

# EURECOM

Monthly bulletin of European Community Economic and Financial News

VOLUME 3, NUMBER 1

January 1991

## INTERGOVERNMENTAL CONFERENCES UNDERWAY

Right after the European Council summit in Rome last month, EC Foreign and Finance Ministers stayed in town to open formally the Intergovernmental Conferences (IGCs) on political union and economic and monetary union (EMU), respectively. The main goal of the IGCs is to turn the Community into a more unified political and economic entity, potentially comprising common security and foreign policies, more democratic legitimacy in EC institutions, a common monetary policy and a single currency. However, the EC's "rendezvous with history" (as EC Commission President Jacques Delors described the IGCs) begins in earnest this month and will continue well into the current year.

Charged with the groundwork for the IGCs are the member states' ambassadors to the EC—the so-called personal representatives—and their deputies. Provisionally, they will meet weekly on political union and fortnightly on EMU (on which work is more advanced). The foreign and finance ministers will approve agreements as individual proposals achieve consensus. The foreign ministers will be allowed to sit in on EMU talks among finance ministers, but the finance ministers will be restricted to EMU meetings.

The only other IGC ever held occurred in 1985, and led to the Single European Act and the December 31, 1992 deadline for the single market. Luxembourg, the current holder of the rotating EC presidency, hopes to repeat the success it had managing the 1985 talks.

## TAX FRONTIERS COME TUMBLING DOWN

In a banner year-end Eco/Fin Council meeting, EC Finance Ministers formally agreed on a new system of collecting VAT (value added tax) which will scrap border checks for VAT as of January 1, 1993.

Under the agreement, VAT will still be charged on goods at the point of consumption for a transitional period of four years (i.e. the destination principle) once frontiers are abolished, rather than at the goods' origin (which the Commission eventually wants). The new system will replace the current practice of routine border checks and the accompanying Single Administrative Document with periodic VAT declaration forms and invoices supplied by companies, and a new regime of closer cooperation on VAT between member states' tax authorities (see EURECOM, June 1990).

Technical details of the new system must still be worked out, and the recent agreement does not cover VAT rates; VAT rate harmonization will be reexamined by the Council later this year. In addition to the progress on VAT, the ministers reached a parallel political agreement on excise tax frontiers. It calls for a system of linked bonded warehouses to replace customs checks at borders as a means of controlling goods subject to excise duties such as alcohol, tobacco and gas (see EURECOM, October 1990). Taken together, the excise and VAT packages will

ensure that border controls will be eliminated by January 1, 1993 while preventing a drop in member state revenues due to tax fraud.

## TOTAL ROAD TRANSPORT LIBERALIZATION BY 1993

EC Transport Ministers recently endorsed a completely free market in the EC's long-protected road haulage sector: as of January 1, 1993, EC truckers will be able to conduct "cabotage"—the transport of goods within a member state by a carrier from another—without restriction.

At present, there is a EC quota system for cabotage permits which allows a carrier to operate throughout the EC. The limited number of permits is divided among the member states according to the size of their respective road haulage sectors. As a transition to a completely liberalized market, the ministers agreed to increase the number of available permits by 40% both in 1991 and 1992.

However, the ministers included a safeguard clause, giving the Commission the right to take action (i.e. restrict the number of carriers) if too many trucks enter the market and force prices down to "crisis" levels. The Commission will determine when a "crisis" exists by using specific criteria (e.g. statistical data supplied regularly by the member states). The safeguard provision can



apply both in the case of an EC-wide problem and a regional "crisis".

The Transport Ministers also fixed the maximum length of tractor-trailer combinations—so-called road trains—at 18.35 meters.

### **EC TO OUTLAW MONEY LAUNDERING**

EC Finance Ministers have cleared the first hurdle toward making money laundering a criminal offence throughout the Community.

The directive, which still must be reviewed by the European Parliament and receive formal Council approval, would oblige banks and other financial institutions to verify the identity of any customer conducting transactions involving more than 15,000 ecu (ecu1=\$1.32). Bank workers would be obligated to report all suspicious deals to the authorities. Each member state will declare its intention to place money laundering under their penal codes, resolving the problem of those member states which do not accept Community competence in criminal law. Financial Services Commissioner Sir Leon Brittan remarked that the legislation would prevent individuals from "salting away ill-gotten gains" and would toughen member states' regulatory structures. (At present, only four member states treat money laundering as a clear criminal offence.) "The honesty and integrity of European financial markets are not negotiable...This directive shows that the internal market in financial services will be liberal, but not open to abuse," said Sir Leon.

Although this directive only applies to money laundering associated with drug trafficking, member states will be free to include terrorism and organized crime in their laws. According to Sir Leon, the new rules go beyond recent G7 (Group of Seven industrialized countries) recommendations on money laundering. Moreover, the Commission has agreed to form links with Eastern European countries to help them combat money laundering in their fledgling banking systems.

