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BRITTAN URGES NON-EC COUNTRIES TO LIBERALIZE BANKING MARKETS

At a recent banquet given by the Overseas Banking Club in London, EC Commissioner for financial institutions Sir Leon Brittan said that the EC's fundamental contribution to the development of more open world markets is its historic liberalization of financial service markets, "a liberalization which we are convinced will benefit us, and which we invite other markets to follow." He stressed that on January 1, 1993 the EC will move from its present, fragmented position to a unified banking market which will place fewer restraints on what financial institutions can do (and how they must do it) than exists in the US or Japan.

According to Sir Leon, the Community will be vigorous in negotiating away barriers to EC banks and financial institutions doing business abroad. He remarked, however, that "while we can insist that there should be no discrimination against our banks on grounds of nationality, if we want to get our partners [in third countries] to remove barriers facing their own nationals, we can only do that by means of persuasion."

Still, Sir Leon emphasized that liberalization cannot stop at EC frontiers, and he discussed discriminatory banking practices around the globe. For example, he mentioned that Australia and South Korea prohibit foreign banks from establishing subsidiaries. Japan restricts underwriting by foreign banks, and the US limits overdraft rights for non-US institutions. And the list goes on.

He noted that the EC would like to see the removal of restrictive laws such as the Glass-Stegall Act in the US which places restraints on universal banking. Said Sir Leon: "We certainly intend to raise these issues and ones like them in countries other than the US, in the appropriate international fora. For it is our unashamed ambition to try to persuade other countries to create markets as open and as liberal as ours will be, even if we only have the natural right to demand national treatment. Our message is simple: why not join the club?"

EC AND JAPAN SIGN SEMICONDUCTOR ACCORD

Based largely on the 1986 US-Japan semiconductor agreement, the Commission has approved an agreement that will set a minimum floor price for Japanese semiconductor imports into the EC. The accord ends a complex, three-year investigation of Japanese dumping of computer memory chips on the EC market, which followed a complaint from EC producers.

The investigations found that Japanese producers had engaged in extensive dumping in 1986 and 1987, with some of the Japanese exporters selling in the EC at one-third the domestic Japanese price. Further, the Japanese share of the EC market increased from 26.4% in 1983 to 70.5% in 1987. According to the Commission, the acute price decline in DRAM (dynamic random access memory chips) prices prior to and during the period under investigation was much greater than could have been expected from economies of scale, and was clearly a consequence of deliberate pricing policy by Japanese DRAM exporters. Because of the low pricing levels, EC producers were not able to use all available production capacity, and were forced to curtail planned new investments.

Under the agreement, eleven major Japanese producers (which account for the lion's share of DRAM exports to the EC) have agreed to a single minimum price equivalent to average production costs, plus a profit margin of 9.5%. This floor price will be revised quarterly based on the most current production costs of the Japanese producers. It will cover the most advanced mass-produced memory chips as well as the next generation of 4- and 16-megabit chips, although these can be sold below production costs for a limited period after their introduction to the market.

The agreement will last at least through September 1991, when the US-Japanese accord on semiconductors lapses. Because that expiration may have an effect on the Community's DRAM market, the Commission would be prepared to review its pact with Japanese manufacturers at that time.

COMMISSION BACKS STRONGER TIES WITH EASTERN EUROPE

The EC Commission recently outlined its ideas for closer ties with Eastern European countries that institute political and economic reforms, including respect for human rights, the establishment of multiparty systems and free elections, as well as economic liberalization toward a free market economy. Its central theme is the concept of association, which would go beyond the existing and pending trade agreements with the Eastern European countries. Association agreements would be of "special value in themselves and should be distinguished from any commitment to accession."

The Commission believes that the Community should respond positively to the interest of these countries in association "both as a sign of solidarity with democratic forces in the neighboring states and because it conforms with the Community's own interests." These countries have noted the promising developments in negotiations between the EC and EFTA for a European Economic Space, and seek to link themselves with this process. Early approval of the goal of association would, according to the Commission, contribute to Eastern European political stability and strengthen the confidence both of domestic and foreign investors.

Such agreements would have some framework elements. First, there must be the goal of free trade through progressive economic liberalization. Second, new instruments for cooperation would be developed (including a regular political dialogue between the country and the EC) by broadening the links established by "first generation" trade agreements. Third, technical assistance and financial support would flow to the country based on the country's economic profile, needs and absorption capacity. Last, regular information exchange and cultural cooperation would be established. Each agreement would have these common attributes, yet each would differ according to the conditions (and progress) in the individual country.

