

European Communities

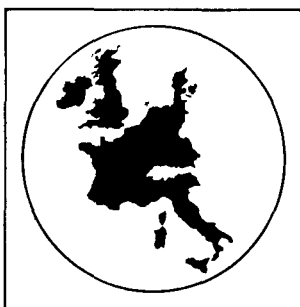
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Information Service

Newsletter

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European Monetary System—American Support

The new European Monetary System (EMS) will go into operation on January 1, following a meeting of the European Council (summit of the Nine member states) in Brussels on December 4 and 5.

In essence, the EMS is a parity grid which sets a central rate for currencies against each other, as in the present "snake" system, defined in terms of the European Currency Unit, or ECU. The ECU is a bookkeeping numeraire to be used to denote the value of intervention by central banks to maintain currency stability. The system will be backed by a fund equal to \$32 billion and any Member State may draw up to \$20 billion.

The EMS may impose on currencies with weaker currencies a deflationary discipline and require substantial transfer of resources from those with stronger currencies. It may also impose necessary reflation on countries with stronger currencies.

The EMS is expected to have a stabilising impact on the exchange rate of the US dollar against participating, and even non-participating currencies. The exchange rate between two large monetary zones is less prone to disturbances than between many small currency areas and the largest currency union in the world.

Furthermore intervention to maintain the system will be done in a mixture of European currencies and gold, placing far less burden on the dollar as the usual intervention currency.

A joint statement released by the US Treasury and State Department said the EMS "will contribute to substantial growth in the world economy and a stable international monetary system."

Meeting in Washington on December 14, with President Roy Jenkins of the EC, President Carter said that earlier US apprehensions about the EMS impact on growth and compatibility with the IMF had been put to rest. President Carter indicated that he viewed the EMS as an important step toward European integration that the US had long supported.

Jenkins Sees Carter

The President of the EC Commission, Mr. Roy Jenkins, met US President Jimmy Carter at the White House on December 14, as part of a series of regular meetings begun last year.

This is President Jenkins' second visit to the White House in his capacity as Commission chief. Earlier this year President Carter became the first US President to visit the headquarters of the Commission in Brussels. The two men have also met at two Western economic summits.

Principal subjects discussed included the new European Monetary System, which Mr. Jenkins initiated with a speech in Florence last year, and the multilateral trade negotiations going on in Geneva.

MTN's at Crucial State

Talks aimed at dismantling trade barriers among 98 countries are continuing at the Tokyo Round negotiations in Geneva.

The danger of a rupture was avoided when the EC negotiators accepted the Carter administration's assurances that the US would take legislative and administrative action to avoid the disruption in the flow of approximately \$400 million worth of imports from the Community, mainly ham, cheese and butter cookies from Denmark.

Nevertheless, the EC Council of Ministers, meeting in October and November, reiterated their stand that the Community will not conclude an agreement until the waiver on the countervailing duties has actually been extended.

The crisis arose in October when the US Congress recessed without renewing President Carter's authority to waive additional duties on subsidized imports. According to US law these countervailing duties are applied to foreign imports when the Treasury finds that they have been subsidized by the governments of the countries where they are produced. The Community takes the view that these countervailing duties are not in conformity with the General Agreement on Tariffs and Trade which allows additional duties only if it can be proved that the subsidies do harm to the industry involved. It considers the exception made for the US unfair.

Final approval of future agreements will have to wait on positive action by the US.

Congress when it reconvenes in mid-January. US negotiators feel that, when presented with a package agreed on in Geneva, the new Congress will feel more pressed to ratify it and to grant the President waiver authority again.

The question of countervailing duties and subsidies generally is only one aspect of the prospective agreements.

The other elements of the negotiation are:

1. A reduction and harmonization of industrial tariffs.
2. A satisfactory agreement on agricultural products.
3. Other non-tariff barriers to trade such as government procurements, standards, customs valuation and improved mechanisms for safeguards action.

