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The Seat of the
European Institutions
An Example of Small State Influence
in European Decision-making

SASHA BAILLIE

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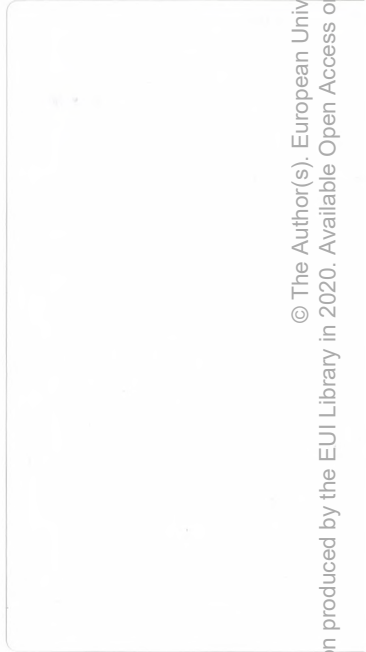
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ROBERT SCHUMAN CENTRE

**The Seat of the European Institutions
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in European Decision-making**

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BADIA FIESOLANA, SAN DOMENICO (FI)

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Introduction

This paper deals with the so-called 'paradox of weakness' in the context of the EU institutions¹. The aim is to explain how Luxembourg, the smallest EU member state, has been able to steer certain decisions, which it has attached considerable importance to, in accordance with its preferences. This particular study focuses on the issue of the location of the European institutions from 1952 to the present in order to identify the factors which provide Luxembourg with the opportunity to guarantee the location of certain institutions in the Grand Duchy.

In Part 1 a number of hypothetical explanations of the means of influence of a small state in the European Union are suggested, and the theoretical framework, that of actor-centred institutionalism, which serves to highlight the explanatory factors, is set out.

Part 2 traces the development of the seat issue from 1952 to the present. The emphasis is placed on the occasions relevant to Luxembourg when the location of certain institutions was decided and when the siting came under attack. Each episode is systematically assessed with regard to the hypotheses of small state influence in the EU.

Part 3 draws theoretical conclusions from the study. First, it assesses the hypothetical framework with regard to the case study on Luxembourg and the seat of the institutions and seeks to identify those hypotheses which best explain the outcomes of this issue whilst explaining the limited applicability of the remaining hypotheses to this particular case. Finally, the study is assessed from the theoretical perspective with the intention of establishing the insights that can be gained from an actor-centred institutionalist approach.

1. Hypothesis and theoretical framework

Hypothesis

The hypothesis is put forward that Luxembourg is able to yield a disproportionate amount of influence with respect to its small size (as determined by population, territory and GNP). The assumption is made that within the institutional framework of the EU a small state is not necessarily in a

¹ The term EU will be applied throughout this study to refer to the ECSC (European Coal and Steel Community), the EEC (European Economic Community), the EC (European Community), and the EU (European Union), unless specific reference is made to either the ECSC, the EEC or the EC.

weak position, and that small size can even be an advantage and provide an actor with opportunities. The aim is to identify the means of influence of Luxembourg in the European Union.

It must be specified at this point what exactly is meant by the notion of 'influence' in this study. In the literature dealing with concepts of 'influence' and 'power' different views persist as to a universally valid definition applicable to these terms. However, the aim here is not to assess Luxembourg's influence in some abstract and universally valid form. The objective is rather to identify whether and how Luxembourg is able to have the *desired effect on outcomes* in issues it has an interest in. This interpretation of the notion of 'influence' concords with Bertrand Russell's definition of 'power' as 'the production of intended effects' (Russell 1986:19). It also follows suit to the discussion on the notion of 'influence' and 'power' of such authors as Mokken, Stokman and Baldwin who stress that these concepts need to be seen in a contextual, relational framework and analyzed with regard to a specific domain or issue (Mokken & Stokman 1976; Baldwin 1989).

A number of hypothetical reasons for the means of influence of Luxembourg in the EU are set out below.

- (i) *The principle of the equality of states, quasi-federalist notions of decision-making and the *acquis communautaire**

At the basis of a small state's influence in the EU lies the legal framework of the European Union, in particular the basic principles upon which the institutions were built, i.e. the international law principle of the equality of states and quasi-federalist² notions of decision-making as well as the body of Community law, the so-called '*acquis communautaire*'.

Irrespective of their size, all states are represented in the decision-making bodies. The essence of federal-type decision-making systems which take into account, on the one hand, the size of states as determined by population and territory, and, on the other, the principle of equality of all states, can be discerned in the EU decision-making system. Federalist systems pay special attention to minorities with the deliberate intention of preserving diversity. The EU has incorporated this principle since its very beginning by reserving a place for the representatives of small state members in the decision-making bodies.

² The term 'federalist' is used here in the sense of a decentralized system of governance where the authority lies at the centre for some matters and at the regional level for other areas. The British tendency to identify 'federalism' with a central government with overriding powers is deliberately excluded here.

Within the institutions of the European Community and Union, the Council, the Commission, the European Parliament (EP), and the European Court of Justice (ECJ), smaller member states are to a certain extent over-represented.

As European integration has progressed a body of Community law has developed. This *acquis communautaire* consists of Community legislation, Treaty provisions as well as agreements and decisions reached by the member states. The latter are bound by this legal framework, the respect of which is guaranteed by the ECJ. The body of Community law is irreversible, and thus provides the small states with a guarantee that any gains made therein are firmly established. As a result of these additional legal resources a small state increases its means of influence.

The *acquis communautaire* provides the small state with important means of influence since it gives it a legal guarantee to fall back on in negotiations. As it is generally easier to preserve the status quo than it is to bring about change, especially when the status quo has a strong legal back-up, the small state will consistently resort to a strategy of maintaining the *acquis*, of preserving the framework which provides it with a guaranteed position.

The *logic of institutional persistence* further plays into the hands of the small state. Once institutions have been put in place, they determine the further development of the institutional environment. As Krasner points out, '*historical developments are path dependent: once certain choices are made they constrain future possibilities*' (Krasner 1988:67). Hence, once the small state has been guaranteed a favourable position in the institutional set-up, its position is unlikely to be undermined thereafter. On the contrary, the position it enjoys in the initial institutional structure will determine its position in the further institutional set-up, in accordance with the *theory of path-dependency*.

The means of influence the small state derives from the basic EU principles and from the *acquis communautaire* is not merely of a passive nature as suggested by the logic of institutional persistence. The actor, i.e. the small state, has a direct input itself by actively taking advantage of institutional entrenchment, by *playing on path-dependency*. The actor can anticipate path-dependency and behave accordingly by consolidating its gains.

(ii) *Special resources in one sector*

The hypothesis is put forward that although a state may be deficient in overall quantitative resources, special resources in one particular sector may provide it with overall means of influence. This may be the case when actors operate in an

institutional context which covers numerous policy areas. Influence in one area may have implications for other areas. According to the theory of path-dependency once behaviour has been institutionalized in one area it creates a precedence and has implications for other areas. The same framework will be applied in other sectors although the conditions might differ. Hence, on the basis of an influential position in one area, a generally weak state may gain influence in other areas irrespective of the fact that its resources in this sector may be limited.

A small state can take advantage of institutional persistence. Once it has obtained certain rights in one area of decision-making, these rights become entrenched. They provide the actor with a certain status and position. This enhances the actor's resources, which can be instrumental in the defense of interests in other areas.

(iii) *Behavioural implications of an actor's limited resources*

The limited resources of an actor have implications for the way the actor behaves and for the way other actors behave towards them. Such behavioural situations may provide a small state actor with important opportunities of action. Three such behavioural implications of limited resources which may explain how a small state can exert influence in the European Union have been identified here.

First of all, given the limited resources of Luxembourg larger states do not perceive it as a threat. The relationship with the small state tends to be *non-competitive*. Larger states tend to be more tolerant, understanding and even supportive towards the behaviour and the interests of a smaller partner. As a result, Luxembourg may be able to behave in a self-interested way without provoking opposition on the part of its larger and potentially more influential partner. The advantages a small state reaps may be substantial from its point of view, yet negligible from the point of view of a larger state. The *non-competitive relationship* between two states with wide disparities in resources can influence outcomes considerably.

The second behavioural implication of small size suggests that the limited resources of a small state directly affect its own behaviour in the international decision-making process. Well aware of its lack of necessary resources to bring pressure to bear on other states and to play a leading role in the international arena, the small state adopts a *low-profile approach* and strategically avoids attracting the attention of its larger partners onto itself. In negotiations the small state actor keeps out of the limelight and lets the other actors fight it out

amongst themselves. In most issues the state can afford to do so since, as a result of its limited resources, it does not have such strong vested interests to defend. Only when matters of primary importance to itself occur on the agenda will the small state actor intervene and plead for the observation of its vital interests. In such cases the small state can readily argue that its very *existence is at stake*, which renders concessions on the part of its larger partners all the more likely.

Given the limited resources of the small state, and hence the limited areas of vital interests, the occasions at which the actor has to intervene tend to be rare. As a result, the larger partners are less likely to be apprehensive towards the concerns of the smaller partner and tend to pay due regard to them. Hence, the argument that the small state is able to defend its interests through the low-profile approach it adopts is substantiated by the fact that it finds itself in a non-competitive relationship with its larger partners. The second behavioural implication of small size is reinforced by the first.

The third behavioural implication of limited resources refers to the *role of neutral coordinator* which a small state is likely to take on as a result of a lack of strong vested interests, which in turn results from a lack of resources. The role of neutral coordinator provides it with considerable opportunities of action. Enjoying a central position in the interaction process, at the source of information, the small state is able to assess the situation objectively and steer the process in a way that the outcome will be favourable to itself, or at least will not harm its interests.

Once again, the fact that the small state finds itself in a non-competitive relationship with other states may make it all the more likely for the small state to take on the role of neutral coordinator. Given that the larger partner tend not to perceive a threat on the part of the small state, it finds itself in the ideal position to act as an honest broker. Hence, the first behavioural implication of small size substantiates the third.

