the common projects, to monitor their progress, to establish and to maintain links with the World Bank, the European Bank for Reconstruction and Development, the institutions of the UN, the financial centers of the world etc. The quickest fulfillment of this condition is a prerequisite for the success of the BSEC.

- The support extended by the private sector will play a significant role in the success of the BSEC. Therefore, it would be useful to form the Business Councils within the relevant countries.

In Chapter V, a multi-stage development plan will be generated for the success of the BSEC by regarding these important points.

#### **IV.VI        WHAT IS THE IMPORTANCE OF THE BSEC FOR TURKEY ON               THE COURSE TO THE EC?**

The BSEC will not force Turkey into a crossroad with the EC. This point has been explicitly stated in Article 7 of the Summit Declaration. In fact, Turkey can use the benefits of this cooperation while continuing on the course to the EC. In this way, Turkey can use the opportunities of such a historical chance without sacrificing her efforts to

integrate with Europe. Indeed, with such a cooperation Turkey can increase her prominence within the European Community, because Turkey has a great chance of improving her trade volume, of strengthening industry and of increasing the employment rate.

In fact, during the last few years, Turkey has apprehended a significant chance to strengthen her position in her relations with the EC. First of all, upon the collapse of the ex-USSR, Turkey has started to establish strong economic and political relations with the new Turkic Republics. Also, Turkey has started to increase her economic and political power in her region upon the initiation of the BSEC. These are the most important opportunities for Turkey to increase her prominence in her relations with the EC. In fact, the EC members are aware of this fact. The British Foreign Affairs Minister, Mr. Douglas Hurd, has prepared a report about the increasing role of Turkey and its effects upon the EC-Turkey relations<sup>65</sup>.

This paper stresses the "increasingly important role of Turkey on the international scene with the initiative of a cooperation zone in Black Sea". Also, this report particularly emphasizes the ability of Turkey to "influence the new republics of central Asia". Turkey, says the document, is "well placed to take advantage of existing

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<sup>65</sup> *Together in Europe, EC Newsletter for Central and Eastern Europe, No:13, 1 September 1993, pp 9-10.*

cultural and linguistic ties, and serve as a democratic and secular model" for these countries-"a more attractive model" than other states in the region, such as "Iran".

Also, in this report, Mr. Hurd suggests that the EC members try "to organize with Turkey a more developed and structured political dialogue and allow Turkey to benefit from the horizontal program of the new Mediterranean Policy".

In conclusion, the Black Sea Economic Cooperation has been offering many important benefits for Turkey. It is certain that, besides its economic advantages, Turkey will gain a strong prestige with the development of this project. Mr. Elekdag declares his opinion on this subject, "When this project is realized, an international institution which will not only contribute to regional prosperity, but also to world peace and security will have been created by Turkey's own initiative and an idea emanating from her, perhaps for the first time in Turkish History"<sup>66</sup>.

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<sup>66</sup> Dr. Sukru Elekdag, *Turkey ECONOMY*, May 1991 p 30.

## CHAPTER V

### A MULTISTAGE "DEVELOPMENT" SCENARIO FOR THE BSEC WITH A RENEWED INSTITUTIONAL ARCHITECTURE

#### V.I INTRODUCTION

This chapter has two principal objectives. The first objective is to build a multistage development scenario for the BSEC. The purpose of the scenario is to identify the necessary steps to be taken and their sequences, for achieving the objectives of the BSEC. While developing the scenario, the current business environment has been defined in terms of its positive and negative features. The necessary actions for achieving the objectives of the BSEC have been identified according to this definition. Also, the scenario has accepted that the existing turbulence in the BSEC environment will be settled down in time. For this reason, the scenario has been developed in three stages.

The second objective of this chapter is to propose a renewed institutional architecture for the BSEC. Since it has been assumed that the turbulence in the BSEC will be settled down in time, the institutional architecture has been designed as a dynamic structure, for managing the changing situations. The structure and the operation of the institutional architecture has been explained for each stage.

While designing the institutional architecture, the principles of Adhocracy<sup>67</sup> have been used in order to manage the dynamic and complex situation of the BSEC. The complexity and dynamism of the BSEC environment, will be much more apparent in the following sections and the applied principles of Adhocracy will be mentioned, while explaining the institutional architecture of the BSEC.

#### V.II A MULTISTAGE DEVELOPMENT SCENARIO FOR THE BSEC

This scenario has been developed in three stages. At the beginning, the current business environment has been defined. Then in the first stage, the initial actions of the Member States have been visualized by regarding the objectives of the BSEC. Surely, this part of the scenario will be much closer to reality, because the anticipated developments are currently being discussed or being realized by the authorities.

The next two stages of the scenario, Stage II and Stage III, have also been developed by regarding the objectives of the BSEC and by considering the anticipated future actions of the Member States. For this reason, these stages may be much more exposed to unforeseen developments.

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<sup>67</sup> Henry Mintzberg, *Structure in Fives: Designing Effective Organizations*, chapter 12.

### V.II.I The Definition of the Business Environment: The Positive and Negative Features

At the beginning of this section, it should be mentioned that the BSEC has been established among the countries having geographical proximity which is naturally suitable for conducting trade. However, in the past decades, these countries couldn't use this advantage to increase their economic relations, because most of these countries except Turkey and Greece, were significantly isolated from the world due to their economic collaborations with the other socialist states within the socialist economic principles.

Today, these countries are trying to transform their economies<sup>68</sup> into market economies and they are trying to establish trade relations with the rest of the world by using the principles of the market economy. However, they don't have enough institutional background and experience in this concept. Moreover, they don't have enough legal and technical infrastructure to improve their economic situations, although they have many resources of a rich economic value<sup>69</sup>.

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<sup>68</sup> See "1991-1992 Economic Policy Measures of the BSEC Member Countries", prepared by the Foreign Economic Relations Board. This report was issued on 31 August 1992 at the first Business Council of the BSEC. In this report, economic situations and valid economic policy measures of each participating state have been explained within the light of the recent developments.

<sup>69</sup> For detailed information on the economic conditions and potential resources of the new independent states, see "Statistical Handbook-States of the Former USSR"- The World Bank.

### V.II.I.I The Positive Features of the BSEC

The BSEC is a realistic project and has a number of positive features for success. Among them, the most important ones can be stated as follows:

- a) The territory of the BSEC has a substantial number of energy resources such as petroleum, natural gas and coal. These resources are sufficient enough to use them in the development of industrial activities as well as to use them as the key marketing products to the rest of the world.
- b) Geographically, the BSEC is situated close to Europe, Central Asia and the Middle East. Also, the member states have historical and cultural ties with these regions. That's why the BSEC has a significant advantage for integrating with these markets.
- c) "The size of the BSEC market justifies investments for a wide range of infrastructural facilities for transportation, telecommunications and tourism, besides industrial and agricultural facilities. It will not be difficult to attract investors and financial sources to this region for such projects."<sup>70</sup>

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<sup>70</sup> Nihat Gokyigit: *Chairman of the Turkish-CIS Business Council, Turkey Economic Newspaper, 15-30 November 1992, pp 4-5.*

#### V.II.I.II The Negative Features the BSEC

Despite its positive features, the BSEC also has many problems. There are many economic and political problems waiting for solution. The existing problems in the Black Sea Economic Cooperation can be divided into two categories, the problems of the ex-socialist states and the general problems.

The existing problems of the ex-socialist states, especially the problems of the new independent states can be expressed as follows:

- a) The obstacles on private ownership for foreigners.
- b) The lack of monetary authorities and the lack of convertible currencies. Some of them do not even have their own national central banks and national currency units.
- c) The lack of experience with the rules of the market economy and the usage of completely different national accounting systems.
- d) The lack of technical infrastructure, such as telecommunications. In most of these countries, modern telecommunication facilities such as international call lines, fax and data communication lines are extremely scarce, although it is necessary for businessmen.

