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BRITTAN APPLAUDS US BANKING PROPOSALS

EC Financial Services Commissioner Sir Leon Brittan welcomed recent US Treasury proposals to reform the US banking industry as a positive move in the same spirit as the EC's plan for a single market in banking after 1992.

"I am delighted to see these new plans, which have been partly brought about by our new EC banking legislation. By the beginning of 1993 we will have created the largest and most open banking market in the world. We have chosen to do this without using threats against countries whose markets are more restrictive; the news from America shows that persuasion and example work. The new proposals go in the same direction as our own single market legislation," said Sir Leon.

Sir Leon was pleased that the US proposals would scrap barriers to interstate banking within three years and would permit commercial banks operating in the US to expand into investment services such as insurance, mutual funds and securities like some European "universal" banks. Still, these proposals must still clear Congress.

According to Sir Leon, "The opening up of markets is a double blessing: it benefits domestic business and those who gain access from outside. The American plans will certainly strengthen the US system, but will provide opportunities for European institutions as well."

PROGRESS ON EC-EFTA EUROPEAN ECONOMIC AREA

After months of difficult negotiations, the EC and EFTA (European Free Trade Association) have signalled their intention to conclude a treaty by the end of June, which would create a common market of 380 million people — the so-called European Economic Area (EEA).

In essence, an EEA would extend much of the EC's legislation to the EFTA countries (Switzerland, Sweden, Norway, Iceland, Finland, Austria and associate Liechtenstein), especially single market legislation. EC External Affairs Commissioner Frans Andriessen and Austrian Economic Affairs Wolfgang Schüssel, current holder of the rotating EFTA presidency, recently reported progress both on defining the EC laws which should form the basis of the agreement and on safeguards and exceptions from certain EC rules that the EFTA countries consider inapplicable. Thus far, these two areas have presented serious obstacles in the negotiations.

Despite this breakthrough, however, tough decisions must still be taken on the creation of a dispute settlement body on EEA issues, on whether EFTA should establish a supranational executive like the EC's Commission and on EEA decision making (i.e. how much input will EFTA have in formulating the EC legislation that directly affects EFTA), which is the linchpin of the negotiations.

According to Andriessen, the ambitions of some EFTA members to use the EEA as a transitional phase on the way to full EC membership should make them more willing to compromise as far as the institutional process is concerned. Austria has already applied to join the EC, Sweden has decided to apply this year and Norway is seriously considering an application.

RUDING COMMITTEE EXPLORES COMPANY TAXATION AFTER '92

A high level committee has been set up by the Commission to study whether the achievement of the single market will make a certain degree of corporate tax harmonization necessary. Chaired by former Dutch Finance Minister Onno Ruding and composed of well-known company tax experts from business and academia, the group's goal is to produce a report within one year that answers the following questions: Do the differences between the member states' company tax regimes distort competition, hindering the proper functioning of the single market? Are EC measures (e.g harmonization) necessary? And if so, in what areas and in what order of priority?

EC Tax Commissioner Christiane Scrivener suggested that the committee should look at the main differences (and there are many) in the member states' tax laws that might influence investment decisions and where firms' declare their profits. Once these disparities among the national tax regimes are known in light of their effect on corporate decision-making, the committee will try to determine whether market forces can be trusted to remedy the situation or whether Community measures are needed.

If any EC action proves necessary, its coverage and instruments must comply with the principle of **subsidiarity** (i.e. anything that can be better done at a local, state or regional level should not be done at a Community level).

COMMISSION CLEARS CONTESTED ATT-NCR MERGER

The EC Commission has ruled that the US firm AT&T's takeover bid for another US company, NCR Corporation, neither creates nor strengthens a dominant position in EC markets. Hence, the Commission will not oppose the operation (if AT&T's contested bid proves successful) because it is compatible with the EC's new merger regulation which has been in force since September 1990.

In reviewing the case, the Commission analyzed the "vertical and conglomerate aspects of the merger. Concerning the "vertical" element, although NCR is not one of the largest overall manufacturers of computer hardware, it has a strong position in the ATM (automatic teller machines), electronic cash register and electronic point of sale markets, while AT&T exhibits a wide range of activities in markets which are linked to the workstations business. In particular, AT&T has control of the UNIX operating system software's source. The "conglomerate aspect" covered the possible technical synergy of AT&T's telecommunication and computer networking with NCR's workstation business.

In both cases, the current availability of the UNIX operating system to competitors ensures that the AT&T - NCR combination will not become a anti-competitive force. Still, the Commission will continue to monitor the potential new entity so that a dominant position in certain markets does not emerge.

