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A WATERSHED SUMMIT IN STRASBOURG

Marking the end of France's six month term in the rotating EC presidency, the European Council (which consists of the EC heads of government) met in Strasbourg for its biannual summit on December 8-9.

In what EC Commission President Jacques Delors termed as "an exceptional atmosphere," the summit cleared the way for the first stage of European Monetary Union (EMU) to begin on July 1, 1990, and succeeded in setting the end of 1990 for an Intergovernmental Conference to discuss the implementation of EMU's final two stages. Institutional reforms and amendments to the EC's founding Treaty of Rome will be necessary before Stages II and III can be undertaken.

The European Council also adopted the Community Charter on Fundamental Social Rights, with the UK as the lone dissenter. There was a wide measure of agreement on the scope of follow-up social legislation from the Community (e.g. training and employment issues).

The twelve EC government leaders concluded that the Community can play a vital role in the reforms underway in Central and Eastern Europe, and approved the establishment of a European Bank for Development and Reconstruction to achieve this end. Further, the Council strongly supports the EC Commission's coordinating efforts vis-a-vis aid to Poland and Hungary and asked that the negotiation of a trade and cooperation agreement with the German Democratic Republic, similar to recent agreements with other Eastern bloc countries, be investigated.

Regarding the internal market, EC leaders urged continued progress toward completion of the single market by the 1992 deadline. The Council lauded the progress in financial services legislation during the French presidency and noted substantial advances in merger controls and air and road transport.

EC FITS IN "NEW ARCHITECTURE"

"As Europe changes, the instruments for Western cooperation must adapt. Working together, we must design and gradually put into place a new architecture for a new era," said US Secretary of State James Baker, setting the tone of his recent visit to Europe. According to Secretary Baker, the future development of the European Community will play a "central role in shaping the New Europe."

He proposed building a united Europe on the basis of a new political role for NATO and of closer, formal ties between the US and the EC.

As the European Community moves toward its goal of a single market, and as its institutions for political cooperation evolve, Mr. Baker believes that the relationship between the US and the Community will become even more important. Hence, he proposed that the US and the EC, whether by treaty or in some other form, strengthen institutional and consultative links.

Further, he suggested that these discussions proceed in parallel with the EC's efforts to achieve its single market by 1992 so that plans for future EC-US relations would evolve with changes in the Community.

1992 BANKING DIRECTIVES ADOPTED

The EC has taken major steps toward realizing a single market in banking with the recent adoption of the Second Banking and the Solvency Ratio Directives.

Together with its technical supporting measures (e.g. solvency ratios and "own funds" provisions), the cornerstone Second Banking Directive establishes a single banking license that will allow a bank licensed in one EC country to establish branches anywhere in the Community. Banks will be able to provide their complete range of services based on "home country" control (i.e. the EC member state where a bank first registered will be the principal regulator of that bank).

Before its passage, the Solvency Ratio Directive had been holding up progress on a single market in banking, but the EC finance ministers finally agreed on the minimum capital ratios that all banks in the EC would have to maintain on different types of bank lending.

To a large degree, the Community's new banking rules, effective January 1, 1993, will be more liberal than in the US, where restrictions on interstate banking can prove difficult for banks trying to establish branches in more than one state.

Commenting on the directives in a joint communique, EC Commissioner Sir Leon Brittan and French Finance Minister Pierre Beregovoy declared that "the European consumer will benefit from a greater choice of banking services." Further, this will not just benefit the financial services sector, because "financial services has a catalytic effect on the rest of the economy."

Concerning reciprocity, the Banking Directive sets an example of how the EC approaches relations with third countries across the financial services sector. Said Sir Leon: "The reciprocity provisions will ensure freer access for Community credit institutions into third country markets and provide an example of openness for other countries to follow."

AIR TRANSPORT LIBERALIZATION TAKES OFF

EC transport ministers have made a significant step toward deregulation, a traditionally sensitive area for some of the member states. After a successful Council meeting EC Competition Commissioner Sir Leon Brittan declared: "We have seen a major breakthrough in the achievement of the liberalization of air transport. If people ask what the Community can give us of a specific, tangible kind, there is no more direct answer than to say lower fares and greater choice of airlines for the individual traveller."