### **EC AIMS TO COMPENSATE "BUMPED" PASSENGERS**

Passengers with confirmed reservations who are denied seating on an overbooked flight will soon be automatically entitled to \$140 for a short flight and \$280 for a flight of more than 350 km under a Common Position recently reached by EC Transport Ministers. The proposal must have a Second Reading at the European Parliament before it is given final approval by the ministers.

The payment, halved when the passenger can catch a substitute flight within two hours, will be in addition to any hotel, meal and telephone expense the stranded passenger incurs.

The Commission's primary concern has been to protect those passengers using cheap, often inflexible tickets who, as a result of being stranded, may miss a connecting flight and thus lose the chance to reach their final destination. Airlines admit they often overbook flights by up to 10%.

European airlines already provide compensation following guidelines set by the Association of European Airlines, but the new EC rules mean that non-EC airlines will not be able to leave stranded passengers at EC airports uncompensated. The regulation will not prevent carriers from paying their passengers more compensation if they like, as some already do.

### **PROGRESS REGISTERED ON SOFTWARE COPYRIGHT**

After some of the most intense lobbying and controversy over an EC directive in recent memory, EC Internal Market Ministers unanimously reached a Common Position on the Directive on Legal Protection of Computer Programs, which will protect computer software manufacturers from commercial piracy in the EC. At present, copyright laws vary widely across the EC—in fact, seven member states offer no legal protection of computer software—and the directive aims to provide a uniform level of protection throughout the Community. Industry estimates put

revenue losses from software piracy in the EC at several billion dollars annually.

The issue of "reverse engineering"—the widespread practice of analyzing another company's software program without permission in order to develop compatible software or to produce compatible equipment—generated the most controversy and sharply divided the computer industry. Initially, the directive called for a ban on reverse engineering, but complaints from smaller firms, fearing that restriction of reverse engineering would limit their ability to make products compatible with industry leaders, kept reverse engineering legal in the current text, albeit with significant restrictions. Still, the legislation must be reviewed by the European Parliament before final adoption by the Council.

The new rules would place software on the same basis as literary works that are protected under the Berne Convention on copyrights. Copyright holders would have the exclusive right to authorize the adaptation, reproduction or renting of their "property". Users would, however, be allowed to create back-up copies, correct errors or study the program's general principles without authorization. Reverse engineering would still be permitted, but only on the parts of the program needed to make different software programs work together, and only if the necessary information has not been furnished by the supplier. It could not be used to develop programs substantially similar to the original.

EC member states would establish "appropriate remedies" for punishing pirates and procedures for confiscating illegal copies.

### **"GREEN" LABEL FOR CONSUMER GOODS**

EC Environment Commissioner Carlo Ripa di Meana recently presented a Commission proposal to create an EC "green" label to grade consumer products for their effect on the environment. Based on the "Blue Angel" system currently in operation in Germany, the Commission's plan represents a new



market-oriented approach to environmental policy which could foster sweeping changes in EC consumer behavior. According to Commissioner Ripa di Meana, the initiative aims to influence market behavior by clearly identifying "through a sort of competition" those goods that do the least harm to the environment.

Under the proposal, an independent body composed of industry and government representatives and environmental and consumer groups would award the label (a yellow daisy on a green background) to a limited number of goods in every product category that are the least detrimental to the environment. Using a "cradle to grave" approach, the panel would use criteria established by the Commission to grade the products on, for example, the amount of energy and pollution involved in their manufacture, use and disposal. Responsibility for setting these criteria would eventually be passed to the European Environmental Agency once it is in operation.

All products would be eligible for the labelling plan except beverages, foodstuffs, pharmaceutical products and dangerous substances, which are already subject to separate and existing regulations. Those member states which already have similar plans in operation will back the new EC label if they are allowed to apply their own system when their standards are higher than the Community's.

### **EC ACTION AGAINST GLOBAL WARMING**

On more than one front, the EC has taken concrete steps to eliminate "green house gases", namely chlorofluorocarbons (CFCs) and car emissions. These gases are increasingly large contributors to global warming, something scientists believe will continue to increase with potentially calamitous results.

Regarding CFCs (industrial gases used in aerosols and as refrigerator coolants), which are held responsible for depleting the earth's protective ozone layer, EC Environmental Ministers recently committed to an 85% cut in CFCs from 1986 levels by mid-1995, and a complete ban by mid-1997. This is significantly ahead of

### **QUOTES**

*"EC competition policy is not a new-fangled empire-building Euro-initiative. It's been there in the Treaty [of Rome] since 1957. Suddenly the interested parties and governments call it unjustified interference, anti-communautaire, caving in to the Japanese, all kinds of things. But Europe will have to resist these pressures if it wants a real single market."* EC Commissioner **Sir Leon Brittan**.