The challenge for the EC would be the development of new instruments to complement existing forms of assistance in areas such as export credit and investment promotion. Further, budgetary revisions would be required to provide for multiannual funding of EC assistance to these countries.

EC PLANS REGULAR CHECKS ON CATALYTIC CONVERTERS

EC Environment Commissioner Carlo Ripa di Meana has announced that the Commission will propose regular, mandatory checks on vehicles' catalytic converters. Said Commissioner Ripa di Meana: "Like everything else including, alas, ourselves, catalysts become less efficient as they become older. Regular checks on their working efficiency are therefore vital if the (EC's) emission standards are to be complied with on a continuing basis."

EC officials report that the need for inspection is underscored by the US experience with catalytic converters, where some car owners disconnect their converters because they make cars more expensive to run.

This initiative has not only major implications for those EC countries which do not have a technical control system for vehicles, but also for companies supplying converter testing equipment. Industry estimates project a market of 20 million vehicles with converters by the mid-1990s.

BRITTAN PROMISES FLEXIBILITY IN INVESTMENT SERVICES RULES

In a recent speech, EC Commissioner Sir Leon Brittan addressed fears that the EC's draft directive on investment services would drive away investment firms from EC financial centers because of high capital adequacy requirements that do not adequately reflect actual risks and positions taken by firms.

The primary objective of the investment services directive is to allow an investment firm once authorized in one member state to establish branches or to provide services without establishment in other member states. (An investment firm is defined as any company engaged in a securities-related activity, e.g. brokerage, dealing, market-making or portfolio management).

Sir Leon emphasized that while there is a need for such firms to be sufficiently capitalized against the risks they run so that investors are protected, he does not want to divert investment business away from Europe by setting unrealistic capital requirements. Further, the Commission wants to ensure that differences in the definition or measurement of capital between other credit institutions and investment firms do not lead to changes in the organizational structures of investment firms. For example, he does not want universal banks to find that the proposal gives them an irresistible incentive to make a subsidiary of their securities operations, hurting the smaller investment firms in the market.

According to Sir Leon, "A more detailed treatment of securities positions than has so far been agreed is desirable to reflect the risks in such positions, and also to produce a similar level of requirements for banks and investment firms." Hence, the Commission is preparing complementary legislation which will address two important areas. First, it will determine the levels of initial capital needed for investment firms other than credit institutions (those having been already specified in the Second Banking Directive). Second, it will set the level of capital they must maintain relative to the risks they run.

A fifth and final draft of the directive will be finalized by spring so that it could enter into force at the same time as the recently passed Second Banking Directive in early 1993.

MORE PROGRESS ON OPEN NETWORKS

The Twelve have adopted a Common Position on the Open Network Provision (ONP) Directive, which will facilitate access to public telecommunications networks and services by private companies. This complements the recent decision to allow value-added telecommunication services (e.g. electronic mail, electronic banking) to compete with PTTs throughout the EC (see January issue of Eurecom).

The ONP directive is designed to prevent the PTTs from fixing unfair access conditions for new, competing telecommunications services. At present, the provision of pan-European telecom services can be made impossible by the absence of harmonized technical interfaces, by divergent conditions of use or by discriminatory rate policies. The directive aims to eliminate these three obstacles through the harmonization of technical conditions so that networks can connect with each other properly; through harmonized service conditions so that users know they can get a basic standard of service in each member state; and through harmonized tariff principles so that users will be able to calculate how much pan-European services will cost.

In principle, these standards (which will be set in close collaboration with the European Telecommunications Standards Institute) will be voluntary, but for those who comply with the standard there is the presumption that they will be able to offer their services throughout the EC. Further, the Council has agreed to an ONP work program that will provide specific directives in certain ONP areas (e.g. leased lines and voice telephony) and the option for mandatory legislation should access problems persist.