EC TRANSPORT POLICY OVERHAUL URGED

Last February the Commission selected a group of independent transport policy experts to examine the medium and long term transport and communication problems within the EC and with respect to the internal and external dimensions of the single market. Dubbed "Transport 2000", the group recently reported the results of its ambitious study, calling for radical action to prevent an imminent European transport crisis.

Pulling no punches, the group accuses the member states of a lack of coherent transport policy which has led to an overcrowding of infrastructure — especially road and air. This has increased pollution, made transport less safe and traffic too congested. Further, the study concludes that the cost of EC transport is too low, and it calls for a new system in which the user pays the full cost of the service through fees and variable taxes (rather than by fixed road taxes as at present).

The report suggests a number of far-reaching improvements in EC transport networks. First, transport should be made more competitive by curtailing member state subsidies for weaker transport forms, by deregulating all transport sectors and by harmonizing applicable taxes. Second, major construction projects should be designed to fill international gaps in infrastructure, not at relieving congestion peaks. Third, there should be fair competition between different forms of transport.

Finally, it recommends the establishment of a European infrastructure fund to finance urgent construction and maintenance work through a special levy on transport users based on their energy consumption.

Although the report does not necessarily reflect the Commission's viewpoints, EC Transport Commissioner Karel Van Miert generally welcomed the group's findings.

EC "GREEN" AUDITS IN THE CARDS

The Commission is preparing a directive that would compel the lion's share of industrial plants in the EC to prepare annual "green" audits of their environmental performance. The Commission has circulated the draft proposal among industry associations and EC government experts for comment.

Under the draft, the Commission has listed 58 individual industries which it wants to conduct these yearly audits, including, for example, chemical, pharmaceutical, plastic, cement, glass, detergent, paper and board, artificial fiber, food product and motor vehicle manufacturers. The Commission wants every site in over half of these industries to conduct an audit. For other industries, the thresholds would be generally low and based on the number of employees in the operation.

Audits would have to be "verified by independent, registered environmental auditors", and each member state would have to set up a professional body of "green" auditors for external verification purposes. Some of the items covered in an audit would be "pollution discharge control, monitoring and reduction," "energy choice and reduction of energy use," "waste transportation, elimination and recycling," and "product planning." A summary of the audit's results would have to be made available to the public.

Although some large EC companies with environmentally sensitive operations already conduct these types of audits, the Commission's far-reaching proposals have already met resistance from some industry associations on the cost issue.

SCRIVENER PROPOSES FUEL TAX TARGETS

In order to protect the environment and to bring widely differing EC fuel excise taxes closer together for the single market, the Commission has proposed target rates and bands for excise duties on gasoline and diesel fuel. EC Tax Commissioner Christiane Scrivener remarked that the rates would "give a clear signal to cut carbon dioxide emissions and protect the environment."

Under the directive, excise rates on diesel fuel would have to be within a band of 245 to 270 ecu(ecu1=$1.40) per 1,000 liters by January 1, 1993 — an increase of 32% to 43% from the band first suggested in 1989. This obligatory band would mean higher excise revenues in seven EC countries while three would remain unchanged and only two — Italy and Ireland — would lose revenue.

For gasoline, the Commission has proposed excise tax "targets" of 495 ecu per 1,000 liters for leaded gasoline and 445 ecu per 1,000 liters for unleaded gas. (The lower tax on unleaded gas would encourage its use.) Unlike the diesel band, the gasoline "targets" would not be binding, but if member states change rates between now and 1993, they would have to move toward the suggested rate. As yet, no date has been set for the gasoline target rates.

The effect of these proposals on the member states would be significant: excise duties comprise a third of all indirect tax receipts in the EC, and fuel charges have the largest share of the excise category. As with all Community tax legislation, however, these proposals require unanimous consent in the Council. Although the directive has a good chance of passing at this point, everybody knows how difficult tax directives are for the member states.