- e) The lack of sufficient official and governmental institutions to prepare and conduct the national laws.
- f) The high inflation and high unemployment rates of the ex-socialist states.
- g) The regional disputes and political uncertainties of some of the ex-socialist states.

Of these problems, the last item, namely the political uncertainties and regional disputes, are the major threats for the continuity of the BSEC, because they don't allow the related governments to engage in economic collaboration with the other Member States and to recover their national economies.

The general problems existing in the BSEC region can be expressed as follows:

- a) The absence of enough financial sources.
- b) The participating states do not have enough economic and statistical data concerning each other in order to increase the economic collaboration. For this purpose the Turkish State Institute of Statistics started to take the necessary measures to coordinate and enhance the data sharing among the participating countries<sup>71</sup>.

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<sup>71</sup> Orhan Guvenen (Head of the State Institute of Statistics of Turkey), "Some Comments and Proposals on the Statistical Infrastructure and Regional Information System for the BSEC Countries", 14-18 September 1992.

### V.II.II Stage I

Stage I has been accepted to have started after the establishment of the BSEC in June 1992. This stage should be evaluated as a transitional stage and the member states should urgently accomplish the following tasks for establishing imperative conditions in the BSEC region.

- a) The ex-socialist member states should complete the establishment of their governmental institutions in order to speed up the official collaboration during the economic cooperation process.
- b) The member states, especially Azerbaijan and Armenia, should solve their military conflicts and peace should be maintained in this region. Otherwise, it will be very difficult for them to utilize the benefits of this economic cooperation.
- c) The free movement of business people should be started within the BSEC region. This action is necessary in order to allow them to recognize the economic conditions and existing business opportunities in the other member states.
- d) The ex-socialist members should start taking necessary actions in order to decrease the "share of the Government" in the economic life of their countries. This is necessary for encouraging the competition which is the fundamental of the Market Economy.

These tasks should be completed as soon as possible. Especially Turkey, as the initiator of the BSEC, should expend more effort on these subjects, because she has enough diplomatic and administrative experience. In fact, the BSEC Secretariat<sup>72</sup> has already started taking concrete steps for the free movement of business people. Also, the OECD has started to establish a "Personnel Training Center" for the bureaucrats of the ex-socialist states. At this center, the bureaucrats of the BSEC countries will also be trained.

Meanwhile, in Stage I, within the suitable regions of the Black Sea Region, the member countries should start reconstructing their national infrastructures. In Stage I, the financing problems of these investments should be solved by means of barter trading of valuable resources, by means of credits received from international financial institutions, the Turkish Eximbank sources or by allowing investors to use the Build-Operate and Transfer (BOT) method.

In Stage I, it is inevitable for private capital holders to take most of the risk while they are undertaking small sized investments within the BSEC region. They should have to consider the uncertainties of this transitional stage.

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<sup>72</sup> *The work of the Secretariat has been performed by the Turkish Ministry of Foreign Affairs.*

At the end of Stage I, the BSEC should reach a level so that the investors of the member states or third parties find no legislative, administrative or security problem when they start their investments within the BSEC region.

### V.II.III Stage II

In this stage, it has been envisaged that the following objectives should be realized in the BSEC.

- The regional production capability (i.e., GDP of the member states) should be increased in a quality oriented manner.
- The regional infrastructure should continue to be improved.

The reason for these anticipated actions is simple, because when the quality level of the regional products and the level of regional infrastructure (i.e., transportation and telecommunications) will increase, it will be much easier for the member states to improve their trade relations with the other members and the third parties.

Many large scale projects should be started to improve the regional infrastructure in order to achieve the above mentioned objectives. Meanwhile, the governments of the member states should continue to decrease their share in the economic life of their countries in order to maintain competitive conditions.

In these ways, it will be possible to decrease the unemployment rate and inflation, because it is evident that the high inflation terms of some member states have been making a significant bias from the lack of fundamental consumption items and the scarcity of the production inputs. The main reason for the scarcity and the low quality level of the production inputs is the result of the ex-socialist planned economies. In competitive conditions, national resources can be used much more effectively to eliminate this obstacles.

So, how can the member states achieve an increase in their GDP in a quality oriented manner and how can they establish the competitive conditions without the third parties invading all of their national economic activities?

First of all, they should start reforming their agricultural policies. The governments should privatize the agricultural activities. In this way, the member states can increase the national production of the basic consumption items, and in the competitive conditions, the quality of these products will increase in time. The increased production capability will also cause a decrease in the prices of the basic consumption items. Meanwhile, the government expenditures related to agricultural planning and control will be decreased.

Also, in Stage II, the member states should start making preparations for establishing their national Central Banks and issue their own currencies. Because currently, some of the members are continuing to use the Ruble which is the Soviet currency unit. In this case, the involved economies are directly importing hyper-inflation from Russia. The usage of a different currency unit is necessary for these states in order to break this tie.

#### V.II.IV Stage III

In this stage, the first major goal of the BSEC should be the "integration" with the European and the Asian economies. In fact, this objective was explicitly stated in Article 5 of the Summit Declaration. If the goals of the previous stage (i.e., improved infrastructure, existence of national convertible currencies) have been accomplished, the above mentioned objectives will be realized in a more beneficial manner. While trying to achieve this objective, the member states should have left the barter trading mechanism as much as possible to strengthen their currency units and to increase their hard currency reserves.

The second major goal should be the maintenance of harmonious development in the BSEC region such as the EC has accomplished. In this way, the BSEC can increase its economic power in a more effective manner.

### V.III A RENEWED INSTITUTIONAL ARCHITECTURE FOR THE BSEC

In the "Summit Declaration on the BSEC", the institutional architecture has not been established in an official manner<sup>73</sup>. This empty point is the major handicap of the BSEC. Unless a strong and dedicated institutional architecture exists, it will be very difficult to achieve the objectives of the BSEC, where it was mentioned that the BSEC is open to third parties<sup>74</sup>. Under this condition, it can be said that, without a dedicated institutional architecture, the BSEC may lose its collaborative mission.

#### V.III.I The Proposed Institutional Architecture for Stage I

In Stage I, the existing BSEC structures that were established after the Summit Declaration should continue to operate. Meanwhile, the foundations of a renewed institutional architecture should be prepared. The following structures should be established with the joint efforts of the Member states.

- a) The Secretariat of the BSEC
- b) The BSEC Council
- c) The BSEC Parliamentarian Assembly
- d) The BSEC Information System

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<sup>73</sup> When this situation is compared with the establishment of the EEC, it will be seen that the Treaty of Rome had laid down the institutional system of the EEC institutions in a very clear manner.

<sup>74</sup> In the BSEC, there is no intention of protecting the region from the third parties such as the EEC has done.

- e) The BSEC Foreign Trade and Investment Bank<sup>75</sup>
- f) The BSEC Business Board<sup>76</sup>

At the beginning of Stage II, they should start to work in an interactive manner for continuing with the BSEC in a more organized and dedicated way. The function and operation of these structures will be explained in Stage II.

As it is observed, some of these institutions have been named like the EC institutions. In fact, in the course of the following sections, it will be apparent that they will operate similarly to their EC counterparts, but according to the needs of the BSEC.

#### V.III.II The Proposed Institutional Architecture for Stage II

In Stage II, the BSEC institutions, which were prepared to be established in Stage I, should start to operate in an interactive manner. In this stage, institutional architecture should be designed to develop the legal and technical infrastructure of the BSEC and to develop the economic collaborations of the Member States.