The new accord involves the removal of three significant barriers to competition in the air transport sector. First, the ministers accepted the key principle of "double disapproval" for fares by January 1, 1993. This means that a fare will only need the approval of one government at either end of a route instead of from both as is the case at present.

Second, the ministers have agreed to eliminate government to government capacity-sharing agreements, which ensure certain airlines a percentage of market share on a route. Currently, these bilateral deals can guarantee up to 40% of available seats on a route. The member states consented to a stepwise reduction of such agreement leading to their total elimination by November 1992.

Last, but not least, the member states have agreed that governments should not discriminate against airlines provided that they meet all relevant safety and technical standards and operate economically.

EC AND EFTA LAUNCH NEGOTIATIONS FOR A EUROPEAN ECONOMIC SPACE

The foreign ministers of the six-nation European Free Trade Association (EFTA) and the EC have decided to open formal negotiations in the first semester of 1990 to create a "European Economic Space" (EES). The aim is to conclude a comprehensive agreement, as soon as possible, which would allow goods, services, capital and people to flow freely between the 18 countries of both groupings.

Although the EC already has free trade agreements with the individual EFTA states (Austria, Finland, Iceland, Norway, Sweden and Switzerland), EC President Jacques Delors questioned in early 1989 whether this was an adequate relationship, suggesting that a new and more structured relationship with common decision-making and administrative institutions should be pursued. Unlike the EC, EFTA has no executive comparable to the Commission nor common policies in areas like trade and agriculture.

The framework will respect the full autonomy of both groupings to make individual decisions, but EFTA will have to accept many of the EC rules on competition, public procurement and technical standards (i.e. single market legislation), albeit with some derogations. Institutional arrangements, such as a tribunal to rule on EES regulations, will be made to ensure direct effect of common legislation.

In addition to the goal of EES, there will be provisions for closer cooperation in research and development, the environment, the "social dimension," the development of small and medium-sized business and tourism.

According to EC External Affairs Commissioner Frans Andriessen, the EES approach could serve as a way to integrate Eastern and Central countries one day with those in Western Europe, and the upcoming EC-EFTA discussions must take the rapid developments in Eastern and Central Europe into account.

EC SUBMITS ANTIDUMPING CODE TO GATT

The EC has tabled proposals for tightening the international code and antidumping to GATT (General Agreement on Tariffs and Trade).

Under the present international antidumping regime, a number of issues are left to the discretion of the investigating authorities. The Community proposes that the code should clarify the evidence required and the procedures to be followed for the opening of investigations and for the imposition of provisional measures. Further, the code should define more precisely the notions of "the threat of injury" and "causality between dumping and injury".

The second part of the Community's proposals calls for more workable procedures for applying antidumping laws, with a view toward simplifying investigations. Given the rapid globalization of trade and production, coupled with the complexities of today's products, the EC believes the code should encourage parties to limit investigations to manageable numbers and types of products.

The loss of flexibility in antidumping applications will be offset by increased predictability, legal certainty and fairness.

EC AND USSR SIGN TRADE AGREEMENT

The European Community and the USSR have signed a 10-year trade and economic cooperation agreement, the first of its kind between the two sides. The EC had already concluded separate agreements with Hungary , Czechoslovakia and Poland.

The non-preferential agreement covers trade, notably easier access for Soviet exports to the EC market, by means of the gradual reduction of quotas, and economic cooperation, including the nuclear field. It also established a joint committee which will oversee the implementation of the agreement.

The agreement, under which the EC and the USSR will grant one another "most-favored™ nation" treatment, comes 18 months after the EC and Comecon, the Eastern bloc's trading group, issued a joint declaration of mutual recognition.

The signing in Brussels was performed on the EC side by Roland Dumas, French Foreign Minister and current President of the EC's Council of Ministers, and by EC Commission Vice-President Frans Andriessen, and, on the USSR side, by Foreign Minister Eduard Shevardnaze. It was the first official visit of a Soviet government representative to EC headquarters.

