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DELORS DELIVERS "STATE OF COMMUNITY" ADDRESS

EC Commission President Jacques Delors recently presented the Commission's ambitious program for 1990 in his annual speech to the European Parliament.

He urged the Community to look beyond existing or pending trade and cooperation agreements with the six Eastern European countries "to devise new forms of cooperation and to provide a framework for future political cooperation between democratic states." He suggested that new, revised association agreements could include an institutional aspect, the creation of a forum for genuine dialogue and economic and political consultation, and the extension of cooperation to the technical, scientific, environmental, commercial and financial spheres.

He reminded the Parliament, however, that additional financial resources must be made available "to demonstrate our solidarity with Eastern Europe and the rest of the world," and that the Commission will be making new proposals to adapt resources to the new situation.

A major lesson Delors has drawn from developments in the East is that it will be "impossible from now on to separate the Community's economic role from its political one." Further, events in the East and the danger of resurgent nationalism underscore the need for closer EC political integration.

On the German question, President Delors believes that German rapprochement, or even reunification, is a matter for the Germans themselves, but the EC has an interest as well. He emphasized that the German Democratic Republic (GDR) is a special case and has a place in the Community based on commitments to German reunification in the Federal Republic's constitution and in the EC's founding Treaty of Rome. How and when the GDR joins the EC is a matter for Germans to decide, "provided, as established at the EC Strasbourg summit last December, the German nation regains its unity through free self-determination, peacefully and democratically, in accordance with the principles of the Helsinki Final Act and in the context of an East-West dialogue with a view toward European integration."

Moving to US-EC relations, he found it difficult "not to rejoice at the new attitudes emerging on both sides of the Atlantic" and at the willingness to increase cooperation, preventing the relationship from descending to the level of pasta and hormone disputes. Proposals on a framework for a better transatlantic relationship will be submitted in the course of the year.

As for the Japanese, he voiced his disappointment at lack of the effectiveness of previous high-level relations between Europe and Japan, but welcomed Prime Minister Kaifu's recent call for revitalized links with the EC. Delors warned, however, that "they [the Japanese] cannot expect the West to apply the principles of openness and expect free trade indefinitely while these are denied to Western companies in Japan."

Progress on Economic and Monetary Union (EMU) remains a top goal for Delors in 1990. To generate momentum for the talks on Stages II and III of EMU at the Intergovernmental conference at the end of this year, he stressed that the success of Stage I, which involves increased monetary cooperation and convergence of the EC economies, is critical. "The success of Stage I is the best way to convince the doubters."

STEADY PROGRESS TOWARD SINGLE MARKET

Three years before the deadline for completion of the internal market, the Council has passed 142 pieces of single market legislation, to which ten partial adoptions and six common positions can be added. Thus, the Council has completed almost 60% of the 279 items contained in the White Paper. Still, 119 proposals remain under Council consideration.

Even more productive has been the Commission, which has sent 261 proposals of the White Paper's 279 down the EC's legislative pipeline. This puts the Commission far ahead of schedule.

The Commission has also noted significant progress in the transposition of EC directives into the member states' national law. Although the member states are still considerably behind, most member states have greatly improved their performance after the Commission publicized their poor transposition records this past fall, threatening to use more regulations, which have direct effect, instead of the favored directive approach.

Despite the satisfactory productivity, EC Commission President Jacques Delors warns against complacency. Said Delors: "...Some people are under the impression that our mission has been accomplished, that the single economic and social area is practically complete. It is true that the path is clearly marked, that there is no turning back, but a good deal of political will is still required." In particular, Delors cited two problem areas: the free movement of persons and the removal of tax frontiers.

EASTERN EUROPEAN DEVELOPMENT BANK TAKES SHAPE

Since the Twelve approved the idea of a development bank for Eastern Europe at the EC's December summit in Strasbourg, the concept has moved swiftly toward fruition.

34 countries from both East and West (which include the 24 OECD countries along with the Soviet Union and its European allies) are currently negotiating the European Bank for Reconstruction and Development's ultimate form, which is based on a proposal put forth by the recently ended French EC presidency. Delegates from the 34 countries have already agreed on the immediate need for the bank and on the timetable for negotiating its constitution. The target for completing negotiations is the end of March, and it is hoped that the Bank will be in operation by the end of the year.