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<sup>75</sup> Mr. Jacques Attali, the Chairman of the European Reconstruction and Development Bank (ERDB) has announced that the ERDB is ready to support the BSEC in all areas. So, in Stage I, the Turkish authorities should start negotiations with this organization in an earnest manner in order to receive the monetary contribution of this bank on the capital of the BSEC Foreign Trade and Development Bank.

<sup>76</sup> This organization has already been established but it should be reorganized in Stage II as explained in Section IV.III.1.1.

In Stage II, the functions and the structures of the BSEC institutions should be as follows.

#### V.III.II.I      The Secretariat of the BSEC

In Stage II, the Secretariat should operate as the "microprocessor" of the BSEC. This structure should accomplish its tasks which will be given by the Council.

##### i)      The Structure of the Secretariat

The Secretariat should be established by the competent professionals of the member states and it should be managed by a distinguished person having influence on the political and economic authorities. The president of the Secretariat should be assigned by the Council for a term of two years, and the presidency of the Secretariat should rotate among the member states for a term of two years.

The Secretariat should operate with the principles of the Adhocracy. An "Adhoc" style is necessary in order to obtain the local support of the member states when it is needed, because it has been thought that the secretariat will not operate as an independent structure like the Commission of the EC.

The proposed functions and structure of the Secretariat in Stage II is explained in detail in the following sections.

i) **The Functions of the Secretariat**

In Stage II, the Secretariat should fulfill the following tasks.

- a) To prepare the feasibility plans of the large scale project demands coming from the Council and submit them to the Council for a decision.
- b) To organize and control the application of the large scale projects which were decided on by the Council.

The Secretariat should have a matrix type organization in order to accomplish above mentioned tasks. In the organization matrix, the following divisions should exist.

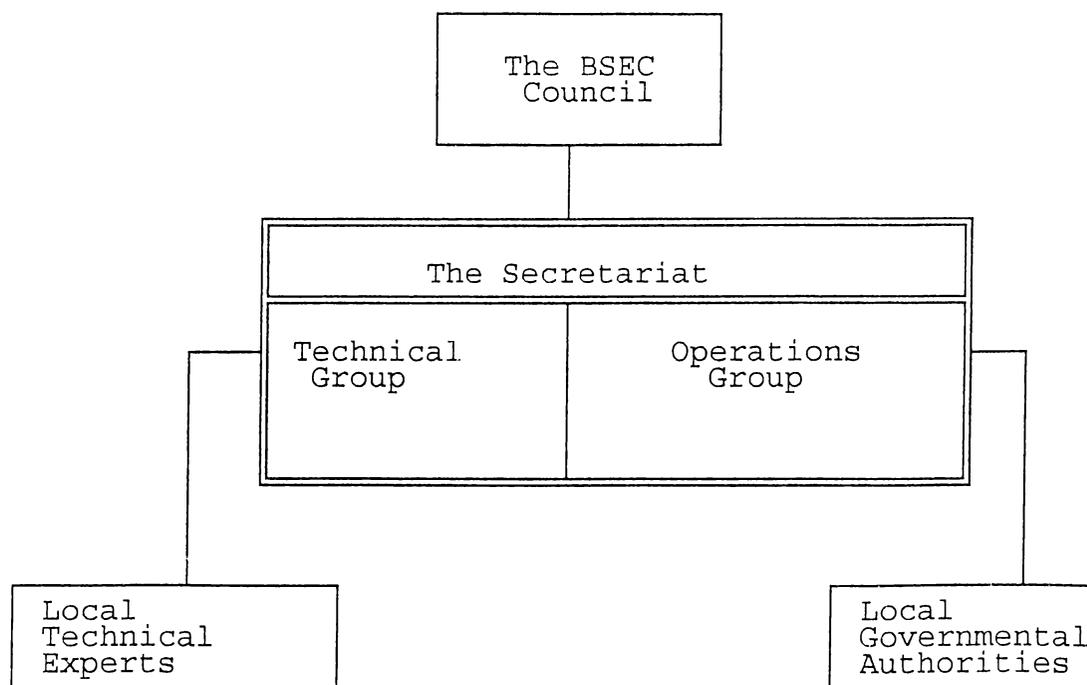
a) A "Technical Group" should be established within the Secretariat in order to manage the technical part of the projects. The core staff of this group should be assigned by the member states. Each member should assign three experts. However, this group should establish adhoc project groups with the local experts for obtaining a local technical support when it is needed.

c) An "Operations Group" should be established within the Secretariat in order to find out the effective ways to encourage the investments of the private capital holders in the BSEC region. This group should prepare and send the

related suggestions to the Council for a decision. Also, this group should manage the required bureaucratic procedures for speeding up the implementation of the large scale projects. The operations group should be consisting of the senior officials of the member states. Each member state should assign two officials to this group.

The structure and the organic connections of the BSEC secretariat are given in Figure V.I.

FIGURE V.I The Connections of the BSEC Secretariat in Stage II



Apparently, this organization will operate similarly to the "Commission" of the EC. However, in Stage II, the Secretariat of the BSEC should not work as an independent institution such as the Commission of the EC has done. In this stage, the Secretariat should receive the project preparation orders from the Council of the BSEC<sup>77</sup>.

#### V.III.II.II The BSEC Council

In Stage II, the member states should establish the BSEC Council at the ministerial level for managing the operation of the BSEC. The Council should be the sole decision making structure of the BSEC.

The proposed structure and functions of the BSEC Council are described as follows.

##### i) The Structure of the BSEC Council

Every minister of each member state, including the prime ministers, should be the official members of the BSEC Council. The Council should convene at least two times every year. The regular Council meetings should be held by the

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<sup>77</sup> When the EEC was established, there was a strong infrastructure in Europe to enhance the economic cooperation. Meanwhile, the development levels of the founding states were relatively close to each other. That's why the Commission of the EEC had gotten the chance to start with the preparation of independent proposals to maintain a harmonious development in Europe. However, in the BSEC, the existing situation requires the implementation of some important projects urgently for maintaining the necessary conditions for improving the economic cooperation. That's why the Secretariat of the BSEC should not work in an independent manner.

Foreign Ministers. Meanwhile, at least one Council Meeting every year should be held with the participation of the Prime Ministers.

The reasons for this recommendation can be explained as follows.

- a) The executive management of the BSEC should be performed by a single structure which will be consisting of the authorized persons of the member states. This is necessary for increasing the application power of the decisions.
- b) As it is known, the BSEC is open to third parties. In this case, there is a threat that the members may not increase their economic relations to a satisfactory level. In order to prevent this situation, the member states should discuss their available large scale project demands and try to find out the possible ways of realizing these projects in collaboration with the other BSEC members, before making direct agreements with the third parties. Surely, the creation of such a persistent negotiation atmosphere will increase the economic collaboration of the BSEC members.

**ii) The Functions of the BSEC Council**

The proposed functions of the BSEC Council can be described as follows:

- a) To make the executive decisions related to the operation of the BSEC for promoting the economic collaborations of the member states. While executing this task, the Council should receive a strong feedback from the Operations Group of the Secretariat, because this group will work on the identification of the needed measures for the operation of the BSEC for achieving the objectives of the "Summit Declaration of the BSEC".
- b) To control the application of the decisions.
- c) To decide on the execution of large scale projects in the BSEC region.

iii)           **The Proposed Collaboration Procedure Between the Council and the Secretariat**

The operation of the Council and the Secretariat requires a close collaboration between these two structures. The procedure should be determined after the collaboration demands of the member states are expressed at the Council meeting. Then the following procedure should operate.

**Step 1:** At the Council meetings, if one or more member states reach an agreement to conduct a large scale project in collaboration with one or more of the BSEC countries, the Council should establish a Sub-Council consisting of the related ministers of the involved states. For example, for

a joint industrial project between Turkey and Rumania, the Sub-Council should be established by the related ministers of Turkey and Rumania.