QUOTES

"The signature of this agreement reflects the new political situation in Europe. The Cold War is over." Soviet Foreign Minister ***Edward Shevardnadze*** *commenting on the EC-USSR Trade Agreement.*

"The EC is in aggregate the US's largest trading partner. It would be surprising if we did not have a number of bilateral issues in dispute. You have to be pleased the number and amount of disputes are as low as they are." US Trade Representative ***Carla Hills.***

"A united Europe would obviously be the best way to contain a united Germany. One must hope that the European Community will press its 1992 goal of greater unification and that Britain, despite Mrs. Thatcher, will throw its still considerable weight behind this effort." Historian and Pulitzer Prize Winner ***Arthur Schlesinger Jr.***

"These are two huge decisions for which there are some, but not many, decisions equal in scope in the history of the Community." French President ***Francois Mitterand*** *commenting on the Strasbourg Summit decisions on the Social Charter and the Intergovernmental Conference on EMU.*

"The European Community is already an economic pillar of the transatlantic relationship. It will also take on, perhaps in concert with other European institutions, increasingly important political roles." US Secretary of State ***James Baker****.*

At the signing, Mr. Dumas declared: "This is an agreement which holds out hope for the future. Perestroika must be pursued to make it effective and to improve relations between the Community and the USSR."

COMMISSION LANDS MERGER CONTROLS

After 16 years of negotiations, EC industry ministers have given the Commission sole power to review mergers of companies with a combined world turnover of ecu 5 billion (1 ecu=$1.14). Smaller mergers will continue to be investigated by national authorities unless the countries concerned invite the Commission to investigate.

A compromise was reached over the contentious issue of member state reexamination of mergers passed by the Commission when a domestic market is adversely affected. National authorities would also be allowed to review large mergers when there is a danger of creating a monopoly in "distinct" markets, subject to Commission approval. This will be reviewed in four years, although it is undecided whether any changes would need unanimous approval of the member states.

The new legislation will provide a one-stop-shop, a priori examination for large cross-border mergers as the Community approaches 1992.

EC TO OPEN TELECOM MARKETS

EC Telecommunications Ministers have agreed to liberalize telecommunication services in stages after long negotiations.

In a compromise deal between the Commission and the member states, value-added services such as electronic mail and banking will be liberalized, probably around mid-year, while private companies will be free to offer data communication services, after a transitional period, at the beginning of 1993.

Basic telecommunications networks, telex services and ordinary telephones will not be affected by the new rules.

IRISH EYES UPON EC

Ireland takes the helm of the rotating six-month EC presidency this month, following France's fast-finishing term and the landmark Strasbourg summit. The task at hand would be formidable for a larger EC country. Nevertheless, the Irish intend to keep to the timetables set for single market legislation while preparing the ground work for the first stage of EMU.

Concerning external relations, the Irish have their hands full. First and foremost, the Irish presidency must become heavily involved in the negotiations for a European Economic Space with EFTA. In addition, it will pursue trade and economic agreements similar to those with Poland, Hungary, USSR and Czechoslovakia with the German Democratic Republic and Bulgaria. Closer political links to the US will also be explored.

Another major task for the Irish Presidency will be the Uruguay Round negotiations in GATT, which are moving into the home stretch. Most pressing, however, will be the work on details for the European Bank for Reconstruction and Development early this year.

...IN BRIEF

... The EC and the ACP group of African, Caribbean and Pacific countries have signed the fourth Lome Convention for trade, aid and cooperation. This Convention will run for 10 years, compared with five years for previous Conventions. The total amount of aid that the EC will make available to these countries during the first five years will be 12 billion ecu.

Two new members, Haiti and the Dominican Republic, will join the existing 66 Act countries.

Lome IV provides for improved access to the EC market for ACP products, and a number of agricultural products have been added to the list of their exports qualifying for preferential treatment.

... US companies went on a spending spree in the third quarter in Europe, forking out over $ 7 billion to acquire European businesses, according to Translink's European Review, a publication that tracks mergers and acquisitions in Europe. The 61 US acquisitions accounted for 36% of the value of all the deals involving European targets. This upward trend is expected to continue as companies look ahead to 1992.

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