



TOGETHER IN EUROPE



EC NEWSLETTER FOR CENTRAL AND EASTERN EUROPE

RELATIONS WITH THE EUROPEAN UNION

COSTS OF NEXT ENLARGEMENT

The European Commission, on 29 November, is to discuss and then to approve its report on the impact (financial in particular) of the next enlargement to the east on Community policies. The report will go to the EU General Affairs Council on 4 December and then to the EU's Heads of States during the Madrid Summit on 15-16 December.

This above report/analysis is, however, not analogous to the "White Paper" on the agricultural aspects of the enlargement which will also be presented at the Madrid Summit.

The agricultural paper will be presented separately by the agricultural Commissioner, Franz Fischler. The drafting of this report was finished in October already and the report's conclusions have been the subject of confidential discussions between the Commission's General Directorate for Agriculture and the cabinet of Commissioner van den Broek responsible for policy towards the central and east European countries. The conclusions drawn by Fischler's White paper will naturally be used by the Commission for its analysis of the effects (mainly financial) of enlargement on the EU and its policies. As we go to press, it is not clear, whether the Fischler report will also go to the Agricultural Council before its presentation in Madrid. Some member countries have requested a prior discussion of the report in the Council. This request has been resisted by the Commissioner. It seems that Commissioner Fischler will only give the EU agricultural ministers a brief oral introduction to the report and outline the main conclusions. There will, however, be no conclusions made by the Agricultural Council.

The aim of this prudent approach is to facilitate decisions by the Heads of the EU Governments on the mandate of the 1996 IGC. Consequently, the task of the IGC would be to adapt the Treaty to the needs of the enlarged Union (institutional and decision making reform in particular), but the mandate will not be to negotiate the reform of the Community current policies within the IGC. While this is likely to be the outcome of the Madrid Summit, there is still a possibility that this is perhaps being too optimistic.

The problem is that there are member states which may aim to use the prospect of the enlargement (which they strongly support for various reasons) to force the radical reform of policies

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and of the CAP, in particular. However, this is not what most of the member countries want. This clearly comes out of the draft report by Carlos Westendorp, the Chairman of the Reflection group, which he presented to members of the Reflection Group on 14 November. The part of the report dealing with the impact of enlargement says amongst other things:

"A broad majority of members of the Group are in favour of separating the Conference exercise from the study of the impact of enlargement in relation to possible revision of common policies.... This has not prevented some members of the Group from drawing attention to the possibility of some Governments or national parliaments linking the process of ratification of the Conference to discussion of the effect of enlargement on the various policies and on the financing of the Union".

In this context Commissioner Fischler's report will try to convince the heads of governments in Madrid, that while the enlargement to the East would be a considerable challenge to EU agriculture (and to the EU budget), it does not require (immediately) the EU to embark on a new radical reform of CAP. The report will admit that the prices on the internal market would have to be reduced and that payments to the farmers would be changing from price support to a different type of support of their incomes. The point will be that this is not a direct result of the enlargement, but of the 1992 reform of CAP and, in particular, the result of the GATT negotiations.

In turn, the Commissioner will be able to point out that because of these developments, the extension of CAP (undergoing changes already decided in the past) to the farmers from applicant countries from Central and eastern Europe would cost considerable less than was suggested in the past. Various sources suggested to us that the Fischer's report may be working with annual costs of extension of the CAP to the applicant countries as low as ECU6bn, and probably not higher than ECU10bn. This itself may be a sufficient argument to dispel the worst fears for the enlargement.

In addition, Fischler is expected to propose a two-stage approach.

In the first stage extending probably to the year 2000, EU policy would be to intensify a pre-accession assistance which would facilitate the transformation of the applicant countries' agriculture to new tasks. It is believed that Fischer and the Commission would be asking the Heads of State to approve some specific assistance (possibly some new agricultural money added to the existing PHARE funds). The constraint

is that the financial perspectives for 1994-1998 do not offer much scope).

The second stage would apply from the moment in which the first new members join the Union. At that time, the CAP would already be well advanced in its long-term evolution (towards payments based on the achievement of certain non-production related targets) and, consequently, different from the current system. The task for this period would be to apply transition periods for new members. The length of the transition period would depend on the country concerned (possibly as short as 5 years for the Czech Republic whose agriculture is unlikely to cause problems, and possibly as long as 10 years for Poland). During these periods, the new members would be more or less separated from the CAP and thus would gain more time to adopt to the evolving CAP. It would also help them to avoid the explosion of agricultural and food prices which would otherwise have terrible consequences on their domestic price levels, inflation, wages and their countries' overall competitiveness.

This approach would prevent the surge in CAP costs, would allow the Union to face the review of its international commitments taken during the Uruguay Round and as a result be ready for the new round of WTO negotiations, which as agreed in Uruguay Round will come after 2000.