(iv) *Small public administration*

As a small state Luxembourg has a relatively small public administration characterized by informal contacts and short lines of communications among departments and between ministers and their respective departments. This has two significant implications for the decision-making environment, which affects the small state's ability of pursuing its goals.

First, such a close-knit environment is conducive to a strong common identity which promotes internal cohesion and solidarity. Aware of the external dependence and vulnerability of the small state, domestic actors cooperate closely, reach compromises and are likely to agree on a common interest when dealing with European issues (cf. Vogel 1983). Although this may not directly strengthen the small state's means of influence in the EU decision-making process, it may affect the small state's ability of dealing with dependence and hence of holding its ground in the EU.

Secondly, close contacts and fluid exchange of information between the government and Luxembourg's permanent representatives in Brussels promotes swift and flexible response to decision-making processes at EU level. The considerable autonomy the Luxembourg permanent representatives to the EU enjoy means that they are not hampered by hierarchical and cumbersome administrative procedures but are able to assess situations on the basis of their personal knowledge and experience in a rational, swift and efficient manner. Rapid assessment of situations and swift adaptation gives the small state an advance on its partners when manoeuvring circumstances to its own advantage.

(v) *Bilateral and multilateral relations*

The final hypothetical explanation of a small state's means of defending its interests in the European Union is related to the practice of coalition-building among member states in the EU. In an attempt to defend its interests Luxembourg fosters its relations with other member states, and in particular with those it is historically and culturally linked to. The small state actively seeks and promotes cooperation with its neighbouring states, aims at a concertation of views and tries to form coalitions.

The Benelux Union provides an institutional cooperation framework for Luxembourg to concert with Belgium and the Netherlands. By forming a common front as the Benelux states, Luxembourg, Belgium and the Netherlands carry greater weight in the EU than they would each separately. However, given that the views of its Benelux partners do not always coincide, Luxembourg also endeavours to maintain good relationships with Germany and France, the other two states it is historically and culturally related with. The support it gains from coalitions with other member states may be essential to Luxembourg when it seeks to defend its vital interests.

Nurturing bilateral and multilateral relations is not an approach peculiar to small member states. However, it may be of considerable explanatory value in

an attempt to explain how a small state can influence policy outcomes in its favour.

Coalition-formation and bargaining are the predominant means of reaching decisions in an environment where conflicts cannot be solved authoritatively. In the case of the EU the decision-making process may differ considerably depending upon the policy area or the issue in question. However, regardless whether decisions are taken by unanimity or by qualified majority voting diverse interests must be accommodated. The durability of the EU and the scope of areas it covers are features particular to this institutional environment which enable package-solutions with multiple pay-offs (Wallace 1985; Wallace 1990).

Theoretical approach

The purpose of theory is to provide a frame or lens through which complex empirical phenomena can be ordered and understood. Theory is meant to simplify reality by highlighting certain aspects which have considerable explanatory force. The frame must be suited to the particular phenomena being analyzed. Since the aim here is to understand and to explain the behaviour of an actor and the outcomes of interaction, it makes sense to resort to different theories which emphasize the different aspects of the complex connection of phenomena. Depending upon the circumstances and the situation, one theoretical approach may have greater explanatory force than another. A complete understanding of Luxembourg's position in the EU necessitates a focus on different aspects of reality highlighted by different theories. A combination of theoretical approaches is most likely to provide adequate guidance in the exploration of the hypotheses.

An understanding of Luxembourg's influence in the EU necessitates a theoretical dimension which differentiates between the actor and the institutional environment. The theoretical approach adopted needs to clarify whether the means of influence of a specific small state in the European Union are institutionally related – i.e. a consequence of the institutional structure of the EU which determines behaviour, preferences and capabilities – or whether they are actor-specific – i.e. dependent on the particular characteristics, behaviour and strategies of the state in question. This distinction will help to determine at a later point whether the hypotheses explaining why a small state can be influential in the EU can be applied to other small states in the EU or whether they are only applicable to the specific case of Luxembourg.

This study resorts to 'actor-centred institutionalism', a combination of institutionalism and rational choice theory, in an attempt to explain the means of influence of Luxembourg in EU decision-making. Although in their purest form these theories are often presented as being mutually exclusive in many of their claims, they can both individually explain a slice of reality. When these theoretical explanations are combined they can offer a complete picture of the complex phenomena to be explained.

Mayntz and Scharpf combine institutionalism with an actor-centred approach in their attempt to explain political guidance and self-organization in society (Mayntz and Scharpf 1995). Additionally, they address the problem of how to choose which theory describes which behaviour, and conclude that analytical hierarchisation is the most obvious and coherent way of solving the problem. An actor-centred explanation is not necessary when an institutional explanation sufficiently explains the empirical phenomenon. Where an actor-centred explanation is necessary, they argue that one should begin with simplified suppositions, which only need to be empirically tested once they fail to explain observed behaviour. Since the institutional context partly determines structures of relationships, motives of interaction and behavioural orientation, much is already known of the actor once one knows the institutional context (Mayntz and Scharpf 1995:66-67).

The institutional context goes a long way in explaining why a small state is not necessarily in a weak position, and why small size can even be an advantage and provide an actor with opportunities. However, institutions alone cannot always explain policy outcomes. The individual input of actors may be decisive as well. The rational choice approach can complement institutionalism in explaining the choice of behaviour of a given actor.

Before linking up the hypotheses with the theoretical approach more detailed explanations as to the exact meaning of institutionalism and rational choice theory are required.

The institutional approach to policy-making argues that institutions determine behaviour in their own right. Krasner defines institutionalism as follows:

'an institutional perspective regards enduring institutional structures as the building blocks of social and political life. The preferences, capabilities and basic self-identities of individuals are conditioned by these institutional structures. Historical developments are path dependent: once certain choices are made they constrain future possibilities. The range of options available to policymakers at any given point in time is a function of institutional capabilities that were put in place at some earlier period, possibly in response to very different environmental pressures.' (Krasner 1988:67)

However, the extent to which institutions *determine* behaviour depends very much on how one defines institutions. A broad conception of institutions as that employed by March and Olsen, for instance, as '*a number of interconnected rules and routines which define the adequate action as a relationship between a role and a situation*' (Héritier 1991:33) leaves little scope for non-institutionally determined action or individual orientation of action. However, if an understanding and explanation of an individual actor's means of influence in their environment is sought, actor-related explanatory factors and institutionally related explanatory factors need to be differentiated. How else is one able to distinguish the different and specific causes of behaviour if institutions are all-encompassing?

A restricted conception of institutions provides a much more useful explanatory framework for the analysis of Luxembourg's means of influence in the EU. Such a conception is for instance that of Mayntz and Scharpf who define institutions as '*regulatory structures relating to the distribution and exercise of power, the determination of competences, the disposal of resources and the relationships of authority and dependence*'(Mayntz and Scharpf 1995:40).¹ Hence, in this study the term 'institution' specifically denotes EU principles, norms of behaviour, rules and decision-making procedures. For the purpose of identifying the sources of the means of influence of Luxembourg in the EU a clear distinction is thus made between, on the one hand, the EU institutional structure, and, on the other, the actor, i.e. the government, the ministerial departments, the groups or personalities representing the interest of Luxembourg and other non-Luxembourg participants in the process.

The durable nature of institutions carries the notion of 'path-dependency'. Early decisions become entrenched, they tend to create a precedence and determine options at a later point. There is a tendency for repetition. The adopted behaviour or problem-solving approach becomes routinized. Although the circumstances that gave rise to the initial decision may have changed, the approach adopted is not questioned and is nevertheless applied repetitively at later stages. '*Institutional structures are locked in even though there might have been some more efficient alternative.*'(Krasner 1988:85-86)

Path-dependency has important implications for a 'weak' actor. Decisions taken under circumstances where the actor found itself in a stronger position and which the actor was able to influence in accordance with its preferences become entrenched. Such decisions come to be seen as accepted norms which determine

¹ unofficial translation.

later behaviour and decisions. Although objectively the actor may not be in a position to influence later decisions in its favour, the perceptions and attitudes which ensue from an earlier decision lead to outcomes which are in the actor's favour. Institutions can determine the status of an actor.

Theories of rational choice provide a different explanation of human behaviour. The rational choice approach is based on the assumption that '*human activity is goal oriented and instrumental and that individual and institutional actors try to maximize their goal achievement*'(Tsebelis 1990:6). The actor assesses the costs and benefits of a given action with regard to a certain goal, and bases its preferences on this calculation. The classic rational choice approach has been criticized for its simplicity and its failure to incorporate other actors and the environment the actor finds itself in.

The criticisms of rational choice theory have been incorporated into a more sophisticated version of rational choice theory, so-called *strategic rationality*, which takes account of the dynamic character of preferences and the changing environment (Héritier 1991:30). For instance, Tsebelis argues that since actors are involved in 'nested games', meaning that the game an actor is involved in is embedded into other games, a rational actor approach must incorporate contextual and institutional factors to be able to demonstrate that an actor behaves rationally (Tsebelis 1990). Such a conception of multiple games may be particularly suited to the analysis of interaction and decision-making in the EU (cf. Benz 1992).

Contrarily to pure rational choice theory, one cannot assume that an actor is in possession of complete information and that its strategy takes all relevant factors into account. It makes more sense to conceive of actors as behaving according to *bounded rationality*. Actors seek to maximize their self-interest but are limited in their ability of controlling the outcomes because they are not in possession of all information affecting the outcomes of behaviour and interaction. One can nevertheless assume that an actor is acting strategically although its rational behaviour is based on incomplete information.

A rational actor approach does not necessarily imply that the actor is able to control outcomes totally. The notion of rational actor applied here conceives of *the actor being able to reflect on a given situation, assess the costs and benefits which possible choices of action may carry, and base its choice of action on this assessment*. The assessment is determined by numerous factors, some of which are institutionally related, some of which are the result of the actor's individual orientation. What really counts is that actors have an individual and specific input, that they have a choice, that they *behave*.