**Step 2:** The related Sub-Council should ask the Secretariat to prepare the feasibility report of the project.

**Step 3:** Upon the directive received from the Sub-Council, the technical group of the Secretariat should establish a working team which consists of the technical experts of the member states and the technical staff of the Secretariat. The Sub-Council members should be responsible for arranging the assignment of the experts of their states who will be involved in the project.

**Step 4:** After the working team is established under the supervision of the Secretariat, the related studies about the feasibility report of the project should start. During this study, the following points should be elucidated:

- The implementation method of the project (the Technical Group and the Operations Group should be responsible for this subject),
- The financing method of the project (the BSEC Foreign Trade and Investment Bank should be responsible for this subject).

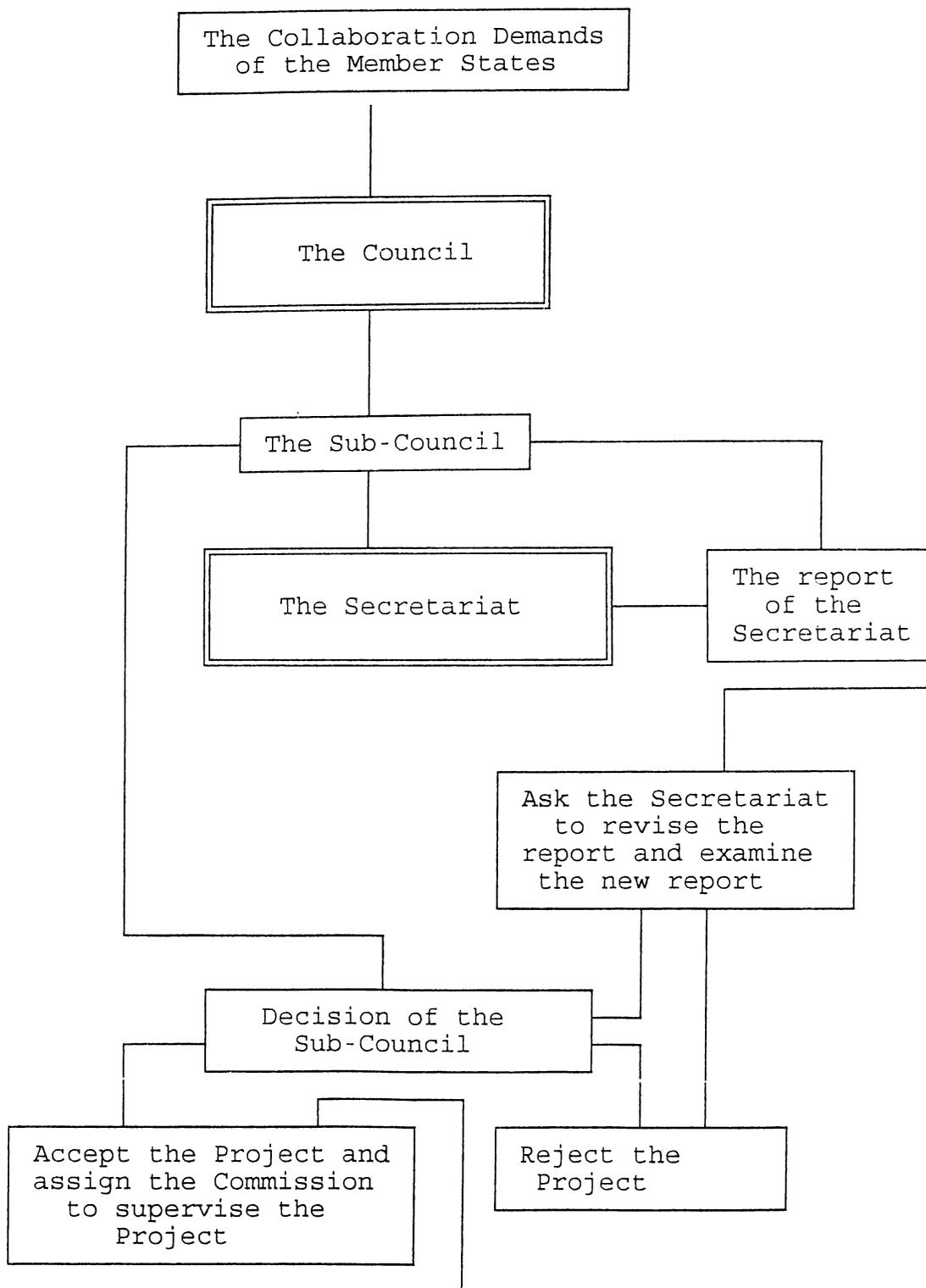
**Step 5:** The report of the project which is prepared by the Secretariat should be sent to the Sub-Council for a decision.

**Step 6:** After the decision of the Sub-Council, the projects should either be initiated by the competent firms of the related governments or they may be returned to the Secretariat for revision or they may be rejected.

**Step 7:** After the Sub-Council examines the revised proposal, it should either accept implementing the project or reject it. In this case, the Sub-Council should present an explanatory report to the BSEC Council at the next meeting. If the project is accepted, then the Secretariat should present a progress report to the subsequent Council Meetings until the project will be finalized.

The collaboration process between the Council and the Secretariat is explained in Figure V.II.

Figure V.II The Proposed Collaboration Process Between the Secretariat and the Council



### V.III.II.III The BSEC Foreign Trade and Investment Bank

In Stage II, this bank should start answering the credit demands of small and medium size enterprises in an effective manner, but this bank should not give an impression as a strong entity, for receiving the credit demands of large scale projects from international financial institutions.

This is a very logical approach because the support of small and medium sized enterprises has a crucial importance for increasing the economic relations among the member states.

But the bank should effectively search for the financial sources needed to implement the large scale projects decided by the Council. This group should effectively negotiate with international financial structures (i.e., the ERDB, World Bank and other international financial sources) and deliberate the credit conditions with the authorities of the related BSEC countries.

The bank should also explore the international financial sources for finding credit sources for the large and medium sized investment proposals of the private investors.

#### V.III.II.IV The BSEC Parliamentary Assembly

The member states have already been engaged with this subject as it was explained in Section III.VII.I. The Parliament members should be assigned by the national parliaments and they should try to develop the mutual investments in their countries. Also, they should bring the possible cooperation areas onto the agenda of the BSEC by making negotiations with the Secretariat and Business Board. In addition, the parliament members should make contacts with the Council Members and the local authorities for speeding up the economic cooperation process. In this way, the Parliament can behave as catalyzer of the BSEC.

#### V.III.II.V The BSEC Information System

This organization should be established for collecting reliable economic and social data from the member states<sup>78</sup> and it should establish a data and information transfer system among the member states which is also connected to worldwide information systems.

While doing that, the Turkish State Institute of Statistics should guide the member states in the use of the

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<sup>78</sup> Prof. Dr. Orhan Guvenen (Head of the State Institute of Statistics), expressed that reliable economic and social data is a must for economic policy generators. Otherwise, he says, unrealistic and dangerous policies can be generated and the results of these policies can collapse the economic, social and political systems.

accounting principles of the free market economy. Currently, one of the major handicaps of the ex-socialist members is a lack of consistent accounting systems<sup>79</sup>. This situation makes it difficult to analyze the economic production capabilities of these states.

In this way, it will be much more possible to speed up the business relations among the member states. Currently, the BSEC Business Board is conducting these activities without a strong Information System.

#### V.III.II.VI      The BSEC Business Board

The BSEC Business Board should be established for encouraging the cooperation of the private investors or traders. In the achievement of this goal, the BSEC Information System should be effectively used by this organization for collecting and distributing regional trade and investment opportunities to the regional private capital holders.