The bank's capitalization is still under debate, but the Irish government (which currently holds the EC presidency) presented what seems to be an acceptable compromise figure of ecu 10 billion (1 ecu=$1.18), of which 30% would be paid up capital. The most divisive issue facing the delegates is whether the bank's loans should be limited to the private sector.

The EC plan calls for France, the Federal Republic of Germany, Italy, the UK, the US, Japan and the Soviet Union to contribute an 8.5% stake in the bank, with the remaining shares distributed among the other countries. No objections were raised to the EC countries holding a majority stake in the bank.

GUIDELINES FOR VAT HARMONIZATION

After months of deadlock, the Eco/Fin (Economy and Finance) Council has produced an agreement in principle on the harmonization of taxation. Most notably, the Twelve have agreed to keep their basic VAT rates between 14 and 20% until the end of 1991 when a new tax regime (either a new, narrower band or a minimum rate) will be due.

Although the EC will face some difficult negotiations before the dossier is finalized, the basic aims of abolishing tax barriers at frontiers, lowering industry tax burdens and exempting tourists from VAT (albeit with Danish reservations) have been agreed.

Reduced and zero rates will be reserved for certain essential goods and services in accordance with common social and cultural policy objectives. To avoid distortions in competition, the Council will decide the scope of reduced and zero rates to be allowed among the member states before December 31, 1991.

SOCIAL DIMENSION BECOMING TANGIBLE

The EC Commission has presented an action plan, containing 45 new proposals, which aims to give substance to the basic principles outlined in the recently adopted Social Charter. The Commission intends to produce about half of the 45-point program for worker protection in 1990.

Of the 45 proposals, 19 will be in the form of binding EC legislation. Two pieces of this legislative package will be regulations — thereby having direct effect once passed by the Council of Ministers — and should guarantee EC citizens working in EC countries other than their own equality of treatment with nationals.

The remaining 17 directives — which must be incorporated into the national laws of each member state — mainly cover health and safety issues at the workplace, particularly in regard to pregnant women, temporary and part-time workers and the young. The Commission wants the member states to set a minimum age for workers and to limit the number of hours worked by those under 18. The Commission has not yet decided which of the social directives will require unanimous approval in the Council and which will need a simple or qualified majority.

Concerning the consultation of workers in multinational companies, vocational training and employee stock plans and profit sharing, the EC executive has not decided whether it will propose binding measures. However, the Commission wants the Council to ensure equal treatment on the job for men and women.

In several areas, such as minimum wage or social security, the Treaty of

Rome gives few powers to the Community; hence, the Commission must limit itself to making recommendations to the Twelve.

EC HALTS DUTCH DISCRIMINATION AGAINST AIR COURIERS

The EC Commission has notified the Dutch government that it must change a recent law that gives its postal monopoly (PTT) an unfair advantage over private express courier firms. This move is part of a concerted effort by the Commission to fight anti-competitive practices not only in the express mail market, but in all areas of postal service.

The Netherlands has two months to amend the law under which private courier companies must publish their tariffs and observe minimum prices. The Dutch PTT is not required to observe either condition, which gives the national monopoly an unfair advantage. If the Netherlands does not comply, the Commission will take the matter to the European Court of Justice.

Already the Commission has forced the French, Belgian, German and Italian governments to lift restrictions on the activities of international courier firms.

COMMUNITY PATENT CLEARS TECHNICAL HURDLES

A recent intergovernmental conference between member states on the Community patent resolved the two remaining technical obstacles to finalizing the agreement — one linguistic and one tax-related. Still, the final agreement must be ratified by the parliaments of the Twelve to enter into force.

The conference established the scale for dividing revenues derived from taxes on the Community patent between the member states, and agreed on a system of translation and publication of Community patents. Concerning the latter, a Community patent's specifications must be translated into all nine official EC languages. The translations will be provided by the European Patent Office in Munich, which will submit a copy in the relevant language(s) to each of the Twelve's central office for intellectual property.