President Carter, in meeting with EC Commission President, Roy Jenkins on December 14, expressed his determination to seek congressional action to assure continued application of the waiver on countervailing duties.

EC-ASEAN Developments: Closer Relations Agreed

Foreign Affairs Ministers of the EC and of the Association of South-East Asian Nations (ASEAN) agreed at a meeting in Brussels at the end of November to put their relationship on a more formal footing, and to start exploratory talks aimed at drawing up a cooperation agreement.

They issued a joint declaration after the meeting, which Mr. Hans-Dietrich Genscher, Foreign Minister of the Federal Republic of Germany and President of the European Community, described as "a political event of far-reaching importance," and "a complete success."

There was broad agreement on both political and economic issues and the two regional groupings agreed to maintain close contact, particularly through their representatives at the United Nations.

The Community accepted an invitation for a second Ministerial meeting in an ASEAN country.

The two sides reaffirmed their determined support for international action leading to a new international economic order. They underlined the importance of achieving solutions to the outstanding problems and agreed to cooperate constructively in the coming international meetings in the North-South Dialogue, including UNCTAD V in Manila in May next year.

On commodities the two sides agreed on the importance of the integrated programme and the establishment of the common fund, and to cooperate closely in achieving individual commodity agreements. The Community also agreed to examine in a global context the possibility of stabilizing the export earnings of developing countries, including ASEAN. Long-term arrangements will be examined.

The ASEAN side expressed concern over recent restrictive trade measures. The EC explained that the measures were temporary and designed to deal with special situations. Efforts will be made to consult where measures are envisaged. The EC emphasized its willingness to give special and differential treatment to developing countries in the multi-lateral trade negotiations and to improve the system of generalised preferences.

Economic Forecast

The European Commission predicts a growth rate of 3.5% for the economy of the Community in 1979.

Commissioners arrived at this figure from the assumption that efforts to coordinate national economic policies will continue and that a European Monetary System (EMS) will be functioning. It is less than the 4 to 4.5% set by the Heads of Government in July, and slightly above the Commission's previous estimate of 3.3%.

Positive signs from 1978 figures on growth rate, inflation, external payments, and unemployment as well as a reduction in divergency of the economies of the member states have led the Commission to conclude that the Community can look forward to a period of gradual recovery. It does not foresee dramatic changes. Rather, in its annual economic report, it stresses the need for concerted action on the Community level to achieve stabilization and development in those countries where they are needed and strengthened demand in the others.

Wine

Wine connoisseurs, take note. This year's harvest in the European Community should yield more quality wine than vin ordinaire.

A Commission report indicates that measures taken in 1976 to stop new plantings and to grant subsidies for reconversion were successful in reducing wine-growing areas in 1977. The reduction was even greater in 1978. But more interesting still, for the discriminating drinker, is the fact that in 1978 an estimated 6000 hectares more have been planted in regions which produce quality wine.

Though this trend will likely continue in future years, this is hardly the answer to all the problems of the wine industry which has produced huge surpluses in past years.

There will be no surplus this year in the Community, but production in the longer term is expected to increase and consumption to go on falling. With limited external markets and with the future enlargement of the Community by three wine-producing countries—Greece, Spain and Portugal—the Community is now concentrating on measures to increase exports and to change and improve the industry.

Portugal

Relations between Portugal and the European Community advanced significantly on October 17 when, at a formal ceremony in Luxemburg, negotiations opened for Portugal's entry into the Community.

Trade agreements between the two have been in force since 1972. These resulted from the United Kingdom's decision to join the Community, a decision which changed the relations that had existed among the countries of the European Free Trade Association. It especially affected Portugal because of its strong trade ties with the UK, its oldest treaty ally.

After the events of April 1974, when the new democratic government in Portugal needed and wanted support from the outside, links with the Community were strengthened. A joint committee worked out agreements on credits, and formulated guidelines for cooperation on industrial, technological and financial undertakings. The financial arrangements, providing subsidized Community loans from the European Investment Bank, aim to promote industrialization and modernization of agriculture.

