

# EURECOM

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## EMS 10 YEARS OLD

The European Monetary System celebrated its tenth birthday last month, and it was particularly marked by the French government which announced the removal of foreign exchange controls on French companies.

This decision came more than a year earlier than was necessary under an agreement between the majority of EC member states to liberalize capital movements by mid-1990.

The move was seen as a significant contribution to closer monetary integration within the EMS, which was established in 1979 to manage exchange rates between member states, as well as a mutual support system.

In addition to contributing to more stable exchange rates, the EMS has been a success in keeping down inflation. It has also helped to spur economic growth and to bring about a greater convergence between the different national economies in the EC.

The ecu, the unit of account used for the EMS, which is composed of a basket of national currencies, is maturing into a true EC currency, which some EC leaders predict could be in place within a decade.

The private sector has made extensive use of the ecu. Many firms use it for in-house accounting purposes ; many inter-bank transactions are conducted in ecu ; private individuals can open ecu bank accounts and purchase travellers cheques in ecu, which limits exchange rate risks. However, the use by governments of the ecu as a reserve currency has so far been disappointing.

At present, France, Germany, the Benelux countries, Italy, Denmark and Ireland are members of the EMS. The United Kingdom and the three newest EC member states, Greece, Spain and Portugal have yet to join.

An indication of the stability that the EMS has created was the decision of the Swiss central bank last month to hold some of its foreign reserves in ecus. In January, the ecu segment of the Eurobond market was very active, with 10 new issues totalling more than 1 billion ecu.

## NO US SEAT AT 1992 TABLE

EC Vice-President Frans Andriessen has rejected a suggestion by US Commerce Secretary Robert Mosbacher that the US should be allowed to sit in on EC meetings when standards setting and other harmonization measures are being discussed.

"That's not a good idea", he told the American-owned International Herald Tribune, in a wide-ranging interview on the 1992 program, during which he reiterated that a Fortress Europe was not part of EC policy.

He told the Paris-based newspaper : "Suppose we (the EC) asked for a seat in the US

Congress when it deals with trade legislation. I don't believe Congress would reserve us a seat and I don't see there's any reason for us to reserve a seat for the United States."

Mr. Andriessen, who is in charge of the EC's external relations, said that he had no objection to the US government keeping a close eye on developments within the EC.

He said : "That's no problem because I don't think we will take measures that will harm American interests. There is no reason to believe the European market will be opened internally and closed externally. That is not in our interest and it is not our philosophy."





Asked for his opinion about fears in some countries that the world was becoming divided into three giant trading blocs - the EC, the US and Japan - Mr. Andriessen said that the Big Three should try to remove these fears. "They have a special responsibility for the success of the world's multilateral trade system."

### **STRONG ECONOMIC GROWTH IN EC**

The EC's GDP reached 3.7% in real terms last year, the strongest growth recorded since 1976. This reflects the increase in business activity and optimism in the run-up to 1992.

The growth in investments - 7.3% - was the highest in over two decades, and the rate of inflation - 3.7% - dropped to a level not seen since the Sixties. Although unemployment was up by 1.2% to 10.4%, the rate is now beginning to decline.

EC Commissioner Henning Christophersen, who is responsible for economic and financial affairs, said: "All our forecasts are pointing at very healthy growth rates for 1989 and 1990, mainly due to an increase in investment."

Inflation performance will not be as good as in the past three years, which have seen a steady decline. The forecast for this year is 4.2%, reducing to 3.9% in 1990. The expected increase results largely from higher import prices, particularly oil and raw material prices, compounded by an appreciating US dollar, in which many key commodities are priced internationally.

Investment is expected to remain

strong, and while private consumption may not grow as quickly as last year it is expected to increase by 3% next year.

Both imports and exports will grow strongly. The EC's trade position will worsen slightly this year but stabilize in 1990.

Among concerns listed by Mr. Christophersen were the huge trade surplus of Japan, the US trade and budget deficits, rising interest rates and tendencies in some quarters towards protectionism.

### **EC TO BAN CFCs BY 2000**

EC Environment Ministers have agreed to reduce the use of chlorofluorocarbons immediately and have targeted the year 2000 for their total elimination.

They have also committed themselves to promote R & D into substitutes for CFCs, which are harming the world's ozone layer, and to strengthen the Montreal Protocol, which was drawn up to protect the layer, which shields the earth from ultra-violet rays.

CFCs are most commonly used in refrigerators and air-conditioning systems, spray cans and the cleaning industry, and are believed by scientists to contribute to the earth's overheating, known as the "greenhouse effect."

The agreement will affect many industrial sectors within the EC, which rely directly or indirectly on these products. However, a number of member states already have legislation covering CFCs.

Environment Commissioner Carlo Ripa di Meana has pledged to strengthen the EC's policy in

the whole environment area, a measure that is supported by 75% of citizens who took part in a recent poll and who believe that the problem of pollution is an urgent one. Two thirds of those questioned believe that the politicians are not doing enough to protect them.