A similar approach is expected to be taken by the Commission in its report on the impact of the enlargement on other aspects of Community policy. In the last issue, we discussed "structural policies" and the leaked estimate of the costs were the present policy applied to the new members.

One of the options is to propose a ceiling (in the form of a percentage of the country's GDP) on the amount of transfers in the framework of structural policy. The highest level in the current EU is in the case of Greece (some 3% of GDP). We pointed out in the last issue that the application of the current structural policies to applicant countries would mean an annual transfer equaling 17% of the GDP of candidate countries (some 7% in the case of Slovenia but 34% of GDP in the case of Bulgaria and Romania).

On 29 November, we will see what the final version of the Commission report will be. In his statement on the "State of Union" in Strasbourg on 15 November, President Santer took a firm stand: "Attitudes toward the preparation of the next enlargement should not be too minimalist... It is impossible to begin accession negotiations without a clear vision of the

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EUROPEAN GUARANTEE FUND TO PROMOTE CINEMA AND TV PRODUCTION

The Commission has approved a proposal for a Council Decision setting up a European Guarantee Fund to promote cinema and television production. The Fund's resources will amount to ECU200m, enabling it to support schemes worth a total of ECU1bn. The precise arrangements for administering the new Fund will be laid down in a cooperation agreement between the Commission and the European Investment Fund. These funds will serve as guarantee capital and will reach a total of ECU200m. The direct contribution from the EU budget will amount to ECU90m.

The creation of the European Guarantee Fund may be of significant importance for the associated countries of central and eastern Europe. They have been repeatedly invited by the EU to share in the Union's MEDIA II programme - a five-year programme seeking to stimulate development of the audiovisual programming industry in Europe. We would like to recall that first, even if somewhat general, discussion took place during the first joint meeting of the EU Audiovisual/Cultural Council on April 3, with the ministers of culture of the associated countries.

However, in the sphere of the film and audiovisual sector, several associated countries (and the Czech Republic in particular) tended to take rather a negative attitude towards what they call the "French led European protectionism" (this is chiefly because the proposed "TV without frontier" directive). Also, most of the central and eastern European countries do not seem to have a problem with the steep decline in their own film production (due to a lack of Government's subsidies), considering this as a normal feature of the market economy, and do not object that well over 80% of their domestic market is in the hands of US film distribution companies with American films.

Nevertheless, some of the associated countries cinema-makers participated at the meeting

on European Cinema for the 21st century held in Strasbourg in October. The discussion there also included an examination of the position of the central and eastern European film and video industry in the European support schemes.

European Guarantee Fund :

The instrument represents a considerable advance for the new European audiovisual policy, providing support for all stages of audiovisual projects. The proposed Fund will act as an insurer, offering banks and other financial institutions partial guarantees on loans and credit they make available to film and programme makers. By diversifying and spreading the risks, it will encourage the financial sector to step up the scale of its activities in support of the industry.

The Fund will closely complement the MEDIA programme, whose main purpose is to promote pre-production and distribution activities through subsidies or advances on earnings. It will focus primarily on the production of films for cinema and television and is intended exclusively for works of fiction, since this is where Europe faces the biggest deficit in terms of original works with wide audience potential.

The new funds will operate by the rules of the market through banks and insurance companies which propose to share the

risks associated with financial operations in this area. The financial institution will be able to request a guarantee from the fund up to the maximum of half the total financing. For this service, the fund will receive a premium of an amount which takes account of this premium insetting the wages paid by the production company for the arrangement of the loan. However, the existence of the guarantee will ensure financing for the project which otherwise would not be available or only at a prohibitive rate of interest.

US Majors try to stop European initiative :

In October, the American Majors in the film and video industry proposed an assistance programme for the European film industry to the European parliament in an effort to fight the European support schemes. The American majors proposed training of some 22 young European producers in American techniques through an investment of \$1m over five years. They also proposed dubbing a certain number of European films into English to enable them to penetrate the US market. The reaction of FERA (European Federation of Audiovisual Producers) was that this is a "falsely generous" offer from the US film industry and distributors. There is an annual global deficit of nearly \$15bn for the EU if the EU and American markets are taken together. Instead FERA reminded the European Parliament to pursue European initiatives aimed at creating a competitive European film and audiovisual industry, rather than being subject to the charity of the American Majors. ■

FIRST MEETING OF EU-BULGARIA ASSOCIATION COMMITTEE

The first meeting of the EU-Bulgaria Association Committee, created by the Europe Agreement, which entered into force on 1 February 1995, took place in Sofia on 9-10 November 1995. The Association Committee is one of the most important organs in the process of preparing Bulgaria's integration into the EU.