A rational actor approach need not necessarily conceive of the state as a unified actor. Such a conception would be misleading given the plurality of actors and their interests which constitute the 'state' (cf. Jordan and Richardson 1979; Richardson 1982). However, this does not lead to a total rejection of rational choice theory. The rationalist conception of the actor need not be applied to a unified state actor, but may nevertheless be applicable to particular actors which at some point or another are acting in the interest of the 'state', i.e. of Luxembourg. When defending the 'national' interest they behave as rational actors; they reflect on a given situation, assess the costs and benefits of a choice of action, and behave in a way that they perceive as best defending their interest.

The theoretical frameworks of institutionalism and rational-choice are not mutually exclusive. They can be coherently combined in a way that Mayntz and Scharpf have succeeded in doing. In a volume entitled *Gesellschaftliche Selbstregelung und politische Steuerung*, they have constructed a behavioural framework referred to as 'actor-centred institutionalism', which effectively incorporates institutionalist and rational choice assumptions (Mayntz and Scharpf 1995).

According to Mayntz and Scharpf, institutions have a significant effect on actor behaviour. It must be borne in mind that institutions are conceived of in a restricted sense as regulatory structures providing opportunities of action and restricting action. As such, institutions are independent variables, factors which may explain behaviour. However, institutions alone (in this restricted sense) cannot explain everything.

'The institutional framework does not encompass all types of action and action-relevant factors. Even where the institutional framework does determine action, it never does so exclusively.' (Mayntz and Scharpf 1995:49)⁴

The individual behavioural orientation of actors (*individuelle Handlungsorientierung*) is relevant to the remaining scope of action. This *individuelle Handlungsorientierung* is partly institutionally determined, and partly determined by contextually unrelated characteristics of individual or corporate actors, i.e. society- or history-related characteristics. The social unit (social class, ethnic group, profession, organization, state) from the perspective of which the actor is choosing a behavioural option has a significant effect on

⁴ unofficial translation.

the behavioural orientation of the actor (Mayntz and Scharpf 1995:49). This paper resorts to a similar synthesis of institutionalist and rational choice theories in an attempt to substantiate the hypotheses.

As specified above, the theoretical approach of actor-centred institutionalism is particularly suited to an exploration of the means of influence of a small state in the European Union. It allows one to distinguish between actor-related sources of influence and institutionally related sources of influence. One can identify whether Luxembourg is able to have the desired effect on outcomes as a result of characteristics, behaviour and strategies which are specific to itself, or whether its means of influence are a result of the particular institutional construction within which it operates.

The above theoretical framework needs to be applied to the subordinate hypotheses so that the theory may offer useful guidance at the stage when the hypotheses are explored by means of empirical data. Of course it will not be possible at this point to determine *a priori* and with absolute certainty which explanation – institutional and/or rational-choice – is best suited to which subordinate hypothesis. Detailed empirical analysis will be necessary for a more reliable interpretation of the phenomena. However, for the purpose of guidance the assumptions regarding the link between the different theoretical models and the different subordinate hypotheses need to be established.

(i) The first subordinate hypothesis suggests that principles of international law and federalist notions contained in the EU framework as well as the *acquis communautaire* may explain a small state's influence in the EU. Such legal resources can be pinned down clearly as institutional in the sense of '*regulatory structures relating to the distribution and exercise of power, the determination of competences, the disposal of resources and the relationships of authority and dependence*' (Mayntz & Scharpf 1995: 40).⁵ The institutional structure of the EU guarantees small state representation, which is a starting point for small state influence in the EU. The *acquis communautaire* is also part of the legal framework within which member states operate, and as such it is also an institutional factor.

Yet, the principle of equality of states and quasi-federalist notions of decision-making have come under attack time and again. In the context of the

⁵ Mayntz and Scharpf go into great detail in specifying and classifying the factors that determine the behavioural orientation of a given actor. However, since these theoretical details go beyond the aim of this paper it will not be necessary to elaborate on this discussion in the context of this paper.

⁶ unofficial translation.

preparation to the 1996 IGC numerous proposals of institutional restructuring put forth may compromise the position of small states in the EU and undermine the basic principles.⁷ Smaller member states have continuously had to recall the attention of their partners to the principle of equality of states contained in the Treaties. Such was the case in a Benelux memorandum to the Lisbon summit in June 1992 in anticipation of the then forthcoming enlargement of the EU. Although they recognized institutional adjustments as inevitable, the Benelux states clearly stated that the basic principles of representation of states in the EU must not be changed (*Europe Documents* 1992).

As can be seen from the above examples, an institutionally related interpretation is insufficient to confirm the hypothesis which suggests that small state influence in the EU can be explained on the basis of the fundamental principles underlying the EU decision-making system and of the *acquis communautaire*. Although the institutional structure goes a long way in explaining why a small state may be influential in the EU, at times it has to be complemented by an actor-related explanation.

(ii) An institutionalist explanation can also be identified at the basis of the hypothesis that suggests that resources in one particular area may provide a state with overall influence although it may be deficient in overall quantitative resources. As specified in the hypothesis, within an institutional context the influence of an actor in one area may have implications for other areas. According to institutionalist theory of path-dependency, once behaviour has become institutionalized in one area it creates a precedence and has implications for other areas irrespective of different circumstances. Hence, an institutional framework set up according to the situation in one area where a small state has considerable resources – as was the case for Luxembourg at the occasion of the foundation of the ECSC – becomes entrenched, creates a precedence, and affects the way institutions are set up in other areas.

The institutional framework of the European Union has its roots in that of the ECSC. Given the production capacity of Luxembourg's steel industry it was ranked among the top ten steel producers in the world in 1950. In spite of the microscopic size of the state, Luxembourg fully participated in the European construction process which began with the integration of the coal and steel industries, an area where Luxembourg's voice could not be ignored.

⁷ A month before the beginning of the conference, the French minister for European affairs, M. Barnier, put forth a proposal to reduce the number of members of the Commission from 20 to 12 at the expense of the smaller member states in the context of the 1996 IGC. (*Luxemburger Wort* 1996a)

Yet, path-dependency cannot necessarily explain all outcomes. Much depends upon the circumstances and on how the actor chooses to behave in a situation which provides them with a number of alternatives or opportunities. For instance, at the occasion of the creation of Euratom, Luxembourg declined full participation in the Commission of Euratom since it had no nuclear infrastructure and lacked expertise in this area (Ministère d'Etat du Luxembourg 1957a). The costs of full participation would have been too high. Hence, membership and participation in the ECSC did not automatically lead to an identical status for Luxembourg in Euratom. The actor's rational assessment of the situation prevented a path-dependent response to new circumstances. This assertion adds an actor-centred perspective to the institutional explanation.

The path-dependent explanation as to why special resources in one sector may provide a small state with overall influence also needs to be complemented by a rational actor explanation in order to explain why the *fait accompli* in one area may lead to a similar solution in a different area. For instance, as mentioned above, it was by no means evident that because Luxembourg had obtained full representation in the decision-making bodies of the ECSC it should be equally represented in those of the Common Market. The Luxembourg negotiators had to intervene vehemently on this issue to ensure that Luxembourg would obtain full representation in the new Community (Trausch 1989:442-448).

(iii) The third hypothesis, which suggests that a small state can be influential because its limited resources have behavioural implications which it can exploit, may be substantiated by means of institutional and rational actor theory. Initially the specific resources of the actor and the way these are perceived by other actors determine the behavioural structure among actors. In other terms, the non-competitive relationship among actors, the low-profile approach of a small state actor in negotiations, and the small state actor's role of neutral coordinator results from the actor-specific limited resources.

However, it is only within a certain institutional environment where relationships and behaviour are regulated that a small state can adopt a low-profile approach, and may find itself in a non-competitive relationship or in the role of a neutral coordinator. Hence, an institutionally-related explanation is necessary for an understanding of why limited resources indirectly provide a small state actor with opportunities of exercising influence.

In return, an actor-related explanation is necessary again if one seeks to explain how these behavioural situations are actually exploited by the small state actor. It is up to the actor to perceive an opportunity of exercising influence and of maximizing its interests.

(iv) The advantages in the EU decision-making process accruing to Luxembourg as a result of its small administration – characterized by swift and efficient decision-making and considerable autonomy of officials – need to be seen in the light of an actor-related approach.

Although at first sight administrative procedures can be interpreted in terms of institutional factors, in the context of this study it makes sense to consider them as actor-related variables since the term institution refers specifically to the EU institutional structure, as defined above. Since the aim in this study is to differentiate between, on the one hand, those sources of influence which derive directly from the actor itself, its behaviour, characteristics and strategies, and, on the other, those means of influence which are a result of the EU institutional structure, it is important to observe consistently the defining criteria set out above.

Hence, the small administration and the advantages and opportunities in the EU decision-making process resulting therefrom are interpreted as actor-specific characteristics. However, it is necessary to bear in mind that it is only within a regulated institutional environment, where decision-making and implementation follow certain set procedures and behaviour is predictable, that a small administration and its appending characteristics may offer a small state opportunities of influence and of defending its interests effectively. Hence, in the case of this hypothesis, the EU institutional context provides the backcloth for an actor-related explanation of small state influence.

(v) The hypothesis that bilateral and multilateral relations may affect the outcomes in a way favourable to the small state has a strong actor-related bias. The influence on outcomes is generated by a deliberate strategy on the part of the actor. However, once again an actor-related explanation is insufficient to explain the outcome. The institutional context has an effect on the way actors choose to behave. It is only within the EU institutional environment, which has a durable nature and which covers a wide scope of areas, that the relationship among member states is characterized by mutual trust and reciprocity and that coalitions are likely to be formed.

The following table has been set up to provide a simplified illustration of the distinction between actor-related and institutionally related explanations of the sources of small state influence in the EU.