At the opening of negotiations Portuguese Foreign Minister Correia Gago said that Portugal as a whole must be

recognized as a developing region, that remaining restrictions on competitive imports from Portugal must be lifted and that common programs must be implemented during the negotiating period.

Community representatives expressed willingness to study, concurrently with accession negotiations, new measures for immediate support actions.

Commission President Roy Jenkins expressed the Community sentiment: "We rejoice in the re-establishment of democracy in Portugal, recalling as we do so the words of the solemn declaration of our heads of state or government in Copenhagen in April of this year that 'respect for and maintenance of representative democracy and human rights in each membership state are essential elements of membership of the European Communities'". The opening of these negotiations is a further recognition of the effort to unite all the countries of Europe in a powerful and dynamic community."

Foreign Minister Correia Gago reaffirmed his country's commitment to Europe and to the ideals of democracy, peace and freedom on which the European treaties are based. He sees membership in the Community as a guarantee for the consolidation of the democratic institutions recently set up in Portugal, as well as a contribution to the political balance in Europe and to Europe's role in preserving world peace.

President of the Council of Ministers K. von Dohnanyi of the FRG stressed the importance of political cooperation during the negotiating period. The common positions which member countries have been taking on external affairs have given the European Community, he said, "a profile of its own." Candidate countries, he suggested, can help to broaden and extend Community coordination of foreign policy by associating themselves with Community positions.

No date was set for the conclusion of the accession negotiations. Two years, or somewhat less, has been mentioned as the time needed.

Towards UNCTAD V in Manila

Forthcoming Meetings: On the code of conduct for the transfer of technology, there is to be a further negotiating session between February 19 and March 2, the negotiating conference on the Common Fund is to be reconvened on February 26; the Trade and Development Board

will meet from March 5 to 16 and continue discussion of the debt issue.

Common Fund: The Community regrets that the resumed negotiating conference on the Common Fund was not able to reach a definitive result. But, although starting on the basis of different concepts advanced by regional groups, the conference was able to achieve a considerable rapprochement compared with its earlier sessions. All sides are closer than they were concerning the objectives of the Common Fund. With its industrialised partners the EC and its Member States have accepted a role for direct contribution towards the Fund's financial resources and for the establishment of a Second Window based on voluntary contributions for measures other than stockpiling.

The developing countries have accepted the importance to the Fund of resources coming from International Commodity Agreements and their members, including percentage cash deposits, callable capital and stock warrants. There is a better understanding of respective positions. The Community sees a close link between these negotiations and those on individual commodities, such as rubber, cocoa and copper.

Transfer of Technology

At the UNCTAD conference which opened in Geneva on October 16, European Community negotiators presented proposals for a code of conduct on the transfer of technology.

Community law forbids member states from entering into commitments with outside states when those commitments are incompatible with the Treaty of Rome. Because a legally-binding code would involve international commitments and would create questions of compliance with Community law, the Community has proposed a non-mandatory code of conduct.

To make its proposal more acceptable to the developing countries—unlike the industrialized countries they want a binding code—the Community included a provision for regular monitoring and possible revision if the code should fail to do its job adequately.

The Community sees many advantages to the non-binding code it has presented:

- It would be easier to apply, since it would not violate national, Community or international law.
- Its flexibility would result in more transfer of technology from small and medium-sized firms which can often best benefit developing countries. The tight restrictions placed on them now

by some countries have tended to impede transfer.

- The code could be completed and made active without undue delay through a resolution of the General Assembly. This would allow the UN Commission on Transnational Corporations to get on with drafting its code of conduct. It has been postponed until the conclusion of the UNCTAD code. It would also allow the World International Property Organization to get on with its amendments to the provisions of the Paris Convention protecting patents and other industrial property rights. The UNCTAD code is expected to provide guidance for those amendments.