The Association Committee, chaired by Mrs Irina Bovoka, Secretary on European Integration at the Council of Ministers and Deputy Minister of Bulgaria, reviewed the implementation of the strategy for preparing the countries of Central and Eastern Europe for accession to the Union, adopted by the European Council in Essen. The Union encouraged Bulgaria to finalize its own pre-accession strategy. Both sides underlined the importance of the White paper for the preparation of the associated countries for the internal markets of the EU. It was noted that Bulgaria has made the reform of public administration a priority and a strategy in this field is under preparation.

The delegations exchanged views on the trends in their bilateral trade and the EU encouraged the efforts made by Bulgaria to negotiate bilateral trade agreements with the other associated countries. The need to approximate Bulgarian law towards EU standards and certification was highlighted.

Other topics of discussion included the practical implementation of the provisions of the Europe

Agreement on movement of workers and the role competition can play for encouraging economic development. The Committee reviewed the assistance provided under PHARE. It was noted that Bulgaria will continue to reinforce its management teams and implementation structures. Also under discussion was the need for cultural cooperation.

The delegations exchanged views on the joint ministerial meetings held in the framework of the structured dialogue (cf. Together In Europe nr. 77). The EU maintained that the restarting of Unit 1 of the Kozloduy power plant is unacceptable given the uncertainty regarding the status of the pressure vessel. Bulgaria disputes this finding also fearing energy shortages over the coming winter. The EU has offered its support in ensuring that enough energy supplies are available.

The Bulgarian authorities have voiced their dissatisfaction with the EU decision to include Bulgaria on the list of countries requiring a visa. It considers that this policy discriminates between the Associated Countries, which is not in line with the spirit of the Europe Agreement. The EU has taken note of the request to eliminate the requirement.

The EU delegation was headed by Mr. Kipke Brower, Director for relation with Central Europe and PHARE in the Directorate General for External DG1A of the European Commission. ■

SANTER CONFIRMS UNION'S POINT OF VIEW REGARDING ACCESSION OF SLOVAKIA

In conjunction with the European Forum in Berlin, President Santer met Slovak Prime Minister Vladimir Meciar on 10 November. The two officials reviewed relations as a whole between Slovakia and the EU. The Commission President took advantage of the occasion to explain to the Community Troika's demarche on 25 October expressing the European Union's "grave concern" over the "political and institutional tensions" in Slovakia, recalling that "political stability and institutional balance" are essential elements for the proper preparation of these countries for future accession to the EU. Mr Santer also confirmed the Commission's willingness to pursue close cooperation with Slovakia in the framework of a pre-accession strategy. ■

EIB LOAN FOR HEAT AND POWER SCHEME IN ROMANIA

The European Investment Bank (EIB) will provide an ECU60m loan to Romania which will be on-lent to RENEL -Regia Autonoma de Electricitate for upgrading the heat and power generation and electricity transmission and distribution network. The 15 year loan principally concerns the rehabilitation of the Bucharest South heat and power plant and of electricity transmission and distribution substations in Rosiori,

Smirdan and Brasov, as well as the construction of a new sub-station in Bucharest.

The EIB plays an important role in the financing of energy schemes throughout Central and Eastern Europe. Since it started lending in the CEEC in 1990, the EIB has provided ECU2973m for projects, in Poland (886m), Hungary (537m), the Czech Republic (447m), Romania (350), Bulgaria (286m), Slovakia (253m), Slovenia (88m), Estonia (52m), Lithuania (29m), Albania (10m), Latvia (5m). ■

NO ENLARGEMENT IF IGC FAILS

Mr. Wilfried Martens, leader of the European People's Party (EPP) and of the EPP Group in the European parliament, said in an interview after the party's congress held in Madrid that the EPP is in favour of the next enlargement which is absolutely necessary for peace and stability on the continent. But first we must achieve the reform needed to make a success of this enlargement. If the IGC were to fail, there would be no reason to begin enlargement negotiations". ■

CEPS DISCUSSES NEXT ENLARGEMENT

The International Advisory Council of Brussels based think-tank CEPS (Centre for European Policy Studies) will devote its 27 November meeting to the discussion of the preparations for "Eastward & Southern Enlargement of the EU". The meeting will be chaired by Carl Bildt, EU moderator in ex-Yugoslavia and former Swedish Premier. There will be a global report by CEPS's director P. Ludlow and speeches by Malta's Prime Minister and by Bulgarian foreign minister Mr. Pirinski. Etienne Davignon is chairing the working group on economic adjustment in candidate countries. Mr. Garret Fitzgerald is chairing a group on the Associated Countries of CEE in view of unity and differentiation. Former president of Cyprus is chairing a group dealing with reconstruction and reintegration in the Balkans. Former Danish Foreign Minister Uffe Elleman-Jensen will lead a group which discusses administrative reform, political culture and social changes in eastern Europe as preconditions for their accession. We will bring a detailed report on the discussion in the next issue. ■

1994 COURT OF AUDITORS REPORT

The Court of Auditors report on fraud and irregularities was presented to the European parliament on 14 November in Strasbourg. For the first time, the Commission gave direct answers explaining its position to MEPs.