Figure 2 Table of hypotheses

Hypotheses	Institutionally Related Explanation	Actor-Related Explanation
(i) basic principles of the EU and <i>acquis communautaire</i>	<ul style="list-style-type: none"> – regulatory structure of EU: guarantees small state representation – <i>acquis communautaire</i> constitutes secure gains for small state – institutional persistence – path-dependency 	<ul style="list-style-type: none"> – insistence on the part of the small state actor to have these principles incorporated into the European framework and respected thereafter – small state actor's efforts to preserve the <i>acquis communautaire</i> – playing on path-dependency
(i) special resources in one sector	path-dependency	<ul style="list-style-type: none"> – guidance on the part of actor – playing on path-dependency
(iii) behavioural implications of limited resources	institutional environment where behaviour and relationships are regulated	<ul style="list-style-type: none"> – actor-specific limited resources – actor exploits institutional structure to maximize interests
(iv) small public administration	institutional environment where decision processes are regulated and predictable	actor-specific characteristics of a small public administration
(v) bilateral and multilateral relations	durability and scope of institutional environment	actor pursues strategy of fostering bilateral and multilateral relations and of forming coalitions

2. Luxembourg and the seat of the European institutions

The hypotheses and theoretical framework having been set out the paper now turns to the empirical analysis. An account is now given of how the different European institutions came to be sited in Luxembourg, how the seat has come under attack on a number of occasions, and how Luxembourg statesmen and negotiators have dealt with the issue. An attempt is made systematically to assess each episode with regard to the hypotheses of small state influence. In other terms, the aim is to identify at each occasion which hypotheses explain how Luxembourg was able to influence the outcomes in a way favourable to itself.

In order to identify the link between the empirical study and the explanatory hypotheses this study has resorted to the methodological tool of collecting primary material relating to this particular issue – such as press cuttings, official statements and speeches of politicians, Memoirs, governmental and Community reports and memoranda, EC Bulletins, EP resolutions, ECJ rulings, Council Decisions, and interviews – as well as secondary material – such as historical and current articles which analyze particular instances in depth –, in order to detect evidence of the different hypothetical explanations.

Currently Luxembourg is home to a number of institutions: the ECJ, the Court of Auditors, the European Investment Bank, some DGs of the Commission, the EP secretariat, the Official Publications Office, Eurostat and the European Translation Centre. In addition, meetings of the Council of the European Union are held in Luxembourg during the months of April, June and October. Hence, Luxembourg has come to be known as one of the three capitals of the European Union (Ministère d'Etat du Luxembourg 1993).

The seat issue is considered a matter of vital national interest in Luxembourg. The number of European officials working in the Grand Duchy is estimated to have an important impact on the Luxembourg economy (Centre d'Etudes Libérales 1980:45-52) as well as having implications for its international status and for the intellectual and cultural life of the country. Ever since the High Authority of the ECSC came to be located in Luxembourg in August 1952 successive Luxembourg governments have followed a consistent policy of defending the location of certain European institutions in the Grand Duchy.

The seat of the High Authority of the ECSC

The siting of certain European institutions in the Grand Duchy can be traced back to the negotiations on the European Coal and Steel Community. The cities of Liège, The Hague, Strasbourg, Turin, Saarbrücken and Luxembourg had each put in a bid to house the High Authority (Ministère d'Etat du Luxembourg 1952:124). Intense manoeuvring and horse-trading went on behind the scenes. However, Bech, the Luxembourg foreign minister, chose to keep a low profile and not to intervene offensively on this issue. (Trausch 1994:374)

Eventually, the signatory states met on 23 July 1952 to reach a decision on the siting of the High Authority. Schuman proposed Saarbrücken, thus hoping to solve the problem concerning the status of the Saar at the same time. Adenauer, however, was infuriated by this idea, considering it an astute way of separating the Saar from Germany. (Duchêne 1994:222-223) In the midst of a deadlock

situation which was threatening to prevent the ECSC from commencing its work, Adenauer, whom Bech was apparently very close to, suggested to the Luxembourg foreign minister that Luxembourg pull out of the contest and present itself as provisional 'working place.'⁸ Monnet provides a first-hand account of the turn of events on 25 July after two days of intense and exhausting negotiations:

'At this point, Bech, who had appeared to be absent-minded, intervened: "I suggest we commence work immediately in Luxembourg; this will give us the time to think the whole thing over." Everyone was relieved. Hence, the seat of the ECSC was "precariously" located in a small town which was to become the crossroads of Europe.' (Monnet 1976:433-434)

An important fact needs to be taken into account in the context of the Schuman Plan negotiations. The European integration process had begun in a sector in which Luxembourg's resources were comparable to those of other founding members. The production capacity of Luxembourg's steel industry ranked it as the tenth largest steel producer in the world in 1950 (Werner 1989:169). The following table illustrates the important resources Luxembourg disposed of in the sector upon which European integration was founded.

Table 2 Steel production in founding states of ECSC in 1949 and 1950 (in million tonnes) (Trausch 1992:197)

Steel production	FRG	France	Belgium	Netherlands	Italy	Luxembourg
1949	10 913	9 152	3 489	428	2 055	2 272
1950	14 019	8 652	3 778	490	2 362	2 451

The figures suggest that Luxembourg carried a certain weight in the steel sector and had a legitimate claim to equal status in the negotiations which directly concerned this area (Trausch 1992:197; Trausch 1994:374).

The above suggests that the level of influence Luxembourg exerted in the steel sector was widely disproportionate to the size of the state. Whereas during the negotiations leading to the Treaties of Rome a community of five members was envisaged – Luxembourg being represented by Belgium through the Belgo-Luxembourg Economic Union (Trausch 1989:442-448) – this was never the case in the Schuman Plan negotiations. Luxembourg was a full participant from

⁸ Given Van Zeeland's concern that the agreement's temporary nature be emphasized, the working place was denoted 'precarious' instead of 'provisional'.

⁹ unofficial translation.

the very beginning, and its exceptional situation was even paid special attention to.¹⁰

What hypothetical explanations of small state influence best explain how Luxembourg succeeded in obtaining that the seat of the High Authority be located in the Grand Duchy?

First of all, the *low-profile approach* adopted by Bech shed a favourable light upon the Luxembourg negotiators. Having kept out of the competitive broil among the other contenders to the seat, Luxembourg avoided creating apprehension towards it. The Grand Duchy was thus in a favourable position to take on the role of honest broker and to save the situation by 'offering' itself as provisional compromise solution.

This argument is further substantiated by the hypothesis that important advantages may accrue to a small state as a result of the fact that it finds itself in a *non-competitive relationship* with its partners. Luxembourg owed much to Adenauer's support and intervention in the crucial negotiations of 23 to 25 July 1952, which carried all the more weight since the FRG had not placed a bid for a German city (Trausch 1994:376). Although Monnet's account of the events in the night of 24 to 25 July suggest that Luxembourg's intervention was somewhat spontaneous, it was in fact the result of a Germano-Luxembourg manoeuvre behind the scenes. It was Adenauer who suggested to Bech that he pull Luxembourg out of the contest and propose the city as provisional seat. When Bech put forth the suggestion, Adenauer immediately backed him, leaving the other states to acquiesce in what seemed the best way out of the deadlock situation. In addition, the other states were all the more ready to agree since they nurtured no apprehensions towards Luxembourg. They had not succumbed under the weight of a powerful state, but had reached an agreement jointly to grant the seat on a precarious basis to the smallest partner.

The favourable Germano-Luxembourg *bilateral relations* in the years prior to the Schuman Plan negotiations have a lot to account for the outcome of the seat negotiations in August 1952. Bech had consistently promoted the relationship with its big brother to the east ever since West Germany had turned into a liberal democratic state. Bech met Adenauer in 1947, and the two statesmen came to share a close friendship. It was actually Bech who introduced Adenauer to the still very suspicious international circles (Trausch 1978:129). The familiarity and trust shared by Bech and Adenauer may go a long way in explaining the joint strategy elaborated by the two. It can be argued that the

¹⁰ Treaty establishing the ECSC, Convention on the transitional provisions, Chapter III, Article 31.

promotion of favourable bilateral relations helped Luxembourg obtain the seat of the High Authority.

Interestingly enough, the large state, i.e. the FRG, succeeded in defending its own interests by having a small state make a proposal which coincided with its own preferences. The German negotiators were desperate to keep the Saar out of a deal on the seat out of fear that this industrially productive area of Germany be separated from the FRG. The agreement on Luxembourg kept the Saar out of the line of fire for the time being. Hence, a large state, well aware of the potentials of a smaller partner, may seek to defend its own interests through the intermediary of the small state. Luxembourg takes on the role of honest broker, of *neutral coordinator*, putting forth compromise solutions, yet simultaneously defending its own interests.

The assumption that because Luxembourg was able to exert considerable influence in a special sector – 'special' because it is the sector upon which the integration process was founded – it has been able to wield overall influence is very difficult to evaluate in the case of the seat of the European institutions. As has been demonstrated above, the seat of the High Authority came to be located in Luxembourg as a result of a deadlock in the negotiations which Luxembourg was able to take advantage of. The fact that Luxembourg disposed of considerable resources in the steel sector was apparently not of direct relevance in the negotiations on the location of the High Authority. One could argue, however, that its relevance is of a more indirect nature. Had Luxembourg not disposed of such important resources in the steel sector, it might not have participated fully in the negotiations in the first place. It might have been represented by Belgium through the Belgo-Luxembourg Economic Union and might not have been able to seize the opportunity. On the other hand, this might have made Luxembourg the ideal compromise candidate for the seat in a struggle among the five. These imaginary scenarios illustrate just how difficult it is to trace this hypothetical explanation in the case of the seat of the institutions.

The validity of this hypothesis is probably limited to representational questions at the initiating phase of the integration process. It forms the backcloth of Luxembourg's full participation in the integration process, but its direct relevance to a particular decision is doubtful.

The question of the Saar

Following the Franco-German accord in 1954 on the status of the Saar, which envisaged an eventual transfer of the High Authority to Saarbrücken, France

urged the Luxembourg Government not to oppose the transfer. However, Bech is said to have reacted fiercely:

*I responded to Mr Saffroy that I regretted that the interests of my country seemed not to count in the eyes of the French Government, and that I was determined more than ever to oppose the departure of the ECSC from Luxembourg which no reason could justify.*¹¹ (Trausch 1994:379)

Just two years after the High Authority had begun its work in Luxembourg, the Grand Duchy had come to consider the seat as a prerogative of its own and a question of national interest. The Luxembourg Government was determined not to let go. In addition, Luxembourg could count on the support of its Benelux partners, as the French minister Saffroy was well aware of (*Ibid.*).