Also, in Stage II, this organization should work in close collaboration with the BSEC Foreign Trade and

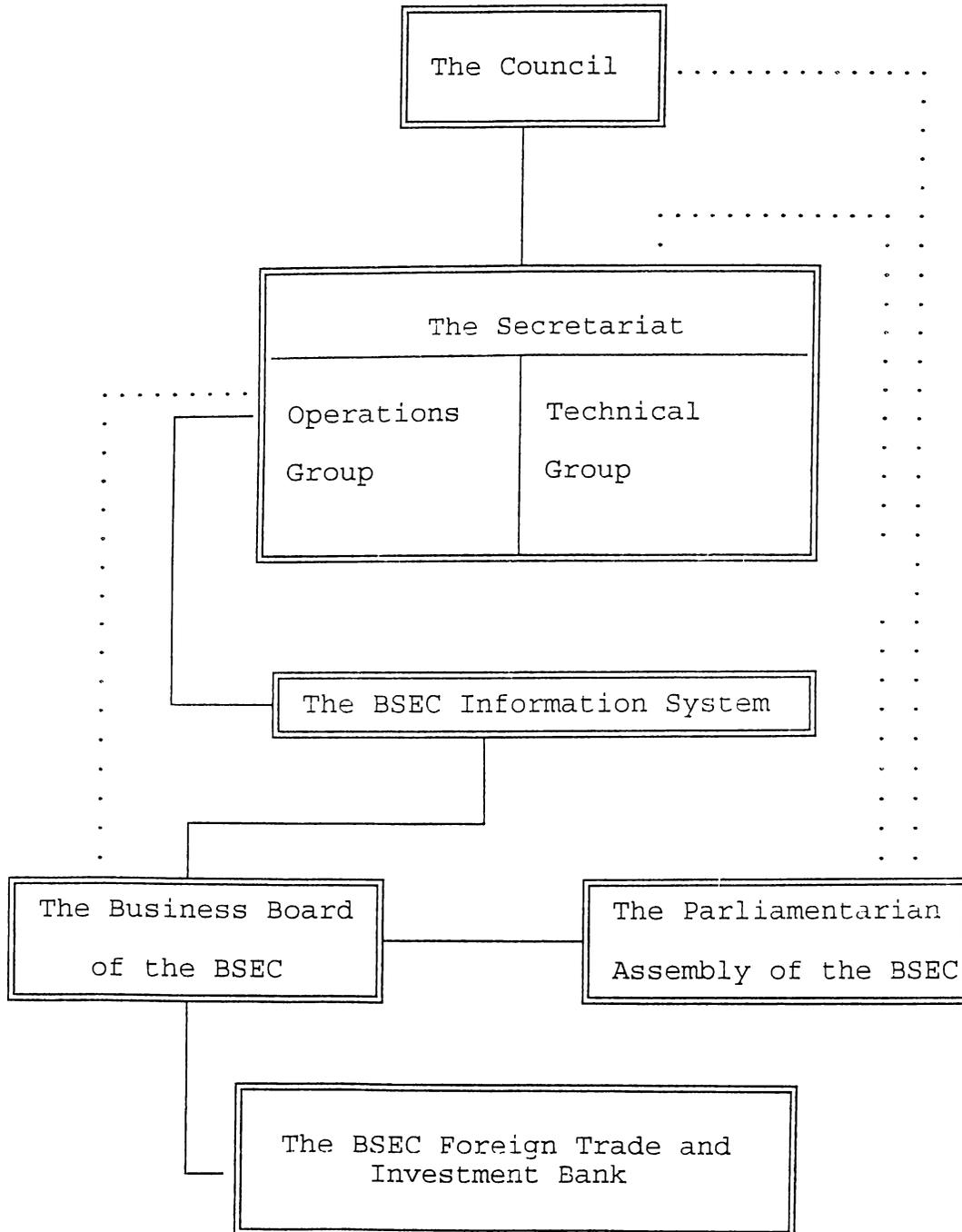
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<sup>79</sup> "Unlike the market economies, where national accounts are compiled in accordance with the United Nations' System of National Accounts, the former centrally planned economies used (and continue to use) a system called the material product system which covers only productive sectors of the economy. Many services, as well as the financial sector, were left out of the accounting framework".

Investment Bank for answering the credit demands of small and medium sized enterprises. Also, the Operations group of the Secretariat should inform this organization about the rules and procedures relevant to the private investors. In this way the Business Board can operate in an effective manner.

An important digression, if the Business Board establishes a "BSEC Union of Chambers and Commodity Exchanges", then the trade volume can be increased in a more desired manner.

Figure V.III The Relations Among the BSEC Institutions in Stage II



————— Organic Relation  
 ..... Informative Relation

#### V.IV The Proposed Institutional Architecture for Stage III

In Stage III, some institutional reforms should be made on the institutional architecture by regarding the objectives of Stage III.

As it was explained in Section V.IV, the major goals of this stage were as follows:

- The integration of the BSEC with the European and Asian economies, and
- The maintenance of harmonious development within the BSEC region.

The institutional architecture of the second stage should be re-designed for achieving these objectives. In the new design, additional roles will be assigned to some of the BSEC institutions and a new institution, namely the "Commission of the BSEC" will be established.

However, it doesn't mean that the basic collaboration mechanism among the BSEC institutions will change completely. In fact, it will remain mostly unchanged, but it will be adapted to operate with the additional roles of the BSEC institutions. Also, the Commission will be superimposed on this mechanism by establishing its necessary relations with the other BSEC institutions.

So, what additional roles should be assigned to the BSEC institutions for achieving the objectives of the third stage, and what should be the overall operation of the institutional architecture when the Commission will be superimposed on it? The following paragraphs will explain the answers to these questions.

First of all, the Commission should be established as an independent institution, for achieving a harmonious development in the BSEC region. The following section has been devoted to describing the functions and the structure of this institution.

#### **V.IV.I The Commission of the BSEC**

##### **i) The Functions of the Commission**

The main task of the Commission should be to monitor the BSEC region and determine the necessary projects for achieving a harmonious development in the BSEC region without regarding the national interests of the member states. While doing that, the commission should monitor the economic policies of the member states for preparing more applicable proposals. Also, the Commission should prepare the outlines of the necessary policies for achieving the integration of the BSEC with the European and Asian economies in the best manner.

As it is evident, the Commission should work as a "think tank", similar to what has been done by the Commission of the EC. Also, corresponding to the Commission of the EC, it should not have the right to implement its decisions before they are approved by the Council of the BSEC.

**ii) The Structure of the Commission**

The Commission of the BSEC should be established by the competent senior officials and academicians of the member states and their independence should be beyond doubt. Each member state should assign two persons to the Commission.

The proposed collaboration procedure between the Commission of the BSEC and the other BSEC institutions is given schematically in Figure V.IV. Also this procedure has been explained in the following section.

**V.IV.II The Proposed Collaboration Procedure Between the Commission and the Other BSEC Institutions**

**Step 1:** The Commission should send the proposals to the Council and the Parliamentarian Assembly (the Parliament) simultaneously.

**Step 2:** The proposal should be discussed between the Council and the Parliament.

**Step 3:** If both the Parliament and the Council accept the implementation of the proposal, then the Council should assign the Secretariat to implement the proposal upon the voting held in the Parliamentarian Assembly. This will be the end of the dialogue between the Commission and the Council.

**Step 4:** If the Parliament rejects the Proposal, then the Parliament should send it to the Commission for revision.

**Step 5:** The Commission should revise or withdraw the proposal, by considering the opinions of the Parliament and the Council.

**Step 6:** If the Commission decides to revise the proposal, after making the required revisions, then it should send the revised proposal to the Council.