The president of the Court of Auditors, Andre Middelhoek stresses the Maastricht Treaty provides for the Court's special reports to be taken into consideration for the discharge. This is an encouraging sign of the increasing consciousness among Europe's leaders not just of the problems of management of EU finances, but of the need to improve information available to Europe's citizens as well as EP and Council.

The auditor's conclusions provide a formidable agenda for reform. In their view, the Commission and member states managed to waste ECU500m of EU taxpayer's money through a combination of paying out aid where they should not have and failing

to recover funds where they should have. The report called for the Commission and member states to institute "substantial change" of the Union. Urgent attention needed to be given to weak management of funds, insufficiently clear targets and a failure to recover funds wrongly paid or overpaid.

However, the Court is far less critical than in the past concerning the EU's Phare and Tacis programmes in eastern Europe and the former Soviet Union, while repeating some of its earlier observations. The Court recognizes that these programmes are performing increasingly well under extremely taxing political and economic conditions in the recipient countries. The Court notes the success and local popularity of Tacis' more tangible projects, such as a bakery set up in the city of Tomsk, as well as the long distance transport of perishable food in Russia. The Court also passes favourable judgement on the sound

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execution of Phare and Tacis loans.

However, the report says the programmes, under which the countries have so far received ECU2.6bn and commitments of ECU6bn, are still suffering from a "lack of overall strategy" and there is no system for independent evaluation by the Commission.

For the report the Court's audits visited Bulgaria, Estonia and Hungary for the CEE and Belarus and Russia in the case of NIS. In these countries the Court's audit mainly covered the sound financial management aspect, largely agriculture SMU's, privatization and industrial conversion programmes in the military sector. The Court also inspected in Armenia, Azerbaijan and Georgia the food aid measures adopted by the Council in July 1994.

Furthermore, in Bulgaria, the Court says Phare's agriculture programme did not take adequate account of the slowness of privatization in the country, with Bulgaria traditionally a major producer of dairy products is now obliged to import agricultural produce such as powdered milk.

To this charge the Commission replied that, here as elsewhere, the EU is totally dependent on the political climate in the recipient state. Hence Phare's inability to put Phare credit line into action until it was unblocked by the Bulgarian authorities in December 1993. Therefore, the Commission argues that the Court's analysis of Bulgaria's farm reform policy itself

is incomplete: in the short term, imports of base products do not mean that reform has failed, as the Court alleges. Instead, they can stimulate efficiency through competition, making Bulgarian farming more productive and less expensive.

The Court also observed a number of cases of negligence in the monitoring of contracts. For example, as part of programmes in favor of Bulgarian agriculture, the Commission included provision in most long-term consultancy contracts for the purchase of a vehicle which would be the property of the Ministry of Agriculture at the end of the consultant's contract. In May 1994, the Ministry of Agriculture was already in possession of some 20 unused cars. The Commission had not established that this Ministry actually needed this number of vehicles.

The Commission pointed out that the difficulty with the vehicles was the Bulgarian's government inability to decide to whom they should be assigned. Once it receives the Government's final approval, the vehicles will be put into service in new technical assistance projects or in priority departments in the Ministry of Agriculture.

As far as the Tacis programme is concerned the Commission shares the view that there is room for improvement as far as the supervision of project execution is concerned. However, given TACIS' present staff constraints, supervision cannot be as intense as one should ideally desire. ■

ADDITIONAL PROTOCOLS BLOCKED

There is still a hope that, in November, the Council will unblock the additional protocols to the Europe Agreements, which are aimed at redressing agricultural trade imbalances. The situation, however, is that the Council has so far failed to provide the Commission with a modified mandate to finish the negotiations with the associated countries, which the Commission asked for a long-time ago.

Before the Essen Summit, it was decided to address short-term and medium term problems of the agricultural trade imbalance. This was to take its form in additional protocols to the Europe Agreements. The first was taken in July when the EU immediately applied autonomous concessions granted in the Europe Agreements and not on the later dates provided for in the Europe Agreements. The second step, which originally was to be taken around now, was an increase in tariff quotas by 10% per annum for five years. There were also other aspects (see details in No59 of December 1994). In addition, the Europe Agreements were to be modified to reflect both the impact of enlargement of the EU from 12 to 15 members and the results of the URUGUAY Round negotiations. Several rounds of bilateral negotiations were held and the Commission asked the Council to modify the mandate, as the mandate made it impossible to grant the concession to the Commission considered to be necessary. Concerning the increase in quotas, as we go to press, the majority of member countries consider a 5% increase to be sufficient, rather than the 10% promised by the Commission. There is also no good news concerning additional textile protocols, while (as we reported earlier) new additional assistance to Portugal was proposed. ■

DEVELOPMENTS WITHIN THE EU

COMMISSION TAKES POSITION ON THEO WAIGEL'S STABILITY PACT

There was an important shift on 13 November in the Commission's attitude towards the Stability Pact for the final phase of Economic and Monetary Union, proposed in early November by German Finance Minister Theo Waigel.