The outcome of the referendum on the Saar in October 1955 settled the issue for the time being. The population was not in favour of a European status of the Saar, which had been a condition of the transfer of the seat of the ECSC to Saarbrücken. Hence, the High Authority remained in Luxembourg (Trausch 1994:379-380).

Two of the above hypothetical explanations of how a small state succeeds in defending its interests are confirmed through this episode.

First of all, the *close alliance* Luxembourg shared with its Benelux partners guaranteed Luxembourg firm support when it came under the pressure of the French Government. Throughout the postwar period the Netherlands and Belgium have always been highly sensitive towards any possible domineering aspirations of France or Germany, and have always responded fiercely when they have perceived such intentions. The French minister Saffroy was well aware that Luxembourg did not stand alone when it defied the plan of France to have the High Authority located in Saarbrücken (Trausch 1994:379).

Secondly, this scenario illustrates how an *institutional acquis* already had developed, and how the small state could exploit this acquis. Although the High Authority had only been established in Luxembourg for two years, the location of the institution in the Grand Duchy was already considered an acquis which the small state considered as a vital interest, as a national prerogative. As soon as the decision had fallen that the High Authority would begin its work in the capital of Grand Duchy, the Luxembourg authorities went to great efforts to ensure that the High Authority had all it required for its proper functioning. The national administration vacated buildings in a record time and put them at the

¹¹ unofficial translation.

disposal of the newly arrived European officials. From the very beginning the authorities aimed at consolidating the seat, of creating a strong institutional *acquis*. They were *playing on path-dependency*.

The Treaties of Rome

Following the signing of the Treaties of Rome the Council of ministers decided on 6/7 January 1958 to concentrate the three Communities on a single site. However, they were unable to decide on a location. Monnet had tried to convince Bech to play host to the single seat. However, the Luxembourg foreign minister was weary of the Grand Duchy being invaded by an army of Eurocrats. On the other hand, he was determined not to let go of those already there. The position on the question of the seat of the Luxembourg Government was clearly set out in the *Chambre des Députés* on 26 March 1958:

'What matters above all for Luxembourg is that it be clearly set out that the decision of 1952 which envisaged a precarious establishment of the seat of the ECSC has been overtaken by events, whilst no new decision has been taken by the Six since 1952. Luxembourg has thus become the effective seat of the ECSC, which cannot be removed from Luxembourg without unanimous approval.

*It is equally recognized, and this is of overriding importance, that the presence of the ECSC in Luxembourg has given rise to a special situation in our country, a situation which touches upon political and moral as well as material interests. This situation cannot be ignored when the question of establishing new institutions and of eventually merging them in one single location is addressed.'*¹² (Werner 1991:14).

As Werner has commented in his *Memoirs*, *'Du précaire le siège était promu au provisoire!'* (*Ibid.*) Luxembourg had declared that over time it had acquired a *right* to house certain institutions. This right could not be reversed. The institutional *acquis* had become established.

At the same occasion the Luxembourg Government officially declared that it would be willing to become the 'single seat', i.e. to host *all* institutions, as long as all member states were in favour of Luxembourg (*Ibid.*). However, the Belgian interest differed given the possibility of Brussels of becoming home to the European institutions. Luxembourg was not prepared to adopt an aggressive stance on this matter when this meant a confrontation with its economic and monetary partner with which it shared a very cooperative relationship.¹³ The fact that the member states were not all in favour of Luxembourg as single and definite seat of the European institutions played into the Government's hands

¹² unofficial translation.

¹³ Belgium and Luxembourg have been joined in economic and monetary union since 1921.

since the population was somewhat distressed at the prospect of a 'Europeanization' of Luxembourg, of being invaded by 'Europeans' and of losing its national identity. Luxembourg wanted to retain the seat of the High Authority yet without having to become home to all future European institutions (Tausch 1994:380).

Luxembourg's attitude towards European integration has always been dominated by its desire for self-preservation. On the one hand, the European factor – European integration and the presence of the institutions in the Grand Duchy – have guaranteed its existence, yet, on the other hand, it has always been wary of being flooded by the 'European factor' and of thus losing its national identity. Hence, a delicate balance has always been sought between the encouragement of 'Europe' in Luxembourg and a concern for the preservation of the national identity.

A European federal district was thus out of question. However, the ministers of the six member states eventually agreed to set up the new Communities 'provisionally' in Brussels whilst the ECSC would remain at its 'precarious' seat in Luxembourg.

Luxembourg was content with the outcome of the seat negotiations. It had been able to maintain the seat of the High Authority in the Grand Duchy, although it had obtained it five years earlier only on a 'precarious' basis, and it had managed to avoid becoming sole European capital, which might have compromised its national identity.

The EEC Treaty laid the legal basis for later decisions relating to the seat of the European institutions. Article 216 specifies that 'the seat of the Community shall be determined by common accord of the Governments of the Member States.' This implies that the institutions themselves have no authority on the matter and that decisions regarding the seat of the institutions can only be reached by unanimity among the member states.

The outcome of the negotiations on the seat in the context of the Treaties of Rome confirm the hypothesis of the *institutional acquis*. Luxembourg was able to preserve the location of the seat of the High Authority in its capital thanks to the *logic of institutional persistence*. Although it had initially been decided that the High Authority would only be 'precariously' located in Luxembourg, and in spite of the later agreement on a single seat, Luxembourg nevertheless retained the High Authority. The *theory of path-dependency*, explains why this is so:

'Path-dependent patterns of development are characterized by self-reinforcing positive feedback. Initial choices, often small and random, may determine future historical trajectories. Once a particular path is chosen, it precludes other paths, even if these alternatives might, in the long run, have proven to be more efficient or adaptive.' (Krasner, 1988: 79)

The Merger Treaty of 1965

The failure of the Council of Ministers to take a definite decision on the seat issue in 1958 gave Luxembourg the chance further to consolidate the location of the European institutions in the Grand Duchy. Pierre Werner, the former Luxembourg prime minister, writes in his Memoirs that Luxembourg began to perceive an opportunity of retaining the seat in the long term. A wide-scale construction programme was embarked upon in order to provide the institutions with the necessary infrastructure (Werner 1991:12-13; Trausch 1994:380).

Given the inefficiency of the executives of the three Communities being split, suggestions of merging the institutions came on the agenda in 1963. Luxembourg took a firm stance on this matter, determined not to give up the gains it had made over the past ten years.

In a report drawn up towards the end of 1963 by Coreper, the Committee of Permanent Representatives, on the consequences of a merger of the executives, the importance of the seat of the High Authority for Luxembourg was acknowledged.¹⁴ The report also suggested that a Merger Treaty would have to apply the principle of 'fair compensation' to a solution concerning the location of the seats of the European institutions (Werner 1991:49).

The Luxembourg Government came to envisage the seat of the EP as a fair political compensation and put forth this proposal once its right to compensation had been acknowledged (Werner 1991:49-50). Yet, given France's vehement opposition to the removal of the EP from Strasbourg, Luxembourg elaborated a different deal which would make the Grand Duchy the European judicial and financial. The Luxembourg negotiators managed to transform some sporadic material compensation proposals into a coherent and functional whole which would serve the long-term interests of the Grand Duchy (Werner 1991:56-58). In the Council meeting of 2 March 1965 the Luxembourg proposal was accepted without any significant amendments (Bull. CEE 1965b).

¹⁴ The report states that 'the problem of the location of the Community institutions and bodies was a matter of high importance to Luxembourg from a political as well as economic point of view.'

The Merger Treaty specifies that Luxembourg is to house the financial and judicial institutions of the European Community and that during the months of April, June and October, the Council shall hold its sessions in the Grand Duchy (OJ C152). In an official statement Werner declares that *'I am pleased with the results that have been achieved. On the whole the essence of Luxembourg's demands have been met.'*¹⁵ (Bull. CE 1965) Although the Treaty specifies that the location of the seats in Brussels, Luxembourg and Strasbourg are merely provisional, it nevertheless consolidates the status of these cities as European capitals.

According to Trausch, Luxembourg owed much to the support it enjoyed from its partners (Trausch 1994:381). Throughout the negotiations leading to the merger of the executives Werner had actively lobbied the heads of state and government of the other member states. He held bilateral talks with the Italian prime minister Moro, the German chancellor Erhard and the Belgian prime minister Spaak, who all promised their support for Luxembourg demands of 'fair compensation' (Werner 1991:50-56).

The outcome of this particular episode, which was favourable to Luxembourg, can be explained through three of the above hypotheses.

Once again, the institutional *acquis* carried important weight. At this point Luxembourg had been home to the High Authority for over a decade. Its presence in the Grand Duchy had become entrenched.

However, the logic of institutional persistence alone is insufficient to explain the consecutive establishment of European institutions in the Grand Duchy. The actor, i.e the Luxembourg authorities, had a subjective input into the process as well which had a direct effect on the end result. The ambitious construction plans embarked upon by the Luxembourg Government soon after the seat of the European institutions came to be established in the Grand Duchy had contributed to creating an institutional *acquis*. The Government provided vast construction grounds at Kirchberg, which lies across the valley from the city centre, and built a bridge linking up the future European centre with the city (Trausch 1994:381). These building initiatives were part of a deliberate strategy of consolidating its gains, of *playing on path-dependency*, as encouraged by Albert Wehrer, one of Bech's closest advisers. As Trausch has pointed out, *'Wehrer suggests an offensive strategy to Bech: anticipating the ECSC's wants and creating new "accomplished facts" which favour the maintenance of the seat in Luxembourg.'*¹⁶ (Trausch 1994:383)

¹⁵ unofficial translation.

¹⁶ unofficial translation.