**Step 7:** After the Council receives the revised proposal, it should send it to the Parliament for the final voting. At this point the Council should inform the Parliament about its stance.

**Step 8:** After the decision of the Parliament is received by the Council, the Council should make its final decision. At this point, the Council, being the executive of the BSEC, can either accept the implementation of the proposal, or it can reject the proposal.

### V.IV.III The Proposed Revisions on the Roles of the BSEC Institutions

As it was mentioned in Section V.IV.II, in Stage III, the basic collaboration process between the BSEC institutions will continue to be valid as it was done in Stage II. However, the roles of the BSEC institutions should be revised as follows:

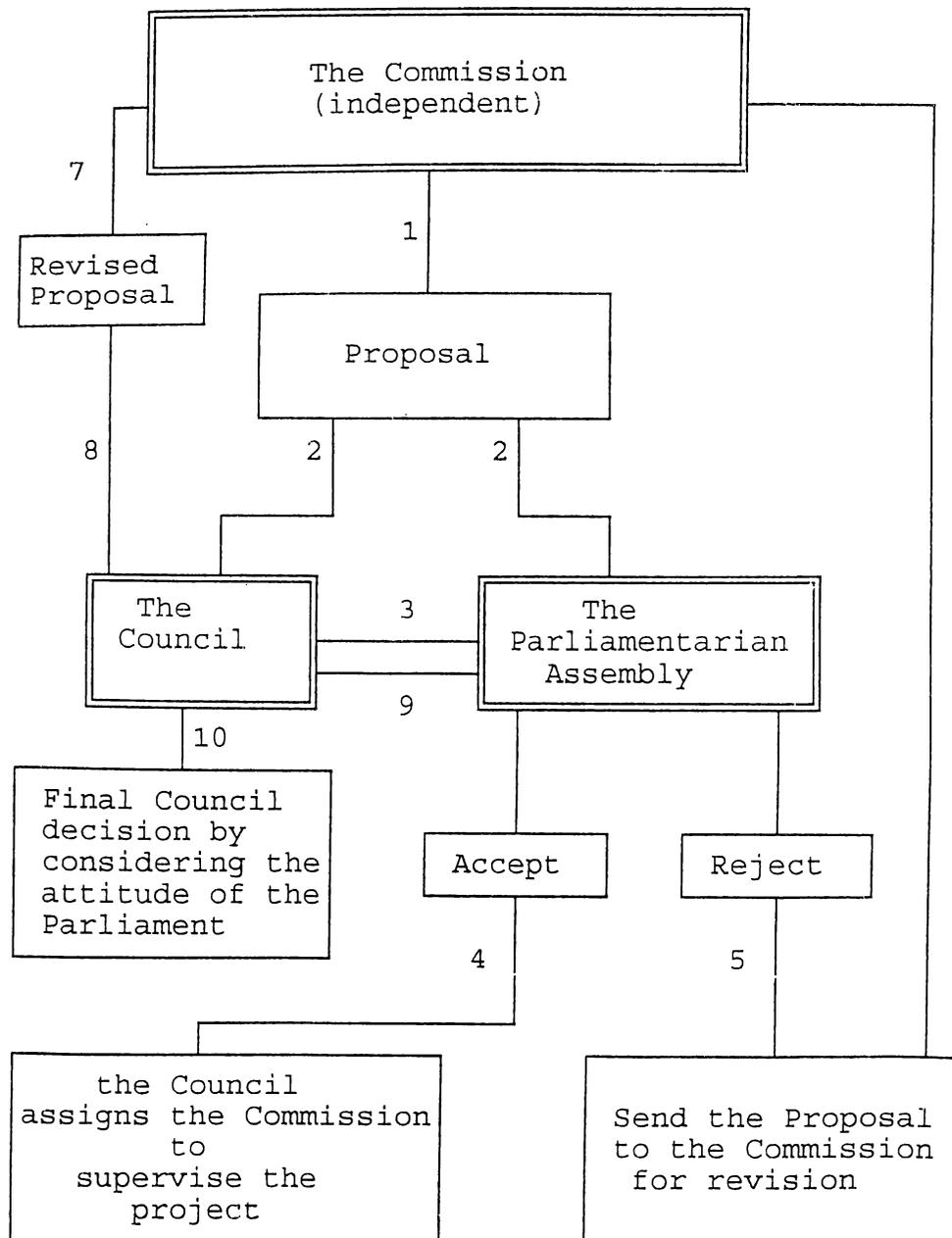
- a) The Member States should agree to give a supranational power to the Council for approving or rejecting the independent economic cooperation proposals of the Commission.
- b) The Parliamentarian Assembly members should be assigned by the national Parliaments of the member states and this institution should start to work as a separate entity. The Parliament of the BSEC should work in close collaboration with the Council and the Business Board for maintaining a balanced economic development within the BSEC as much as possible<sup>30</sup>.
- c) In Stage III, the BSEC Foreign Trade and Investment Bank should start to support the credit demands of the independent proposals coming from the Commission as well as the credit demands of small and medium sized

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<sup>30</sup> *The basic objective of the EEC was to achieve a balanced economic growth among the member states. So, at this stage if we assume that economic relations have been increased, the next step should be to achieve this objective such as the EEC did.*

BSEC enterprises. The capital of the BSEC Foreign Trade and Investment Bank should be increased by the member states in order to achieve this objective.

**Fig V.IV Proposed Basic Collaboration Scheme Among the Commission and the Other Institutions of the BSEC**



V.IV.IV What Should be the Situation in the BSEC at the  
End of Stage III?

At the end of Stage III, the BSEC should reach a level so that the following conditions have been maintained within the BSEC region.

- The trade volume among the member states should be significantly increased.
- The infrastructure should be sufficient and contemporary.
- The joint venture investments among the member states should be increased.
- The joint venture investments of the member states with the third parties should be increased.
- The industrial production should be increased in a quality oriented manner.

In this way, most of the objectives stated in the "Summit Declaration" will be accomplished. After this stage, if the member states still want to increase their economic collaboration, a new era towards the creation of a "BSEC Common Market" should be started with a strong treaty similar to the Treaty of Rome.

If the proposed development scenario and the institutional architecture will be implemented successfully, and if the political will exists, then the BSEC can start a new era for becoming a strong economic power in the world.

## CHAPTER VI

### CONCLUSION

#### VI.I CONCLUSIONS AND RECOMMENDATIONS

At the end of this thesis study, it is concluded that;

1. While trying to promote the economic relations among their member states, the EC and the BSEC are applying completely opposite methods.

The EEC has been aiming to achieve this objective by creating a common market which was significantly protected from the third parties. For that purpose, the member states were obliged to use the Common Customs Tariff against the non-member states while they were decreasing the intra-community Custom Duties.

However, in the BSEC, there is no intention of protecting the region from the non participating countries. Only several privileges and incentives have been introduced to participating states such as the free movement of businessman and elimination of double taxation to promote the economic collaboration among the members.

2. The BSEC will not force Turkey into a crossroad with the EC. This point has been explicitly stated in Article 7 of the "Summit Declaration.

In fact, Turkey can use the benefits of this collaboration while continuing on the course to the EC

3. The BSEC is a much looser structure when it is compared with the EC, because EC has been aiming not only to increase the economic relations of its member states but to establish a monetary and political unification

In the BSEC, there is no obligatory requirement imposed on the member states as it was in the EC. That's why the binding and rigid tools of the EC cannot be used in the BSEC in the near future, because of the differences in the initial targets and the initial economic situations of these two organizations. Also, these kinds of faulty approaches will constitute an important barrier on the course of developing the BSEC by causing untimely and vociferous debates.