By the end of the preceding week, the Spokesman for Commissioner Yves Thibault de Silguy (in charge of monetary affairs) said that the Commissioner (whose position is shared by President Santer) considers that the proposed Stability Pact is not compatible with the Maastricht Treaty. These criteria must be strictly applied. There shall be no new additional conditions. But Commissioner de Silguy does not consider that the Waigel Plan proposes new conditions for the transition to a single currency. The statement, more or less, amounted to a polite refusal of Mr. Waigel's proposal.

On 13 November, however the European Commission's President, Jacques Santer, and the Commissioner for Economic and Financial Affairs, Mr de Silguy, made the following statement concerning the "stability pact" between the countries that will participate in the single currency, proposed by the German Finance Minister, Mr Waigel:

"The Commission welcomed with interest the proposal for a European stability pact made by Mr Waigel. It shares his concerns for the need to maintain strong and sustainable convergence within the Monetary Union.

The Commission has taken note that Mr Waigel desires no amendment to the Maastricht Treaty and no additional conditions for entry into the Economic and Monetary Union. It is

essential to ensure the strict and complete application of the Treaty.

Mr Waigel's proposal must be examined by the Community authorities. The Commission reserves the right, within the context of its power to make proposals, to take initiatives that may become necessary.

The Commission also recalls that the Treaty makes provision, within the procedure for excess deficits, for sanctions in the event that a country participating in the third stage does not respect budgetary discipline. According to the Treaty, these sanctions could be in the form of a no-interest deposit or an appropriate fine.

With regard to the medium-term objective concerning public deficits, the Commission has recommended, as part of the main points of its economic policy, which were approved last June by the European Council in Cannes, that a balanced budget be achieved by the year 2000."

Proposed Stability Pact :

Theo Waigel justified his proposal regarding the "Stability Pact" by a need to ensure that, after the introduction of a single currency, there is no relaxation of the Maastricht criteria. On the contrary, there should be a more tough supplementary arrangement introducing penalties.

In particular, the German minister of finance asks :

- that the **maximum rate of deficit allowed during a normal**

economic period is fixed at only 1%.

- that a ban is introduced on a deficit of over 3% of GDP even in the case of an economic crisis.

Some exceptions to this ban could be allowed, but the exceptions shall refer only to extreme situations like in the case of natural disasters.

- stiff penalties shall be introduced against member countries not respecting the convergence criteria. EMU member states, whose budget deficit will exceed the limit of 3% of GDP should automatically be obliged to pay "a stability deposit" into a non-interest bearing account. The deposit would be paid back once the deficit falls below 3%, but if after two years the deposit is not yet corrected, the deposit would become a fine and be paid into the EU budget. Mr. Waigel suggested that the deposit amounts to 0.25% of the country's GDP for each percentage point of deficit in excess of 3%.

- the ceiling for the debt will be reduced from 60% of the GDP to 50%.

- a European Stability Council will be set up to coordinate and monitor the budgetary policies of member Countries.

The Commission's statement made on 13 November aimed to underline that various interpretations of the proposed Stability Pact were incorrect in saying that Mr. Waigel seeks to introduce new conditions for the passage to a single currency. The convergence criteria state clearly that a deficit of 3% GDP is

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maximum, and it is not a medium term objective in budgetary matters. Also, the system of sanctions for states which do not respect convergence criteria is already in the Maastricht Treaty (i.e. provisions concerning "excessive budget deficits"). The Commission's statement did not directly touch upon the proposal to set up a "Stability Council". However, the Commission recalled its key right "of initiative". This is important as there appears to be a trend towards bilateral discussions among Member States, where discussions are started in ECOFIN without the Commission. The Council is, however, able to act only on the initiative of the Commission.

French minister backs Waigel :

French Minister of Finance Jean Arthuis, who already during the informal ECOFIN Council in Valencia in September started to support the tough German position, said on 13 November that (a) for the period between now and 1 January 1999 the existing provisions of the Maastricht Treaty shall be applied; (b) he would favour that for the period after January 1999, the decisions on ceilings for both the deficit and debt are then made jointly. The principle which must guide the governments is not a deficit, but a balanced budget.

Waigel's tough position on the Maastricht convergence criteria reflects the heated debate in Germany where the Social Democratic Party has been attempting to cast doubt on the EMU. Mr. Rudolf Scharping has been demanding changes in the Maastricht Treaty which would ensure that tough convergence criteria are respected on an enduring basis. Also, recent German opinion polls show that some 60% of Germans distrust the introduction of a single currency.