In addition, Luxembourg could count on the support of Italy, Germany and Belgium, with whom it found itself in a *non-competitive relationship* over this issue. None of these states perceived a threat in Luxembourg's claims to fair compensation. Aware of the importance attached to the presence of the European institutions in the Grand Duchy, the heads of state of Italy, Germany and Belgium backed Werner in his demands for an equitable replacement of the High Authority. France, however, found itself in a competitive relationship with Luxembourg as a result of the threat it perceived in Luxembourg's demand for the seat of the EP, which was located in Strasbourg. Luxembourg's resources in this particular instance were considerable. It had the backing of other member states and could substantiate its claims with the *acquis communautaire*. On the other hand, so could France resort to the *acquis communautaire*, which it too had consolidated. In addition, France enjoyed the support of the MEPs in Strasbourg. In this contest Luxembourg eventually gave in as a result of the pressure it came to bear and of its strong desire not to cause apprehension on the part of the French, who also had a legitimate claim. Nevertheless, it was able to wrangle a different bargain out of the negotiations, a solution supported by all member states.

This episode also reveals the importance of the *bilateral relations* Luxembourg had nurtured with the other member states. During the period from the end of 1964 to April 1965, the Luxembourg prime minister intensified his relations with his counterparts from other member states. Werner drew their attention to the importance of the issue to Luxembourg and managed to rally Italy, Germany and Belgium to the cause of the Grand Duchy. It is difficult to evaluate to what extent the support of its partners contributed to the final solution which was favourable to Luxembourg. However, the fact that these member states openly showed an understanding for Luxembourg's situation reinforced Luxembourg's cause and gave the Grand Duchy additional weight to defend its interest.

The seat of the European Monetary Cooperation Fund

The plans in 1969/70 to create an economic and monetary union (as set out in the Werner report) led to the foundation of a European Monetary Cooperation Fund in 1973. On the basis of the Merger Treaty, which had made Luxembourg the 'provisional' home of financial institutions, the seat of the Fund was to be located in the Grand Duchy. However, although the legal provisions were clear on this matter, the location came to be questioned.

The German and French heads of state publicly voiced their doubts about the practicality of a seat of the Fund in Luxembourg. The Council of Ministers of Finance met on 6 March 1973 to discuss the location of the Fund. Whereas the small states – the Netherlands, Belgium, Denmark and Ireland – rallied behind Luxembourg, France, Germany and the UK expressed their reserves and Italy declared it would follow the majority (Werner 1991:143).

However, Werner stood firmly against the pressure from Germany, France and the UK and addressed a letter to the President of the Council of ministers of finance stating that Luxembourg would veto the foundation of the Fund unless the words of the Merger Treaty were respected (Werner 1991:144).

Meanwhile France and Germany approached the Luxembourg prime minister on a bilateral level expressing their concerns regarding the compatibility of certain 'dubious' activities of Luxembourg's financial centre and the location of the Fund in the Grand Duchy. Werner consistently drew their attention to the '*loyal fulfilment of engagements taken*'¹⁷ yet promised to examine the problem (Werner 1991:145).

In the Council of ministers meeting on 22 March Luxembourg repeated its threat of blocking the foundation of the Fund unless the Merger Treaty was respected and insisted on the judicial aspect of the commitments made in 1965. It was backed by the four small states – Belgium, the Netherlands, Denmark and Ireland – who reminded the large states that the '*acquis communautaire*' must not be violated (Werner 1991:145). It was eventually agreed on 2 April 1973 that a decision on the seat would be taken in conformity with the Merger Treaty regardless of any other considerations.

In his Memoirs Werner suggests that Luxembourg reached a deal with Germany and France linking the issue of the location of the Fund with that of the activities of Luxembourg's financial centre:

'Whilst approving the agreement on the provisional seat on 2 April, the French and German delegations made a unilateral declaration demanding that the legislation on holdings be amended.' (Werner 1991:147)¹⁸

Although Luxembourg promised to consider the matter seriously, it made no definite commitments that it would bow to French and German preferences. Given that the Luxembourg financial legislation was not amended according to French and German preferences in the follow-up of this episode and that the

¹⁷ unofficial translation.

¹⁸ unofficial translation.

banking sector continued to flourish in the Grand Duchy, it seems that the French and German declarations on an amendment of the Luxembourg legislation were in fact a face-saving device resorted to by France and Germany when they found themselves obliged to bow to the legal commitments of 1965.

According to Werner, Luxembourg was satisfied with the outcome of the negotiations. The Grand Duchy had succeeded in asserting the principles contained in the Treaty of 1965 whilst not having to paralyse any further the process of economic and monetary integration, which it strongly supported (Werner 1991:146). The Council resolution on the European Monetary Cooperation Fund fixing the seat of the Fund in Luxembourg was adopted on 25 June 1973 (Bull. EC 1973a).

The above episode confirms the hypothesis that the small state will resort to the *acquis communautaire*, to the *legal commitments* made by all member states, in an attempt to defend its interests. Although France and Germany attempted to exert pressure on their tiny neighbour, they eventually had to bow to the words of the Treaty.

The *bilateral relations* the Luxembourg Government nurtured with its partners are also instrumental in explaining the outcomes of the above events. The concerns France and Germany had towards Luxembourg's financial legislation were dealt with bilaterally. Whilst drawing the attention of France and Germany to the legal commitments made, Werner was able to offer them a face-saving way out of the situation by reaching a bilateral accord with them.

Luxembourg also owes the support brought towards it by the other smaller member states to the *favourable bilateral or multilateral relations* it consistently fostered with them. None of them had any reasons to feel any apprehensions towards the smallest member state and to oppose the location of the Fund in the Grand Duchy. Rather they were alarmed at the underhand attempts of the two big powers to disregard the legal commitments made at the expense of a small state.

The seat of the European Parliament

The EP secretariat came to be established in Luxembourg in 1952 following a decision of the Assembly (later EP) which deemed it most practical that its secretariat be sited in the same place as the High Authority and its secretariat. Plenary sessions of the Assembly were held in Strasbourg for symbolic and

practical reasons.¹⁹ Ever since, the EP generally holds its plenary sessions in Strasbourg and its secretariat operates in Luxembourg. The parliamentary committees meet in Brussels so as to be in proximity of the Commission.

Beginning in 1981, the EP has adopted a number of resolutions and its Bureau has taken measures to render its functioning more efficient by reviewing the operation of the EP general secretariat so as to make it more compatible with the holding of parliamentary sessions in Strasbourg and with the meetings of the political groups and committees in Brussels (Bull. EC 1981b; OJ C234; OJ C161; OJ C47; PE A2.316 1988). The Grand Duchy has perceived these resolutions and decisions as blatant attempts to remove the secretariat from Luxembourg, and on each occasion brought an action before the ECJ (Case 230/81; Case 108/83; Joined Cases C-218/88 and C-39/89).

The Court generally ruled in favour of the EP on the grounds that the parliament must be able to ensure its proper functioning and has the right to self-organization.²⁰ However, the Court added that the transfer of staff must in no way compromise the seat of the secretariat in Luxembourg since this would be in breach of Article 4 of the decision of 8 April 1965 (Case 230/81; Joined Cases C-213/88 and C-39/89). Only in the case of the Von Hassel resolution of 20 May 1983 did the ECJ rule in favour of Luxembourg since this resolution contained a specific statement suggesting that the seat of the secretariat (Case 108/83).

Although in most cases Luxembourg failed to have the resolutions declared null and void, the Court judgments re-confirm the location of the secretariat in Luxembourg, and as such are an addition to the *acquis communautaire* in the form of case law. However, as the EP's power of internal organization has been sanctioned by the Court, the Parliament has been given broad leeway in deciding where to concentrate its work. Although the Court has been careful to guard the prerogative of the member states to decide on the location of the seat, the judgment effectively sanctions a gradual transfer of the seat of the general secretariat of the EP to Brussels.

The latest key episode over the seat of the EP arose at the occasion of the Edinburgh summit of 11/12 December 1992, where a decision was reached on the *definite* location of seat of all the European institutions. This will be discussed under the following sub-heading since the decisions reached at this

¹⁹ Strasbourg symbolizes Franco-German reconciliation. In addition, the hemicycle of the Council of Europe provided the Assembly with the necessary infrastructure.

²⁰ conferred on it by Articles 25 of the ECSC Treaty, 142 of the EEC Treaty and 112 of the EAEC Treaty.

occasion concerned the location of a number of other institutions as well as the siting of the European Parliament and its secretariat.

Once again the hypothesis is confirmed that the small state finds means of defending its interests by relying on the *legal framework* of the EU. For a start, Luxembourg could rest on the legal force of Article 216 of the EEC Treaty, Article 189 of the Euratom Treaty and Article 77 of the ECSC Treaty, which specify that a decision on the location of the European institutions requires unanimity among the member states. Neither the EP nor a majority of member states could decide to transfer the seat of the secretariat of the EP to Brussels or to Strasbourg at the expense of Luxembourg without the latter's approval.

In addition, the legal framework has provided Luxembourg with a means of defending gains already made. Whenever the Parliament adopted a resolution or took measures which compromised the location of the EP secretariat in the Grand Duchy, the Luxembourg authorities could resort to the ECJ. Although the gradual erosion of the seat has not been prevented given the pressure of the need for greater efficiency, the Court Judgments have nevertheless helped to consolidate Luxembourg's right. The Judgments constitute an addition to the *acquis communautaire*. In spite of the fact that they sanction the EP's endeavours to render its work more efficient, which somewhat undermines the seat of the general secretariat in the Grand Duchy, explicit mention is made that the seat of the EP cannot be removed from Luxembourg without its consent. Written statements of this kind confirm and reinforce the legitimacy of the state's prerogatives and can be resorted to by the state in defence of its interests.

Edinburgh and Brussels summits

The Treaty on European Union signed in February 1992 envisaged the creation of a number of new European institutions and agencies²¹, the location of which gave rise to intense bargaining among the member states throughout 1992 and 1993. Luxembourg perceived the opportunity of further consolidating its role as European capital by ensuring that some of these new bodies and departments be located in the Grand Duchy. In addition, in the context of the decision on the

²¹ The new institutions and agencies are as follows: the European Monetary Institute and the future European Central Bank; Europol, and the Europol Drugs Unit; the European Environment Agency; the European Training Foundation; the Office for Veterinary and Plant-Health Inspection and Control; the European Monitoring Centre for Drugs and Drug Addiction; the European Agency for the Evaluation of Medicinal Products, the Agency for Health and Safety at Work; the Office for Harmonization in the Internal Market (trade marks, designs and models), including its Board of Appeal. At the same time a decision was also pending on the location of a further two new bodies, i.e. the Translation Centre and the Common Appeal Court for Community Patents.

location of the new institutions and agencies, a definite decision on the existing institutions was called for. Hence, the negotiations were of overriding importance to Luxembourg.