### **GO-AHEAD FOR HIGH TECH PROGRAM**

EC Industry Ministers have given the green light for a \$ 100 million strategy to promote the development of new products and services in order to make EC firms more competitive.


The Sprint program is aimed at encouraging innovation and technology transfer in both the traditional and the newer high tech sectors, and also to educate firms about the possibilities which will be offered by the post-1992 integrated EC market of 320 million consumers.

The program is also seen as an essential tool in the EC's goal of bridging the prosperity gap between its richest and poorest countries and regions.

### **GOODS TO MOVE MORE FREELY**

The Council of Ministers has reached political agreement on removing the remaining restrictions on goods being brought from one member state to another for a short time.

The decision will be particularly welcomed by salesmen and exhibitors, as well as artists and people living in frontier regions. The exceptions will be jewelry and precious stones, and it is hoped



that these restrictions will eventually be removed.

At present, people who want to import goods temporarily frequently have to pay a deposit tax. While this can be recouped later, the system can be both costly and cumbersome.

### **EC OUTLINES HDTV PLANS**

The EC has launched a campaign aimed at international acceptance of its high definition television (HDTV) as the world standard, a decision that is due to be taken by the end of next year.

Its main competitor is Japan, which is busily developing its own system. The primary difference between the two is that the EC system is compatible with existing TV sets.

HDTV will give viewers cinema-quality pictures through the use of double the number of lines on the screen. It will also have important commercial applications.

While the Europeans and Japanese are technologically advanced in the field, interest is being increasingly shown in the United States in the potential of the HDTV market, which could be worth more than \$ 100 billion a year world-wide.

### **THUMBS UP FOR 1992 IN US**

American industry is overwhelmingly aware of the implications of 1992 and is surprisingly optimistic about its prospects in an enlarged European market, according to the results of a survey published recently by the Bank of Boston.

The bank polled more than 1200

CEOs of US companies whose annual sales average \$ 35 million, and it found that 91% of them were familiar with the program.

More than 84% of the manufacturing firms view the development of an integrated EC market as an opportunity to expand their sales and operations, and most of them are already preparing for the changes.

Half of the firms surveyed indicated that they will change their marketing and production strategies. Of those which already have operations in the EC - more than half of them - 91% said that they plan to implement new corporate strategies before the end of 1990.

In the case of companies that have no EC presence, 58% said that they plan to enter the market through the creation of subsidiaries, the opening of sales offices, or the establishment of joint ventures with European companies.

Overall, the CEOs cited fewer import barriers, the development of uniform product standards and common regulations, and less bureaucratic interference in commercial affairs, as the major plus factors in the 1992 outlook.

### **IN BRIEF**

... Transport Commissioner Karel van Miert has promised further air transport deregulation this summer. But he told the Association of European Airlines that his immediate priority was removing the logjam in the skies over Europe.

... A European company statute, which would enable companies to constitute themselves under

EC rather than national law, was one of the subjects discussed when EC President Jacques Delors met top CEOs who are members of the European Business Roundtable. During the discussions, Viscount Etienne Davignon, head of the Belgian Societe Generale group, pointed out that the existence of such a statute would have saved nine months in the constitution of the company which will build the first tunnel under the Channel between Britain and France.

... Meanwhile, the European Commission, the EC's executive, has given the green light to an agreement between the Channel company, Eurotunnel, and the French and British railways on the operation of the tunnel. The Commission ruled that the agreement would not breach EC competition rules.

... Small and medium-sized enterprises from both the EC and the US will gather in Frankfurt, Germany, in October for Export 89, a combined fair and conference. It will bring together companies interested in building up their trade with one another, and should help US firms to gain or develop their businesses in the EC as 1992 approaches.

... The EC and Japan have signed an agreement for cooperation in fusion power research. It is the first formal agreement between the two in the scientific field. The EC and Japan, along with the US and the USSR, are leaders in fusion technology, which promises abundant safe and clean energy in the next century.

... The abolition of internal frontiers in the EC will not be a threat to security, Commissioner

Martin Bangemann declared last month. He suggested that the removal of internal checks could be compensated for by a strengthening of checks at the Community's external boundary and by greater cooperation between police forces. But he ruled out the reation of a European FBI.

... Columbia University's Institute on Western Europe is conducting two days of background briefings on June 6-7 under the title American Business and 1992 : Understanding The European Community. The sessions will be led by senior faculty and will cover political, economic and legal topics. For more information contact European Community Background Briefings at (212) 854.5057 or (212) 854.4618.

### **"QUOTES"**

*"The economic objectives of 1992 will be met by the end of 1992. The political objectives are less certain.*

*But once people regain confidence in themselves it (1992) can't be stopped." EC President Jacques Delors.*

*"Europe is already a reality for us... 1992 is already behind us and we're moving on to the next problem, global markets." Jean-Louis Beffa, chairman of French glass maker Saint-Gobain.*

*"Our progress in the 1992*

*program represents a major positive contribution to the well-being of the world open economic trading system...Our success in achieving the development of our Community must also become a success for world interdependence." Sir Leon Brittan, EC Commissioner.*

*"France is our country ; Europe is our future." French President Francois Mitterand.*

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