4. The institutional architecture of the BSEC can be established by incorporating the institutional system of the EC. However, the operation mechanism of this new institutional architecture should be designed so that it will serve the needs of the BSEC.

Although the methods of the EEC and the BSEC are different on the course of developing the economic relations among the member states, the institutional system of the EEC can be taken as a model for the BSEC. However, it is known that the institutional system of the EEC has made significant contributions to the initial success of the EEC, the first rigid structure has also caused important problems within this community as time elapsed. So, the institutional architecture of the BSEC should be dynamic and should be settled down in time. Meanwhile, the roles of the BSEC institutions should be determined so that they will establish a closer atmosphere of negotiation among the member states.

5. Creation of a Common Market in which goods, persons, services and capital can move freely is not only a matter of intention. The related governments should also consider the existence of other interest groups (i.e., industry, agriculture) in the society to be convinced and they should expend strong political efforts to pursue these groups.

Also, the Common Market requires a strong monetary discipline. If the exchange rates of the members will frequently fluctuate with respect to each other, the direction of trade can easily diverge among the member states. This situation may distort the operation of the

common market. The best solution is the usage of a common currency for that purpose.

If there are important differences existing in the economic situations of the member states (i.e., inflation rate, unemployment rate), the creation of a common market may cause extremely serious damages to the economies of the member states which are in a stronger position than the others.

6. The benefits of the BSEC can be delayed if member states will not expend enough political effort to solve the existing military conflicts in the BSEC region.

It is certain that in the case of a serious military conflict or dissention, governments cannot allocate their national resources in an efficient manner to encourage economic development. Unfortunately, some members of the BSEC (i.e., Azerbaijan and Armenia) have serious military conflicts with each other. Also, some dissensions exist in these states. These are among the most important problems to be solved urgently, for utilizing the benefits of the BSEC.

7. The ex-socialist members of the BSEC are currently trying to use the principles of the market economy. However, the socio-economic situations of these states are not ready for a rapid transition. They should apply the principles of a market economy in a gradual manner.

Otherwise social dissention will be widened in the BSEC region and the recovery of these situations may take a significant amount of time. In that case, the BSEC may not progress beyond an agreement.

## VI.II FINAL COMMENTS ON THE BSEC

First of all, because of the current socio-political composition of the BSEC, there may be some polarizations among the member states in the future. For example, Rumania, Bulgaria and Greece may prefer to increase their economic and political relations with the other Central European states such as Hungary, Czechoslovakia, Poland and Yugoslavia as well as the EC. Also, Turkey may increase her political and economic relations with the Turkic Republics by using her linguistic and cultural ties.

These developments, if they will happen, should be evaluated as normal. But, the crucial point is the following. The authorities shouldn't be pessimistic about the future of the BSEC for these reasons.

Whatever will happen, the economic relations within the BSEC territory will certainly increase, because within the principles of a market economy, investors will search to utilize the most suitable and beneficial conditions and these are available in the BSEC region. The most important

of them is the geographical proximity and existence of important resources. Due to the geographical location of the BSEC region, the trade relations of the member states will certainly increase with the European and the Asian countries.

That's why the Turkish government should expend serious efforts to vitalize this cooperation. Turkey should use the advantage of the BSEC at a time when most of the countries in the world are trying to look for new markets for their products.

As a final remark, one of the most critical point in the BSEC is the promotion of mutual economic relations among the individual investors of the participating countries. If the result of these actions will be fruitful, then it will mean that the future of the BSEC will be bright. In fact an economic collaboration can best be developed if the individual traders and investors find enough potential. So, the participating states should try to establish the necessary legal and technical infrastructure in order to maintain favorable conditions for these people.

APPENDICES

APPENDIX A.1

MEETING OF EXPERTS

(Bucharest)

BLACK SEA ECONOMIC COOPERATION

EXPERTS MEETING

Bucharest 27-28 May 1992

CHAIRMAN'S SUMMARY

Pursuant to the invitation extended by the Romanian side the experts meeting of the Participating States in the Black Sea Economic Cooperation was held in Bucharest on May 27-28, 1992.

The meeting was attended by the representatives of ARMENIA, AZERBAIJAN, BULGARIA, GEORGIA, GREECE, MOLDOVA, ROMANIA, TURKEY and UKRAINE. RUSSIA was represented by a member of its Embassy in Bucharest.

The heads of delegations were received by H.E. Adrian Nastase. Minister of Foreign Affairs of Romania.

Mr. Teodor Melescanu, Secretary of State at the Ministry of Foreign Affairs, opened the meeting by presenting the introductory remarks.

I. The representatives of participating states held an extensive exchange of views and ideas regarding the priority fields of the Black Sea Economic Cooperation at its initial

stage. They reiterated the readiness to find the practical ways and means to implement the provisions of the Declaration.

They recognized the need of cooperation in the financial and banking sectors. In this context the questions of financial support and the possibility of establishing a Black Sea Foreign Trade and Investment Bank will be studied in a working group of experts. The Turkish delegation distributed a nonpaper on the preliminary concept about the purpose and operation of such an institution.

Several delegations underlined that the conclusion of credit and financial agreements at governmental and non-governmental levels is also important for the development of economic cooperation in the area.

The expansion of mutual trade and industrial cooperation, the encouragement of the private sector, including appropriate mechanisms and policies, were identified as other top priorities. Promotion of small and medium-sized enterprises, conclusion of agreements on investment protection and avoidance of double taxation as well as the gradual liberalisation of movement of businessmen and direct contacts among companies were also pointed out as important means contributing to fruitful

economic cooperation. The Turkish delegation informed about the invitation of the Board of Foreign Economic Relations of the Turkish private sector to host a meeting of the representatives of the private sector of the participating countries.

In addition to finance and trade the following priority fields were also emphasized:

- transport and communications including their infrastructure;
- agriculture and agro-industries;
- environment including the ecological problems of the Black Sea;
- exchange of statistical data and economic information including studies of the ways and possibilities of setting-up a system or a center for legislative information and comparative law; an invitation of the Turkish Institute for Statistics to organize an experts meeting on the subject was extended to participating countries.

For the purpose of formulating and implementing cooperation projects in those areas the establishment of working groups of experts was recommended. Their task would be to assess future cooperation opportunities and to work out concrete proposals.

II. The delegation of Turkey informed the participants about the preparations for the Istanbul Summit of 25 June, 1992 and presented a draft programme for this event.

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APPENDIX A.2

SUMMIT DECLARATION ON BLACK SEA ECONOMIC COOPERATION

SUMMIT DECLARATION  
ON  
BLACK SEA ECONOMIC  
COOPERATION

The Heads of State or Government of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine ;

1. Taking into account the profound and rapid changes in Europe and the determination of the peoples of the continent to shape a new era of peace and security on the basis of the principles laid down in the Helsinki Final Act and the follow-up CSCE documents and particularly in the Charter of Paris for a New Europe,

2. Recognizing that a prosperous and united Europe will evolve on shared values such as democracy based on human rights and fundamental freedoms, prosperity through economic liberty and social justice, and equal security for all our countries,

3. Taking into consideration the potential of the participating States and the opportunities for enhancing the mutually advantageous economic cooperation arising from their geographic proximity and from the reform process and structural adjustments,

4. Conscious of the importance of the environmental problems of the Black Sea for the well-being of their peoples and recognizing that it is vital to ensure the environmental sustainability of their economic development,
5. Confirm the intention to develop economic cooperation as a contribution to the CSCE process, to the establishment of a Europe-wide economic area, as well as to the achievement of a higher degree of integration of the participating States into the world economy,
6. Share the common objectives to achieve the further development and diversification of both bilateral and multilateral cooperation among them as well as with other interested countries, to foster their economic, technological and social progress, and to encourage free enterprise,
7. Agree that their economic cooperation will be developed in a manner not contravening their obligations and not preventing the promotion of the relations of the participating States with third parties, including international organizations as well as the EC and the cooperation within the regional initiatives,
8. Aim to ensure that the Black Sea becomes a sea of peace, stability and prosperity, thriving to promote friendly and good-neighbourly relations,