The former German Foreign Minister, Dietrich Genscher, reacted to the German Social Democrats attempt to postpone the introduction of the single currency saying: "It will be colder for us were the EMU to fail because of us, and the impression were to be that we wanted to dominate Europe with the DM".

Nevertheless, it looks as if the tough German conditions will be accepted by most of the EU. Germany may thus succeed through the single currency to launch the European Union on a more federalist path and beyond the Maastricht Treaty provisions. The acceptance of Waigel's proposal would practically eliminate most of the freedom for manoeuvre for most EU states and the participating countries would be ceding most of their sovereignty over economic policy. On the other hand, some consider that this strategy (supported by France) may be a part of the plan to delay the monetary union. This could give France some additional time on the deficit, while Germany would not have to give up the DM in the year of their parliamentary elections.

Technical aspects of introduction of single currency :

As we go to press the European Monetary Institute (EMI) is about to release its report on the arrangements and timetable for the switchover to a single currency. The EMI rejects the scenario of the delayed "big bang" i.e. moving into single currency in one step after a long preparation.

The political decision on which countries are ready for the final step shall be made in early 1998. The banknotes will be introduced three years later and will circulate six months alongside the national notes. These recommendations were finalized during the

meeting of the Council of the European Monetary Institute on 7 November. Commissioner de Silguy participated at the meeting. These recommendations, naturally, deal with purely monetary aspects of the transition to the single currency.

It will be up to the Heads of State during their Madrid Summit in December to take the political decision (in particular, they shall decide on the relationship between the countries taking part in EMU and those who will remain outside of the Economic and Monetary Union). There will also have to be a seemingly minor matter decision on the single currency's name.

The report by the EMI will figure on the agenda of ECOFIN on 27 November. The reader will recall that ECOFIN, during its informal meeting in Valencia in September, suggested a certain concession to commercial banks in pursual of the idea of "critical mass" at which the commercial banks were not very keen. In particular, the finance ministers said in Valencia that banks should not be obliged to switch inter-bank foreign exchange and deposits into a new single currency until it becomes a legal tender at the beginning of 2002.

Gradual introduction of single currency

The draft plan agreed in Valencia provided for four steps :

- (a) agreement on participants in January 1998
- (b) fixing of exchange rates one year later
- (c) banknotes and coins are issued in 2002
- (d) national currencies are phased out within six months

This plan is different than the "critical mass" preferred by the Commission. It is also not meeting with the approval of the European Parliament, which would prefer

that a new single currency became a legal tender as soon as the exchange rates were fixed in 1999 (and that financial institutions could start to operate in single currency from that moment).

It is considered that the three-stage scenario is a good option. The European Central bank would start using the single currency for monetary policy and exchange policy operations

from the start of the third stage of EMU, while commercial banks and financial institutions could use, if they wish, the single currency on wholesale financial markets. ■

STATE OF SINGLE MARKET

The European Parliament is discussing, as we go to press, the actual functioning of the EU single market. Earlier the Commission presented its second annual report on the single market.

The EP's rapporteur, Graham Watson (Lib., UK), welcomed the Commission's "more realistic tone" and warned against underestimating the scale of problems still outstanding. During a lunchtime press conference, Mr Watson said that the single market is functioning, but not without problems. He presented a brochure which includes "six true stories" concerning the gaps.

The Watson report points out that the single market cannot function correctly until a single currency is introduced. In Mr Watson's view, the main problems are as follows:

- a) mutual recognition is often not observed in the Member States;*
- b) public procurement practices in the Member States have barely changed since the sector was nominally liberalized;*
- c) no steps have been taken to harmonize important areas of taxation (excise duties, tax treatment of savings and company taxation), and only limited steps in the case of VAT;*
- d) the differing environmental regulations in the Member States;*
- e) the failure to complete the removal of controls on individuals at internal borders;*
- f) the difficulty and expense of enforcing one's rights and gaining access to justice in cases of infringements of single market principles and provisions;*
- g) the excessive bureaucracy demanded of businesses (especially SMEs), which places a heavy burden on them.*

The report strongly deplores the fact that the measures taken by the Member States to implement EU legislation are sometimes excessive, which places more constraints on enterprises and discredits the EU. However, it rejects any approach based solely on deregulation. It notes with concern that some governments are continuing to engage in practices that are contrary to Community law on the single market, which obstructs the free movement of goods.

With regard to trade policy, the report asks the Member States to abolish Article 115 of the EEC Treaty, as this is inconsistent with and no longer operational within the single market. It notes with concern the increase in fraudulent import activities, especially at the eastern border of the EU. In addition, the non-completion of the single market for alcohol and tobacco favours the development of organised crime, and related sanctions are inadequate.