Some of the other issues which the Conference faced were:

- a definition of the transfers of technology to which the code would apply;
- the circumstances under which restrictive business practices could be permitted;
- guarantees of responsibilities or obligations which the parties to the code would be called on to accept; and
- the law which would apply to technology transactions and to the settlement of disputes.

EC's New Development Strategy

The Council of Ministers of Development have had preliminary discussions on the broad lines the EC should adopt in the preparation stages of the Third UN Development Decade. The discussions were based on a Communication from the Commission of the EC.

The Commission's Communication and the deliberations of the Council of Development Ministers was followed up by the delegations of the Nine member states in New York and resulted in a draft resolution on the preparation of a new international development strategy.

The purpose of the Communication from the Commission was to provide an umbrella for the considerations within the Community of the new strategy from two different perspectives: The different preparatory stages leading to the adoption of the strategy during the special session in 1980 and the exchange of views taking place in the context of the North-South Dialogue from now up to 1980. At this stage this first paper does not give a detailed content of the future strategy but rather a broad outline for the future approach.

In this sense the Communication addressed itself both to general problems concerning the improvement of the economic conditions and the relations between industrialized and developed countries in general and to more concrete approaches to a limited number of prime objectives.

The general part especially scrutinized the interdependence of the world's economies and the means necessary to assure growth and trade with a bigger share for developing countries. However, subjects like raw materials, the transfer of resources, industrialisations and transnational corporations were also broached.

The Commission selected prime objectives to be approached in a more concrete manner: The participation of the developing countries in world trade and their incorporation into the world's economy; the full participation of the entire population in the development process, including the poorest, and the adequate use of scarce resources.

The EC attaches great importance to the proper preparation of the new strategy which is important for the promotion of world peace and security. The EC and its member states believe they have effectively contributed with this draft resolution to the streamlining of the UN's subsidiary machinery for preparation of the strategy.

The Nine and Namibia

The EC position on Namibia was put before the General Assembly by the

Federal Republic of Germany, currently holding the Presidency of the Nine. The following is an extract:

"The governments of the nine member States of the European Community express their deep disappointment and concern over the South African government's proceeding with unilateral elections. Those elections cannot be considered free and fair and are irrelevant to the progress of Namibia towards an internationally acceptable independence. There is no way of reconciling such elections with the proposal for a settlement which the Security Council has endorsed. The Nine do not accept the validity of those elections, and consider them null and void. The Nine will not accord any recognition to their outcome.

"It is for the Namibian people, and for them alone, to determine their future. The illegal occupation of Namibia must end. The population of Namibia must be enabled to prepare itself for a genuinely free decision on its political destiny and so to exercise its right to self-determination as soon as possible. All political groupings, including in particular SWAPO, must be able to participate freely in the electoral campaign and in the elections themselves.

"The Nine want to put on record their protest against the recent detentions without explanation of prominent members of SWAPO in Namibia. As were similar actions in the past, such police measures are clearly aimed at inhibiting the role of a significant part of political opinion within Namibia by depriving political leaders of their basic liberties.

"We urge all parties concerned not to disrupt the efforts to bring about free and fair elections under UN supervision and control by acts of intimidation and violence. A peaceful situation in Namibia is an essential precondition for implementing resolution 435.

"The Nine share the conviction that the Namibians must be granted a democratic electoral process. This can only be guaranteed by United Nations supervision and control."

Airbus—Aerospace

The decision that will join British Aerospace (BAe) to Airbus Industrie is a source of gratification to the Commission of the European Community

Since 1975 the Commission has been actively encouraging the development of a truly European aircraft industry which could compete on the world market. In the addition of BAe, the state-owned corporation which takes in most of the British industry to Airbus—a consortium of French, German, Dutch and Spanish firms—the Commission believes that a decisive step has been taken toward that goal. It sees this development also as good for the employment situation.

Viscompte Etienne Davignon, Commissioner for Industry, considers that the Community should now support Airbus Industrie by helping to promote sales abroad and through research. He feels that if governments will work together within the framework of the Community, the entire aircraft industry of Europe will benefit

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