QUOTES

*"Political union and a common foreign and security policy in Europe would have to go beyond statements and extend to action. Clearly, Europe is not ready for that and we should not be too ambitious when it comes to the intergovernmental conference on political union." British Prime Minister **John Major.***

*"If Europe is to measure up to its new responsibilities — and it has no choice, it must — then it will have to pull itself together rapidly and free itself of outmoded notions of sovereignty." NATO General Secretary **Manfred Wörner.***

*"We hope the Community which emerges from the process of institutional reform will be equipped with more potent instruments to face Europe's responsibilities on the international scene." Italian Prime Minister **Giulio Andreotti.***

*"We are aware of our importance as an anchor of [monetary] stability." German Finance Minister **Theo Waigel.***

*"There can be no question of allowing external shocks or uncertainties to jeopardize prospects for reform in Central and Eastern Europe...Countries which have been courageous enough to introduce currency convertibility, privatization and other bold reforms in a highly uncertain international climate deserve the full support of the Community and of all the industrialized countries." EC Commissioner **Frans Andriessen.***

COMMISSION ADOPTS EUROPEAN ENERGY CHARTER

Despite cooling relations with the Soviet Union, the Commission has adopted a draft European Energy Charter under which Western Europe would be able to tap the Soviet Union's huge energy resources in return for investment in technology, technical expertise and infrastructure. This follows Dutch Premier Ruud Lubbers' suggestion, voiced at the EC's Dublin summit last June, to create a giant European free trade zone for energy that would include the Soviet Union.

In the Commission's view, the draft charter would commit signatories to a free market in energy, and should cover access to and exploitation of energy resources, investment rules, research and development, safety norms and environmental standards. The charter requires approval from the EC governments before an international conference can be called in the second half of this year.

A single European market in energy would decrease Europe's dependence on Middle East oil and would allow the Soviet union to develop its vast but inefficient energy sector (40% of the world's natural gas reserves and 7% of currently accessible oil supplies) more proficiently through Western European investment that would be freed from restrictions and guaranteed repatriation of profits.

EC Energy Commissioner Antonio Cardoso E Cunha said the charter's success depends on political conditions, particularly relations between the EC and the Soviet Union, but that "nothing so far gives us the impression that the (Soviet) authorities are any less interested than they were some months ago."

Cardoso also stressed that the term "European" should not be viewed as excluding Mediterranean countries with major energy links to the EC or the US, which would certainly be involved through US ownership of many EC energy firms.

...IN BRIEF

...The EC sees no direct threat from the proposed North American free trade zone between the US, Mexico and Canada, which would create the world's largest economic bloc with a population of 360 million. "As long as such regionalism does not go against the GATT process, there should be no problem," said an EC spokesman. The Commission does not see the US regional initiative as the beginning of the world breaking up into competing trade blocs in frustration at the lack of progress in GATT.

...The European Court of Justice recently ruled that an EC country cannot expel citizens from another member state because they do not belong to a social security plan. It decided that Belgium could not deny a residence permit to a French citizen who was working as a waitress without enrolling in Belgium's social security system. "Member states are not authorized...to refuse a residence permit to Community nationals because they are not conducting their activities in conformity with social legislation." The EC's founding Treaty of Rome and other legislation guarantee citizens the right to work freely throughout the Community, said the Court.

...Eurostat, the EC's statistical arm, estimates that the average EC unemployment rate dropped to 8.3% in 1990 from 8.9% in 1989. This continues the downward trend in average EC unemployment that began in 1985 when the figure was 10.8%. EC Economics Affairs Henning Christophersen expressed satisfaction with the 1990 decrease, but voiced concern over the monthly rise in December to 8.4%. Forecast GDP growth of 2.2% in 1991 would not be enough to reduce unemployment further, he said. On the inflation front, EC consumer prices rose 5.7% during 1990 compared with a 5.3% rise in 1989, but the recent fall in oil prices (if it proves sustainable) augers well for price stability this year.

...Three former communist countries — Czechoslovakia, Hungary and Poland — have started talks with the EC Commission on associate membership to the Community. Association accords would upgrade existing trade and cooperation agreements, and all three nascent democracies view these pacts as the first step toward eventual full EC membership. The EC already has a large role vis-a-vis these countries as it coordinates all the G-24 group of Western industrialized countries' aid and support for Central and Eastern European countries that are trying to convert to market-oriented economies.

...British companies, by far the biggest M&A players in Europe, continued their Continental onslaught in 1990 by increasing their EC cross-border takeovers by 57% to a total value of $6.9 billion. According to KPMG Peat Marwick, this rise bucked the general trend: there was a 40% drop in the overall dollar value of cross-border deals between EC firms last year. British firms overwhelmingly preferred a French diet, as they made 62 acquisitions in France (27% of the UK total) worth $2.6 billion.

...The Institute on Western Europe at Columbia University is holding its eighth annual graduate student conference — entitled "Western Europe at the Crossroads: Difficult Choices Ahead" — on April 4-6. The conference offers an exceptional setting for young scholars to present their work in European Affairs and to learn from their peers. For more information, please contact the Institute on Western Europe at (212) 854-4618.

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