QUOTES

*"One has to be strong from within to be generous without. One must be powerful to overcome the national antagonisms which may develop in Europe." EC Commission President **Jacques Delors**.*

*"The Community is now being catapulted into a very powerful political position in the world. No matter what country was president at this point, it would be called upon to play a very important role." Irish Prime Minister **Charles Haughey**, commenting on Ireland's current EC presidency.*

*"It is not 'competition' among central banks that will bring about an orderly convergence of policies, it is 'coordination' that will do it. The challenge, as set out in the Delors Report, is to create a framework for monetary policy coordination that fully respects the market mechanism and the objectives of price stability and financial markets efficiency." Italian Treasury Minister **Guido Carli**.*

*"The Germans have no intention of provoking in the Europe of tomorrow a discussion about frontiers which would necessarily jeopardize the order of peace in Europe to which we all aspire." German Chancellor **Helmut Kohl**.*

*"Only an independent institution is able to resist the repeated wishes of politicians...which are often irreconcilable with the aim of (price) stability." German Bundesbank President **Karl Otto Poehl**, outlining his vision of a potential European central bank.*

EFTA WANTS EES FRAMEWORK BY JULY

Sweden's Prime Minister and current European Free Trade Association (EFTA) President Ingvar Carlsson is aiming for a draft agreement on the broad outlines of a European Economic Space between EFTA and the EC by the end of June, which happens to coincide with the end of the Swedish EFTA presidency and with the thirtieth anniversary of EFTA. This timetable requires EC agreement.

Carlsson would like the proposed framework to cover four main areas. First, the proposed framework would list the rules and regulations covering the EES, i.e. what existing EC legislation EFTA would have to accept. Second, it would identify the exceptions to the general EES framework and the nature of transitional arrangements. Third, a dispute settlement mechanism, such as a court established for the EES, would be outlined. Last, and most difficult, an inter-institutional decision-making process would be defined. If the framework is adopted as envisioned, Carlsson would then like the final agreement ready for ratification by the end of this year so that it could enter into force before the December 31, 1992 deadline for the single market legislation.

According to EC Commission President Delors, the crux of the upcoming negotiations with EFTA on the EES will be the decision-making process to be established between the two groupings. He explained: "There will have to be some sort of osmosis between the Community and EFTA to ensure that EFTA's interests are taken into account in major Community decisions, but this process must stop short of joint decision-making, which would imply Community membership and acceptance of the marriage contract."

EC MOVES TO CLEAN UP MONEY LAUNDERING

As the EC moves toward the final lifting of restrictions on capital movements in most member states (in July of this year), many believe that money from criminal activities will flow easily and undetected across borders. In response, EC Commissioner Sir Leon Brittan has called for all EC countries to make money laundering a criminal offense and for more cooperation between member state police forces and courts to stop it. The Commission will soon issue a recommendation on money laundering, but if the member states do not take sufficient action, binding EC legislation will follow.

At present, money laundering is a clear criminal offense only in the UK, France, Spain and Luxembourg.

Said Sir Leon: "The increasingly sophisticated nature of money laundering, frequently involving operations between several currencies and many different financial institutions, has become a cancer eating into the global financial system."

"We are determined that Europe's financial institutions should never be seen as a safe haven for profits made by the racketeer, the terrorist or those who exploit the weakest and most vulnerable in our society through drug dealing."

...IN BRIEF

...The EC Commission has closed an anti-competition case against the US soft-drink manufacturer Coca-Cola Corp. because it is satisfied that the company has ended anti-competitive practices throughout the EC.

The case was opened in 1987 following complaints from an Italian soft-drink firm that Coca-Cola was unfairly using its dominant position in the Italian market by granting "fidelity rebates" to large distribution chains as a reward for selling Coca-Cola exclusively.

...A new initiative to harmonize accounting standards in the EC is in the works. The Commission would like to make it easier for investors and other users of accounts to compare the performance of companies across Europe. Although the Commission has achieved a degree of accounting harmonization in the Fourth and Seventh Company Law directives, it believes these are not comprehensive enough and allow member state companies too much room for maneuver in reporting their accounts.

...Italy has recently taken some bold steps in the financial arena. First, the lira was devalued by 3.7% against the D-mark and was placed within the narrower 2.25% range of fluctuation in the EMS after a decade in the more lenient 6% band. Markets reacted favorably, with the lira strengthening against most EMS currencies. Second, Italy lifted yet another barrier to the free movement of capital by allowing Italians to purchase short-term obligations in other currencies.

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