*"We must seize the chance provided by a necessary reform (of agriculture) to strengthen the Community's credibility on the international front."* EC Commission President **Jacques Delors**.

*"My contacts indicate that in all quarters there is a firm desire to press ahead with the Uruguay Round (of the GATT). This desire is not just a formality but has led to a reexamination of positions."* GATT Director-General **Arthur Dunkel**.

*"The European Economic Area (EEA)*

*is not a waiting room for the EC, and there is a unanimous will of the (EFTA) member nations to see the project through as soon as possible."* Swiss Economy Minister **Jean-Pascal Delamuraz**, current EFTA chairman, commenting on the EC-EFTA negotiations on an EEA.

*"Evolution towards economic and monetary union cannot be achieved by decree but by Europeans' free choice. It seems to me that the points of view will end up coming together and that we will end up with an agreement."* British Foreign Secretary **Douglas Hurd**.

*"It's not a realistic alternative in my view. We have to recognize that we have gone much further [into monetary union] than most people are aware of. Nobody wants to devalue."* Bundesbank President **Karl Otto Pohl** commenting on the possibility of an EMS realignment.

the timetable established by an international conference on global warming in London this past summer, which called for an 85% reduction from 1986 levels by the beginning of 1997 and a total prohibition by the end of the decade. The agreement allows EC governments to seek a longer phase-out for certain essential products (e.g. medical aerosols). Further, a complete ban on carbon tetrachloride, a substance slightly more destructive to the ozone than CFCs, was agreed for the beginning of 1998. EC Environmental Commissioner Carlo Ripa di Meana challenged the US and Japan to take similar action.

In addition to the CFC ban, the ministers reached a Common Position on tougher standards for auto emissions from mid-1992 and again at the beginning of 1996. The directive would cut carbon monoxide emissions by 57% from current levels, diesel soot by 50% and other noxious fumes by a 25%. Further, Commissioner Ripa di Meana said that the Commission would soon propose fuel efficiency standards for cars and an EC-wide speed limit of 120kph (75 miles an hour) to reduce carbon dioxide pollution.

### **IN BRIEF...**

...A pan-European cordless-telephone network is now in sight after a recent decision taken by EC Telecommunications Ministers on the appropriate technology. The ministers agreed that the EC countries should adhere to standards set by the European Institute of Telecommunications (EIT), which are expected to be completed by the end of this year. The system being developed by the EIT is called "Digital European Cordless Telephones", and the EC plans to extend the network to the EFTA (European Free Trade Association) states of Austria, Sweden, Norway, Switzerland, Finland and Iceland.

...A recent Eurostat paper reported large differences in the earnings of industrial workers in the EC. For example, a Danish worker earned an average hourly wage of 11.1 ecu in April 1989, while a Portuguese worker averaged 1.6 ecu—seven times less. Although the Portuguese worker earned just three times less in terms of purchasing power parity, this still represents a substantial difference in living standards. The average hourly wage for industrial workers



in the EC as a whole was 7 ecu, which was exceeded by Denmark, the UK, Germany, Luxembourg and the Netherlands.

...According to a recent Eurobarometer poll, almost seven out of 10 EC citizens support a common EC defense and security policy. Apparently, the Gulf crisis has convinced many Europeans that there is a need for closer coordination of these policies. Further, the poll indicates that Europeans favor closer cooperation between member states on the critical areas covered in the IGCs, including a stronger European Parliament (64% for, 14% against), a European Central Bank (56% for, 18% against), an EC foreign policy (51% for, 26% against) and a single currency in five to six years (55% for, 23% against).

...The Commission has completed its first examination of a conglomerate merger under the Merger Regulation—the acquisition of MCA Inc. by Matsushita Electrical Industrial Co. Ltd. The appraisal centered on the "conglomerate aspect" of the merger: namely, the linkage between Matsushita's hardware products (video and audio equipment) and MCA's software (motion picture films and recorded music). It was feared that this linkage could lead to a dominant position for Matsushita, especially as new or advanced electronic products are introduced. However, based on current information, the Commission has

found that the privileged access to software that Matsushita would have after the takeover would not lead to a competition-impeding dominant position.

...Former UK Prime Minister Margaret Thatcher has accepted the presidency of the Bruges Group, a group of politicians and academics dedicated to defending British sovereignty against creeping "Euro-socialism". The group describes itself as "pro-Europe, anti-Federalist". We

have not heard the last from Mrs. Thatcher.

...A new weekly publication covering the EC, NATO and the US-Canada Free Trade Agreement—FaxNews—is now available from Weil Publishing Company. As the name suggests, it is sent via fax. Any EC document cited in FaxNews is available by overnight courier or by fax directly from Brussels through FaxNews Document Service. For further information please call (207) 622-4406.

**EURECOM** Monthly bulletin of European Community Economic and Financial News

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