The report asks that proposals be made with regard to: - the harmonization and strict application of sanctions for infractions; - the scrupulous application of the rules on public procurement; - the enlargement of the Schengen agreement to include all of the Union; - aid to small enterprises seeking compensation for violations of their rights.

Other requests are also contained concerning taxation, energy supply and the mutual recognition of diplomas. Finally, the report calls for a simplification and de-bureaucratization of procedures for the formation of companies and establishment of self-employed businesses. ■

WEU AND 1996 IGC

This week the WEU Council of Ministers meeting in Madrid is adopting a document on the position of the WEU towards the EU 1996 Inter-governmental Conference. The full WEU Council of Ministers (Foreign and Defence Ministers) was preceded on 13 November by the meeting of the Defence Ministers of the Western European Armaments Group (WEAG). They discussed armaments cooperation projects and the establishment of a European armaments agency (not yet ripe for immediate creation).

The WEAG members comprise the full members of the WEU (France, Germany, Italy, United Kingdom, Netherlands, Belgium, Luxembourg, Spain, Portugal and Greece), two observer countries (Denmark, which belongs to both the EU and NATO and Ireland which is a member of the EU), and two associate members (Norway and Turkey which, as European NATO members, were part of the former Independent European Programme Group, which was replaced by the WEAG).

French Defence Minister Charles Millon chaired the meeting (France holds the WEAG Presidency until the end of 1995), which was preceded by a meeting of heads of staff (the WEAG Staff Group).

Council meeting :

The WEU ministers adopted on 14 November a 40-page document consisting of various options for the **future relations between the WEU and the EU**. The large majority of WEU member states favour rapid integration of WEU into the EU, with the establishment of a timetable. However, the UK still remains opposed to this idea. Germany's foreign minister, Klaus Kinkel, said afterwards that "we have not succeeded in convincing the British to accept this option". The UK prefers that the WEU is maintained as an autonomous entity.

However, all members (including UK) are in favour of strengthening a European security and defence identity. The document stresses that a strong Atlantic Alliance is a prerequisite for operational reinforcement of the WEU.

This document has been made public as the paper on "European Security: The Joint Concept of 27 WEU Countries". The afternoon session (enlarged to 27 countries by including **nine Central and East European countries**) approved a document on the "European security : Common concept of the 27 WEU countries". One of the interests of this paper is that the countries of the former Communist bloc participated in drafting it. The paper describes the current institutional and security framework in Europe and the special role the WEU should play therein. It contains a chapter added at the initiative of France and the United Kingdom on the role of French nuclear arms, stating that the French and British nuclear forces "contribute to deterrence and global security". We will return to both documents in detail in the next issue.

Defence industry takes position on IGC :

The European Defence Industry Group addressed several recommendations to the EU governments in view of their forthcoming 1996 IGC. The defence industry feels that the IGC shall realize that a genuine European security and defence identity is conditioned by the maintenance and the quality of a European industrial and technological basis in the defence sector. The Europe's independent defence capacity requires a European policy on research and technology supported by a strong industrial foundation. For this it is necessary to establish a European internal market of sufficient dimensions allowing the defence industry to remain competitive. There must be a principle of European solidarity in acceptance of industrial and technological interdependence in Europe and in providing of European budgetary support. Europe must present a common front to suppliers from third countries.

The European defence industry also proposed the creation of a European Office for Economic Security, a creation of a European Office for Export Supports in this sector and several proposals for harmonization of laws, regulations and standards for arms purchases. ■

EU ORGANIZES DISCUSSION ON IMPROVEMENT OF PARLIAMENTARY CONTROL

Senior officials of the associated countries' Parliaments were invited to a two day discussion in Brussels on 6-7 November concerning the transposition and implementation of Community legislation. The participation of the officials from the associated countries parliaments in the discussion reflected the likelihood of their future accession.

In principle, the discussion was between the Secretary General of the European parliament Mr. Enrico Vinci, the Secretary General of the European Commission Mr. David Williamson, the Secretariat of the Council and the Secretaries General of the Member Countries' Parliaments. The points raised included the timely involvement of the national parliaments, which could guarantee proper transposition and application of the Community law. The national parliaments shall take direct interest in the legislative programme agreed between the Commission and the European Parliament. It is a valuable instrument for each national parliament allowing dialogue on good grounds with its own government on European construction. There was also plenty of discussion on transparency with the Swedish parliaments asking the EU Council to make its minutes available to the national parliaments.