9. Declare that the economic cooperation among the participating States will be developed on the basis of the principles of the Helsinki Final Act and the decisions in the subsequent CSCE documents, as well as of the other universally recognized principles of international law,

10. Agree that the economic cooperation will be promoted gradually and, while determining the priorities in this process, they will take into account the specific economic conditions, interests and concerns of the countries involved, and particularly the problems of the countries in transition to market economy,

11. Affirm that the whole economic cooperation among their countries is open for the participation of other interested States recognizing the provisions of this Document. As regards projects of common interest, individual countries, their economic and financial institutions, enterprises and firms as well as regional and international economic and financial institutions could be involved in their realization,

12. Decide to develop comprehensive multilateral and bilateral Black Sea economic cooperation, covering the various fields of activity as specified below,

13. Affirming their determination to make best use of all possibilities and opportunities for expanding and

multiplying their cooperation in the fields of economics, including trade and industrial cooperation, of science and technology and of the environment, the participating States declare that they will take from now on concrete steps in this process by identifying, developing and carrying out, with the participation of their competent organizations, enterprises and firms, projects of common interest, inter alia, in the following areas:

- transport and communications, including their infrastructure;
- informatics;
- exchange of economic and commercial information, including statistics;
- standardization and certification of products;
- energy;
- mining and processing of mineral raw materials;
- tourism;
- agriculture and agro-industries;
- veterinary and sanitary protection;
- health care and pharmaceuticals;
- science and technology,

14. In order to promote their cooperation, the participating States will act to improve the business environment and to stimulate individual and collective initiative of the enterprises and firms directly involved, mainly by:

- facilitating, via bilateral negotiations, the prompt entry, stay and free movement of businessmen in their respective territories and encouraging direct contacts among enterprises and firms;

- providing support for small and medium-sized enterprises;

- contributing to the expansion of their mutual trade in goods and services and ensuring conditions favorable to such development by continuing their efforts to further reduce or progressively eliminate obstacles of all kinds, in a manner not contravening their obligations towards third parties;

- ensuring appropriate conditions for investment, capital flows and different forms of industrial cooperation, notably by concluding and putting into effect, in the near future, agreements on the avoidance of double taxation and on the promotion and protection of investments;

- encouraging the exchange of information on international tenders organized in the participating States so as to give the opportunity to their enterprises and firms to participate therein, in accordance with the national rules and practices;

- encouraging cooperation in free economic zones.

15. The participating States will take appropriate steps, including by promoting joint projects, for the protection of the environment, particularly the preservation and the improvement of environment of the Black Sea, and the conservation, exploitation and development of its bio-productive potential,

16. The participating States will consider or encourage the conclusion of appropriate credit and financial arrangements at governmental and non-governmental level and will seek to mobilize funds, including through international institutions and third parties, for the purpose of expanding their mutual economic and commercial cooperation and implementing specific projects of common interest in the Black Sea area. In this context, they will consider the possibilities and the ways of establishing a "Black Sea Foreign Trade and Investment Bank".

17. Meetings of the Foreign Ministers of the participating States will be convened regularly on rotation basis, at least once a year, to review progress and to define new targets. By common understanding, ad hoc and permanent working groups of experts are to be set up to propose the necessary arrangements concerning the cooperation in different fields. The Participating States

consider that at this stage of their cooperation it is necessary to ensure institutional flexibility. Representatives of the business community should be invited to this process so as to benefit from their practical experience.

18. Those States which commit themselves to the observance of the provisions of the present document can join, with the approval of the participating States, the whole process of cooperation. Organizations, enterprises and firms of third parties will also be given the possibility of indicating their interest in projects of common interest and, in case of agreement, of taking part in their implementation. Regional and international economic and financial institutions may also contribute in the carrying out of these projects.

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Sali BERISHA  
President of the Republic of Albania

Levon TER-PETROSYAN  
President of the Republic of Armenia

Ebulfaz ELCHIBAY  
President of the Republic of Azerbaijan

Jelyu JELEV  
President of the Republic of Bulgaria

Eduard SHEVARDNADZE  
President of the State Council of Georgia

Constantin MITSOTAKIS  
Prime Minister of the Republic of Greece

Mircea SNEGUR  
President of the Republic of Moldova

Ion ILIESCU  
President of the Republic of Romania

Boris YELTSIN  
President of the Russian Federation

Süleyman DEMİREL  
Prime Minister of the Republic of Turkey

Leonid KRAVCHUK  
President of Ukraine

APPENDIX A.3

ISTANBUL STATEMENT

3 February 1992

İSTANBUL STATEMENT

The participating countries will welcome the joining of Greece and Yugoslavia that have already taken part in the elaboration of the document as observers. If a formal application is received by Turkish Foreign Ministry from these two countries before the end of May 1992, they will be invited as founding states of Black Sea Economic Cooperation.

After its foundation, the Black Sea Economic Cooperation will be open to the participation of other interested states in accordance with the provisions of the Declaration.

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APPENDIX A.4

THE ISTANBUL STATEMENT

25 JUNE 1992

THE BOSPHORUS STATEMENT

The Heads of State and Government of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Rumania, Russia, Turkey and Ukraine met and signed on 25 June 1992 in Istanbul the Declaration on Black Sea Economic Cooperation.

The Heads of State and Government,

Mindful of the historic need to further the implementation of peaceful and constructive relations among their peoples, based on the general principles of the UN charter and the CSCE documents and with the objective of creating adequate conditions for a mutually beneficial prosperity,

Sharing the basic approach that freedom must also extend to the field of the rights and rules governed by the free market economy,

Recognizing that their efforts so far must be further upgraded by the establishment of solid and effective mechanisms in order to achieve a higher degree of economic cooperation,

Noted that the signing of the declaration signaled the beginning of a new partnership between them inspired by the values of democracy, rule of law and respect for human rights.

The Heads of State and Government reiterated their commitment to act in a spirit of friendship and good neighbourliness and enhance mutual respect and benefit, cooperation and dialogue in the relations between them.

They recognized that this occasion could usher in an era of peace, stability and development in the region and agreed that they would all strive in good faith to achieve these ends.

The Heads of State and Government stated that by the Black Sea initiative, they could better realize concrete schemes of cooperative action that would contribute directly to the well-being and prosperity of their peoples and the region. They affirmed that feasible and practical possibilities for cooperation in all fields identified in the declaration be encouraged and actively pursued.

The Heads of State and Government acknowledged that the region is already faced by serious conflicts and that there is the danger of new tensions arising. They therefore emphasized the need for the peaceful settlement of all disputes by the means and in accordance with the principles set out in the CSCE documents to which they all subscribe. They further reaffirmed

their determination in resisting aggression, violence, terrorism and lawlessness and their resolve to help establish and restore peace and justice.

With a shared vision of the future and through mutual cooperation, the Heads of State and Government looked forward to the transformation of the Black Sea into a region of peace, freedom, stability and prosperity. They stressed that in the building of the new architecture of Europe, their countries and peoples had an important and creative contribution to make and that the Black Sea Economic Cooperation constituted an effort that would facilitate the processes and structures of European integration.

The Heads of State and Government welcomed the results of the meeting of the Ministers of Foreign Affairs held on 24 June 1992. They further noted the possibility of convening similar summit meetings in the future.

The participants expressed their gratitude to the government and the people of Turkey for the kind hospitality extended to them during the summit.

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