On the basis of the provisions on the location of financial institutions annexed to the Merger Treaty of 1965, Luxembourg had a legal claim to the seat of the future European Central Bank, which it correspondingly invoked. Luxembourg's claim is mentioned time and again in the press and in official speeches during the first half of 1992 (*Die Welt* 1992; *Saarbrücker Zeitung* 1991; Ministère d'Etat du Luxembourg 1992a; Ministère d'Etat du Luxembourg 1992b). However, in the follow-up to the Lisbon summit of 26/27 June 1992, the Luxembourg Government changed its approach and thereafter restrained from taking an offensive stance over this matter. Ensuingly, Luxembourg's claim rarely came to be mentioned in the press thereafter. Luxembourg appeared to have given up the race for the Central Bank.

Following the Lisbon summit, the Luxembourg foreign minister, J. F. Poos, set out Luxembourg's position on the issue of the seat in the *Chambre des Députés* at the occasion of the parliamentary debate over the ratification of the Treaty on European Union on 2 July 1992:

'In the question of the seat the dice have not yet been thrown and Luxembourg retains all its assets. Luxembourg's position at this point is clear and straight-forward. It can be summarized into four points:

- 1. We have taken note with satisfaction of the proposal of the Portuguese presidency which recognizes Luxembourg's right to house the Office for Community Patents, a judicial and quasi-judicial body, on the basis of the decision of 1965, but we have not yet agreed to the Portuguese package;*
- 2. The *acquis* of 1965 must be completely and totally maintained, in particular with regard to the Commission services based in Luxembourg and to the Council meetings held in our capital;*
- 3. A definite agreement must set out clearly that the entire secretariat of the EP remain established in Luxembourg;*
- 4. In order to reach a compromise solution, the Luxembourg Government is willing to show flexibility, as we have shown in our memorandum forwarded to President Andreotti.'* (Ministère d'Etat du Luxembourg 1992c:20)²²

It is striking that at this point no mention was made of Luxembourg's legal claim to the seat of the ECB. In return, the Luxembourg Government focused its objectives on obtaining a definite establishment of the seat of the EP secretariat in the Grand Duchy and a confirmation of the institutional *acquis* with regard to the presence of certain Commission services and of the regular

²² unofficial translation.

holding of Council meetings in Luxembourg. It had also perceived the opportunity of obtaining the seat of the Office for Harmonization in the Internal Market as suggested in the 'non-paper' put forth by the Portuguese presidency. Yet at the same time, the Luxembourg Government professed a flexible approach and its willingness to reach a compromise.

According to Ben Fayot, the leader of the Luxembourg Socialist Party, the *Lëtzebuurger Sozialistesche Aarbechter Partei* (LSAP), once Luxembourg realized that the three large states, Germany, France and Britain, were to reach an agreement on the location of the Central Bank, it pulled out of the contest. Luxembourg's opportunities as a rule were great, he claimed, when the big states disagreed and the Grand Duchy could step in as a compromise solution. However, when the views of the large states concurred, Luxembourg had best adopt a low-profile to avoid coming across as a nuisance and create apprehensions (Interview 1996).

Fayot has pointed out that given the general acceptance of the principle of polycentrism with regard to the location of European institutions, the aim of which is to bring the Union closer to the people and to cure it of the image of an impersonal central bureaucracy, the European Union was seeking to construct a package deal which distributed the new agencies and institutions evenly among the member states. Under these circumstances Luxembourg preferred not to adopt a selfish attitude which would only serve to cause apprehension towards it (*Ibid.*).

The position adopted by the Luxembourg representatives in the seat negotiations needs to be seen in the context of an internal Luxembourg political debate. There was a growing sense among politicians that Luxembourg's hold on the EP secretariat was weakening. According to Fayot, some persons had suggested – although never openly – that Luxembourg should propose giving up the seat of the EP secretariat in return for the ECB and for the Office for Harmonization. However, this approach would have been extremely delicate. It would have conveyed a willingness on the part of Luxembourg to give up the seat of the EP secretariat, and thus would have weakened Luxembourg's bargaining position. The stakes were extremely high. If the large states were to agree on the location of the ECB amongst themselves, Luxembourg's chances would vanish into thin air, and it would have compromised the seat of the EP secretariat. It would be easier for Luxembourg to hold on to the *acquis* than to fight for a new gain (*Ibid.*).

These calculations proved right in the follow-up of events which culminated in the Edinburgh summit of 11 and 12 December 1992 and in the Brussels summit

of 29 October 1993. Prior to the Edinburgh summit the heads of state and government of France, Britain and Germany paid one another bilateral visits, which eventually ended in them striking a deal. Eager to make the British presidency of the EU a success and to retain a good relationship with Germany, Major, renounced on the seat of the ECB (*Le Monde* 1992). This left Germany and France to reach a straightforward deal: in return for the location of the ECB in Frankfurt, Kohl was ready to agree that Strasbourg be confirmed as capital of the EP. The decision in favour of Strasbourg unblocked negotiations on the siting of the new institutions and agencies of the EU since Mitterrand had threatened to veto any other decisions unless Strasbourg be confirmed as capital of the EP (*Financial Times* 1992). Hence, the member states were finally able to reach a decision on the definite location of the seats of the existing European institutions. Basically, they confirmed the status quo giving it a definite nature. Strasbourg was confirmed as capital of the EP, whilst the general secretariat of the EP was maintained in Luxembourg (Bull. EC 1992).

Although the decision reached at Edinburgh did not determine the location of the new institutions and agencies of the European Union, it did specify that a later decision would take into account the '*advantages of the above provisions to the Member States concerned*', and would give '*priority to the Member States who do not at present provide the sites of Community institutions.*' (*Ibid.*)

The final decision on the location of the seats of the new 'bodies and departments of the European Communities and of Europol' was taken in Brussels on 29 October 1993 (OJ C232). It was decided that the future European Central Bank would be located in Frankfurt and that the Translation Centre will be set up in Luxembourg. It was added that '*The Member States undertake to support the candidacy of Luxembourg as seat of the Common Appeal Court for Community patents*'. Also the Commission confirmed that '*it intends to consolidate the establishment of those of its departments that are located in Luxembourg.*' (*Ibid.*)

However, the Office for Harmonization went to Spain instead of Luxembourg, in spite of the proposition of the Portuguese presidency that it be located in the Grand Duchy. However, as Fayot pointed out above, given the principle of polycentrism and the need to construct a fair package deal, Luxembourg was not in the position to place high and selfish demands. It was explicitly decided at Edinburgh that a later decision on the location of the new institutions would give priority to those member states which did not yet house any institutions. Besides, if Luxembourg had insisted on obtaining the seat of the Office for Harmonization as well as the Translation Centre and the Common Appeal Court for Community Patents, it would have run the risk of creating

apprehension on the part of other member states, an attitude it has always been anxious to prevent.

The Luxembourg negotiators were content with the outcome of the negotiations, which were considered to have consolidated the seat of the institutions in Luxembourg (Ministère d'Etat du Luxembourg 1993). The earlier decisions on the seat, the nature of which was provisional, had been replaced by a definite decision which sealed Luxembourg's status as one of the three European capitals.

However, the definite decision on the site of the general secretariat of the EP does not appear to have prevented a further erosion of its seat in Luxembourg. For reasons of efficiency personnel of the EP secretariat are periodically transferred from Luxembourg to Brussels. The EP is able to justify this on the basis of its right to self-organization, as confirmed by Court Judgments. At the occasion of a visit of the president of the EP, Klaus Hänsch, to Luxembourg on 24 November 1995, a working group of the EP and of the Luxembourg Government was set up to address the problem. Both parties are seeking a solution which takes into account the decision reached at Edinburgh. Jean-Claude Juncker, the Luxembourg prime minister, and Hänsch seem to have concluded a deal: whereas Hänsch guaranteed that a minimum number of parliament officials would remain in Luxembourg over the next ten years, Juncker promised the EP Luxembourg's support for its participation as observer in the 1996 Intergovernmental Conference. Juncker emphasized in the Luxembourg press that the EP has a right to flexible work organization as confirmed by the ECJ. He also pointed out that the number of European officials working in the Grand Duchy had increased by 26,8 % since 1985 as a result of successive enlargements (*Luxemburger Wort* 1995).

Luxembourg's approach to the issue of the seat of the general secretariat of the EP has been consistent throughout. Well aware of the lack of efficiency ensuing from the divided workplace of the EP, Luxembourg realistically recognizes the need for a part of the services of the EP secretariat to be based in Brussels, where meetings of parliamentary committees are held once to four times a month. However, in the meantime the small state has been concentrating all its efforts on guaranteeing that its rights will not be ignored in the course of events. As Werner has pointed out:

'Nobody doubts that the working conditions of the Parliament, which are the result of historical developments, are not ideal and that they will have to be remedied one day by a universal agreement. However, this will have to be done legitimately, in full

consideration of acquired rights, i.e. with due respect to the historical seats.' (Werner 1991:312)²¹

The main aim of Luxembourg has been to assert its role as a European capital. As long as it is guaranteed fair compensation for the loss of European institutions the Grand Duchy shows a readiness to compromise since the guiding principle of the Government is to preserve the equivalent of the institutional *acquis* (Trausch 1994:384). As the number of European officials based in Luxembourg has increased from 1,634 in 1965 to 7,260 in 1993, and as further increases are expected as a result of future enlargements and of natural institutional growth, the Luxembourg authorities are content with the present arrangements. The fact that the Government has recently embarked upon further construction works at the Kirchberg European Centre is indicative of its confidence in the future of Luxembourg as one of the European capitals (*Luxemburger Wort* 1996b).