The Commission is preparing measures which would help to speed up the implementation of Community legislation by member states, many of which tend not to implement for some time respecting EU legislation. There have been several thousand complaints about the way member states implement. The processing of complaints takes time. Taking a member Country to the European Court of Justice is the last resort, but the Commission is increasingly sending official warning letters to Governments threatening legal action if inaction continues. ■

CONSUMERS COUNCIL

The EU Consumers' Council held in Brussels discussed priorities for the EU 1996-1998 consumer policy on the basis of a proposal of a three-year action plan for consumer policy presented by Commissioner Mrs. E. Bonino. This action is not a list of actions to be accomplished, but rather an attempt to set a "consumer policy", which Commissioner Bonino favours more than the term "consumer protection". The "consumer policy" gives priority to the education of consumers, while it favors less legislation. There will be no more detailed regulations issued by Brussels unless they are preceded by broad consultations involving consumers, producers and distributors.

Mrs. E. Bonino spoke on consumer policy in central and eastern Europe and said that in the future it will be necessary to avoid financing projects out of European Union funds that aim to produce

products for export which do not comply with Community market standards.

Comparative advertising :

The Council adopted by a majority vote (Germany, Finland and Sweden voting against) a common position on a political agreement of the **Directive on Comparative Advertising** (proposed by the Commission in 1991). The compromise establishes a definition of comparative advertising and sets conditions for its use.

Comparative advertising is advertising, either implicitly or explicitly, by identifying a rival or the goods and services provided by a rival.

If this advertising is used, it must not be misleading. It must compare goods and services that meet the same needs or serve the same objectives. It must objectively compare one or several essential, verifiable and representative

features including the price. It must not cause confusion on the market. It must not discredit brands, trade names, goods and services of a competitor. Products with the label of origin can only be compared to products of the same origin etc.

The co-decision procedure with the European parliament may now start and the deadline for the transposition of the directive into national legislation is 30 months following the approval of the directive via the codecision procedure.

Belgium and Luxembourg already formally prohibit comparative advertising. Germany will also have to change its legislation in which comparative advertising is a part of provisions concerning false advertising. France now requires a prior notification of a competitor, Italy and Denmark will also have to change their

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financial implications... If we want enlargement, we shall have to pay the price for it".

Still, President Santer doesn't want the IGC to concentrate on the issue of costs, but to take a bold political decision in favour of enlargement. Only then, i.e. after the end of the IGC with a decision on the start of the accession negotiations, will the Commission, according to Santer, submit to the heads of state a Communication on the problem of the price of the enlargement and the change in the policies (J.Z.). ■

GONZALES ON IGC

"A vaster Europe requires more Europe". This is what the President of the European Council, Felipe Gonzales, said in Strasbourg during the "State of the Union" debate. He requested that the IGC end in 1997, thereby allowing the ratification of the revised treaty which in turn will allow for the entry into force of the new Treaty which is necessary for the 1999 negotiations on new financial perspectives for the start of the third stage of EMU and for the beginning of the enlargement negotiations. This implies that the President still considers that the ratification of the new Treaty is necessary for the beginning of the negotiations on the enlargement. ■

NATURALIZATION

The EU had in 1993 some 11.6 million residents who were not nationals of any member state. A million people acquired the nationality of one of the present 15 EU Member States between 1990-1993. This data is contained in the latest EUROSTAT report in the series on "Population and Social Conditions". France natu-

ralized 233,000, the largest number in this period. Most foreigners which gained an EU country's nationality were of Turkish, Moroccan and ex-Yugoslavia origin. ■

MACRO-FINANCIAL ASSISTANCE TO MOLDOVA

On 8 November the Commission proposed to the Council to grant a new loan to Moldova in support of the balance of payments amounting to ECU15m. Last year Moldova benefited from a ECU45m macro-financial loan. ■

FINANCE FOR FORMER SOVIET MILITARY BASE IN GERMANY

The EU, via its European Regional Development Fund, is contributing ECU19.45m towards the total cost of the ECU33m necessary to eliminate contamination and carry out the conversion of the former Soviet and GDR's People's Army military bases in East-Germany (Mecklenbourg-Western Pomerania). ■

GATS

The European Commission just published a guide for business to GATS i.e. General Agreement on Trade and Services, which resulted from the Uruguay Round of Negotiations. Amongst other things, it explains how the GATS operates and how to read the country schedules of specific commitments. It carries out a review of individual services included in GATS. Services now generate more than \$1 trillion of cross-border trade. The EU is the world's largest exporter of commercial services. In 1992 EU's exports of commercial services amounted to \$430bn as compared to \$162bn for the USA. ■

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legislation. Swedish and Finnish delegations at the Council had problems with the provisions concerning registered designation of origin, which on the other hand, was strongly supported by France. Thus, sparkling wines may not be compared with champagne.

In washing powder comparative advertising it would be possible to compare objective and pertinent advantages offered by two types of washing powder, as long as these advantages are true and verifiable, but advertising with a message such as "brand X washing powder washes whiter than any other detergent" will not be allowed. ■

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