QUOTES

"The case for open markets outside the Community is as strong as it is within the EC." Commissioner ***Sir Leon Brittan****.*

"Our old continent is back again — with fresh energy and a new self-confidence...We have disproved the gloomy forecasts of the 70s and early 80s about 'Eurosclerosis.' Today the world focuses on Europe. It is once more the subject and no longer merely the object of world politics." German Chancellor ***Helmut Kohl****.*

"Whether Germany has 60 million people or 75 million alters little economically in the Community and politically nothing at all. The balance of power in the EC would not necessarily be disturbed." Commissioner ***Martin Bangemann****.*

"There will not be a magic formula of globalization versus localization, or centralization versus decentralization. Rather than standard solutions we will find viable, differentiated answers to these opportunities." ***Camillo Pagano****, Executive Vice President of Nestlé, commenting on the food and beverage industry vis-a-vis the single market.*

"The European Community is and must remain an open trading bloc. We live by our commerce. Not just the export and import of goods; but a growing trade in all kinds of services, and in particular financial services." ***Sir Leon Brittan****.*

COMMISSION INVESTIGATES ACCOUNTANCY MERGERS

The EC Commission has requested a study by outside consultants into the competitive implications of the recent wave of accountancy mergers. There is concern in Brussels that the radical shake-up in the profession may be detrimental to competition.

The initiative was not prompted by a specific complaint or merger proposal, and it is not a formal investigation under Articles 85 and 86 of the Treaty of Rome. However, given the central role of accountants in the business community and the need to protect consumers, the Commission believes the study is justified. The report's findings will be made public only if they are "helpful."

COMPANY TAXATION RETURNS TO THE AGENDA

After a period of relative inactivity on company taxation, the Commission will be soon proposing some priority guidelines and releasing a paper dealing with all aspects of the issue. In addition, it will also present proposals needed to remove the tax barriers to increased cooperation between companies in different member states.

Commenting on company taxation, EC Taxation Commissioner Christiane Scrivener said that "it is essential that companies be able to profit from the large area of the internal market," and that in terms of taxation, "they receive comparable treatment to that applied to companies active in a national market. It is therefore essential to eliminate tax obstacles to cooperation between companies from different member states and, in particular, any kind of double taxation." Hence, she will "relaunch" negotiations within the Ecofin (Economics and Finance) Council on the directives concerning the tax treatment of mergers, splits, and assets contributions, and the tax treatment between parent companies and their affiliates established in other member states.

EC SEEKS NEGOTIATING RIGHTS FOR AIR TRAFFIC PACTS

The Commission recently proposed that the EC be recognized as the only representative in negotiations with third countries and international organizations regarding international commercial air traffic. The Community would exclusively promote and defend the interests of the member states in commercial aviation.

At present, there are 600 bilateral agreements between the 12 member states and third countries. The Commission's objective is not to reduce third countries' present rights, but rather to ensure equal opportunities for EC airlines. Implementation of the new policy would be progressive, i.e. as existing bilateral agreements lapse, the EC would replace the contracting member state.

The first major test will come soon. The Commission has asked the Council for negotiating directives to initiate EC negotiations with the six EFTA countries. This would provide an important testing ground for Community purview in this area.

...IN BRIEF

...November 1989 was a welcome month for the Community as the EC unemployment rate fell below the 9% mark for the first time since 1982, further evidence that the drive toward a single market is yielding benefits. The unemployment rate fell to a seasonally adjusted 8.9% in November 1989, compared with a 9.7% rate in November 1988.

...The Commission has submitted to the Council a draft regulation that will impose stricter control of chlorofluorocarbons (CFCs) and halons (i.e. stricter than the 1988 regulation on CFCs and halons) and provides for their total elimination by 1997 and 1999, respectively.

...Norway will not formally apply for EC membership in the next four years, but will "seek, in the absence of membership, to adapt itself and draw as close to the EC as possible," said Norway's Prime Minister recently in Copenhagen.

...Prices rose much more sharply in the EC in 1989 than in 1988. According to Eurostat, the EC inflation rate hit 5.5% in 1989 compared with 4.4% in 1988 and only 3.4% in 1987. International comparisons offer cold comfort: the US experienced a 4.5% rise in prices in 1989 while Japan registered only a 3.4% increase.

...EC Commissioner for Competition and Financial Services Sir Leon Brittan will address a gala luncheon organized by the twelve EC member states' chambers of commerce in New York at the Plaza Hotel on March 26. It is sponsored by Kleinwort Benson North America.

...The New York Times will publish a special supplement on 1992 in its issue of May 7. It is the third in a series. Advertisers can contact Nicholas di Giovanni at (212) 556-1585.

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