The outcome of this latest episode of the seat confirm a number of the hypothetical explanations of the means of influence of Luxembourg in the EU.

Throughout these crucial negotiations Luxembourg took a *low-profile approach* with the aim of not creating apprehension and coming across as a nuisance. It deemed that its interests were best served by not placing its demands too high. As long as it assumed disagreement among the three large states to be likely on the issue of the location of the ECB, it perceived a chance of obtaining the seat. Had this been the case, Luxembourg would have been able to step in as a *neutral coordinator* and an ideal compromise candidate, as it had in 1952. However, once it became clear to the Luxembourg negotiators that Britain, France and Germany were likely to reach an agreement, they realized that they would be compromising Luxembourg's bargaining position by insisting on the legal claim. Hence, under these circumstances the best way of defending its interests was to resort to the *institutional acquis*. As pointed out above, it was going to be easier for Luxembourg to preserve the gains it had already made and consolidate them by assuring them a definite nature than to make further demands. The fact that the Luxembourg authorities considered it dangerous to suggest giving up the seat of the EP in return for the ECB underlines their awareness of the weight and potency of the institutional *acquis*. Luxembourg's best weapon under precarious circumstances was to insist on the preservation of the *acquis*.

²¹ unofficial translation.

3. Theoretical conclusions

The aim of Part 3 is twofold. Having set out the hypothetical and the theoretical frameworks of the study in Part 1, and having analyzed the empirical facts with regard to the hypothetical explanations of small state influence in the EU in Part 2, the paper now attempts to draw some general and theoretical conclusions from the preceding analysis.

First, the hypothetical explanations of small state influence in the EU are assessed with regard to the case study on the seat of the institutions. In other terms, the aim is to identify those hypothetical explanations which carry most weight in this particular empirical study and to explain why the remaining hypotheses are of limited value in this case.

Secondly, the study is assessed from the point of view of the theoretical framework adopted, i.e. that of actor-centred institutionalism. An attempt is made to answer the question whether Luxembourg has been able to defend its interest in this specific empirical study as a result of institutionally related or actor-related factors in the hope of underlining the insights that can be gained from an actor-centred institutionalist approach.

Luxembourg and the seat of the European institutions: assessment of the hypothetical framework

The case study on Luxembourg and the seat of the European institutions has revealed the explanatory weight of a number of the hypotheses of small state means of influence. In particular, the hypothesis that the small state actor relies on the *acquis communautaire*, in this case the *institutional acquis*, carries considerable weight. Whenever changes were imminent and threatened to undermine the small state's position, Luxembourg consistently resorted to the *acquis*. In addition, the logic of institutional persistence and of path-dependency explains why Luxembourg was able to preserve the gains once made, consolidate them and make further gains.

The hypothesis that the small state adopts a *low-profile approach* in negotiations as a means of defending its interests also carries considerable weight in explaining the outcomes of this particular case study. Luxembourg has consistently sought to remain out of the limelight and not to place high demands on its partners. It has been anxious to avoid apprehensions towards it.

Luxembourg has also been able to take advantage of the *non-competitive relationship* it finds itself in with its partners and the tendency for it to take on

the *role of a neutral coordinator*, situations which both result from its small size and limited resources.

The *bilateral and multilateral relationships* the Grand Duchy has promoted actively have considerable explanatory scope throughout the study of the seat issue. On a number of occasions the Grand Duchy has been seen to reach a bilateral deal with another member state or to obtain the support of its partners as a result of a common interest. The alliances thus formed have been useful as a backing to Luxembourg when it has sought to defend its interests.

None of the above hypothetical explanations alone is sufficient to explain Luxembourg's present status as one of the three European capitals. The importance of the institutional *acquis* and of the ability of the small state to play on path-dependency need to be emphasized though since these factors appear as a *guiding and recurring theme* across the numerous episodes relating to the seat of the European institutions. However, a full understanding of how Luxembourg has managed to become home to many of the EU institutions necessitates a combination of the above hypotheses, since other factors at times carry considerable weight on the outcome of particular episodes.

The hypotheses that *special resources* on one particular sector may provide Luxembourg with important overall means of influence, and that its small administration may have substantial implications for the Grand Duchy's ability of defending its interests have not proven to have had explanatory weight in this particular case study. The validity of the hypothesis relating to special resources is probably limited to representational matters. Its applicability to the seat issue is doubtful.

In return, the hypothesis that its *small administration*, which entails swift and efficient decision-making, may provide Luxembourg with considerable means of defending its interests cannot be discarded at this point. A number of political scientists and writers have suggested that the size of a public administration in a small state may constitute one of its main assets. Unlike large states it is not impeded by lengthy and cumbersome decision procedures. Short lines of communication and informal relations promote prompt and efficient decision-making (Skuhra 1983; Vogel 1983; Arthur Anderson 1993).

This hypothesis can be applied to the case of Luxembourg. Merten-Beissel, Hoscheit and Weyrich, Bichler, and de Muyser have studied the Luxembourg administration and have identified its policy style (Merten-Beissel 1987; Hoscheit and Weyrich 1988; Bichler 1994; de Muyser 1969). These authors emphasise the flexible and pragmatic work style which results from the limited

resources as well as the prevalence of negotiated solutions and of consensus among the different political actors. The Luxembourg administration is extremely decentralized. High officials and ministers enjoy considerable autonomy within their respective policy areas. Relationships between ministers and civil servants tend to be informal, the latter enjoying direct access to their respective minister. The elaboration of the Luxembourg position towards EU proposals is the result of a very decentralized process. Very often the Ministry directly concerned enjoys complete autonomy in adopting a position. Although the competence theoretically lies with the Foreign Ministry, it is even often bypassed since it does not have the necessary expertise to evaluate the proposals efficiently. The Luxembourg permanent representatives to the EU play a key role in the elaboration of the Luxembourg position on EU issues. They too enjoy considerable independence and freedom of manoeuvre, leaving only the very 'hot' issues to the Minister to decide upon. Most Luxembourg permanent representatives remain in Brussels throughout their career (de Muyser 1969). This durability promotes a profound knowledge of and familiarity with the intricacies of European decision-making. As a result, their judgement carries great weight and has a direct incidence on the position taken by the Luxembourg Government.

Hence, the studies on the Luxembourg administration suggest that its small size may promote swift and efficient adjustment to change. Yet an assessment of the validity of this hypothesis in the case of Luxembourg and the seat of the European institutions requires a great deal of primary information and material. It will be necessary to interview persons directly involved in decisions relating to the seat. Hence, at this point it is too early to draw any substantial conclusions with regard to this hypothesis.

For an understanding of the means of influence of Luxembourg in the EU in general it will be necessary to explore the validity of the hypothetical explanations through a different type of European decision-making process involving actors at different levels. An analysis of the elaboration of a particular Community directive of primary importance to Luxembourg would be a useful way of further investigating the hypotheses.

Luxembourg and the seat of the European institutions: assessment of the theoretical framework

Having explained how Luxembourg managed to secure its status as one of the three European capitals, the paper now addresses the question whether this outcome is the result of actor-related or institutionally related factors. Have many of the EU institutions come to be located in the Grand Duchy as a result

of characteristics particular to the actor and of the behaviour and strategy of the actor, i.e. of Luxembourg? Or is Luxembourg's status as European centre the result of institutional structures and their enduring nature?

According to actor-centred institutionalism, institutions have a significant effect on outcomes. They provide opportunities of action and restrict action. However, institutions do not explain everything. The individual input of the actor is relevant as well. In what way does this theoretical perspective clarify the sources and means of influence of Luxembourg in the EU in the case of the seat of the institutions?

The hypothetical explanations need to be explored bearing in mind the distinction between actor-related means of influence and institutionally related means of influence. The first hypothesis which suggests that Luxembourg has been able to defend its interests as a result of the *acquis communautaire* is an institutionally related argument in the sense that it confirms the logic of institutional persistence and the theory of path-dependency. However, the explanation is actor-related to the extent that the actor takes advantage of the institutional structure to further its interests. When the actor plays on path-dependency or invokes the legal framework to defend its interests, the outcome is also a result of a conscious assessment of the situation on the part of the actor and a consequent choice of behaviour or strategy. The individual input of the actor has important implications as well.

The non-competitive relationship the small state finds itself in, the low-profile approach and the role of neutral coordinator which it takes on are all the result of the particular characteristics of the actor, i.e. its small size and limited resources, and are thus actor-related explanations. The advantages the small state reaps from these behavioural implications of small size are also actor-related since they consist of a deliberate and well-assessed strategy embarked upon by the actor. However, it cannot be ignored that the effectiveness of these strategies may depend upon the institutional environment in which the actor finds itself. For instance, a low-profile approach might be pointless if it was not carried out in the context of an institutionally stable environment where behaviour is regulated and outcomes are calculable. An element of institutional certainty is required for these strategies to be effective.

Finally, the fostering of bilateral and multilateral relations as a means of defending its interests is an actor-related explanation since it consists of a deliberate strategy pursued by the actor in order to strengthen its position. Yet, the institutional context cannot be ignored since it has an important effect on the choice of behaviour of the actor. The wide scope and durability of the EU

institutional environment is conducive to mutual trust and reciprocity among actors which render the formation of coalitions more likely.

The preceding analysis has revealed that the institutional structure goes a long way in explaining why a small state is able to defend its interests and obtain the desired results. The legal framework of the institution constitutes an important resource for the small state, a gain which cannot easily be reversed. Institutional persistence can be advantageous to the small state once it has obtained a favourable position within the existing institutional framework. However, the outcomes cannot be fully explained unless one complements the institutional framework with an actor-related approach. Institutions determine outcomes but there is *guidance* on the part of the actor. The actor takes advantage of the institutional setting to maximize its interests in the way that it plays on path-dependency or assesses the situation and adopts suitable bargaining tactics. Actor-centred institutionalism incorporates both the weight of institutions as well as guidance on the part of the actor, and thus offers a comprehensive picture of the sources of influence of a small state in the EU decision-making process.

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