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PRAISE AND CAVEATS FOR US FINANCIAL SERVICES BILL

EC Financial Services Commissioner Sir Leon Brittan recently sent letters to US Treasury Secretary Nicholas Brady, Federal Reserve Board Chairman Alan Greenspan and the House and Senate Banking Committee chairmen about the impact of the US Treasury Department's financial services bill on the EC.

In his missive, Sir Leon restated his strong support for the liberalizing objectives of the US proposal (see EURECOM, February 1991), welcoming the likely positive effects on business opportunities, consumer choice and the US and world economies. Further, he noted that the EC has already chosen a liberal regulatory structure in which banks will be allowed to conduct traditional deposit-taking and lending activities and to carry out securities transactions under one roof. Typified by the Second Banking Directive, Community banking policy aims to open EC markets both to foreign and EC competitors across the entire range of financial services.

However, Sir Leon identified three areas of concern in the financial services bill which could disadvantage foreign banks and distort the competitive environment of US financial markets.

First, the requirement that foreign banks in the US must operate through a subsidiary in order to engage in securities and/or insurance activities would severely limit the ability of EC banks to compete effectively in the US market. In converting existing operations from a branch or agency to a subsidiary, foreign banks would be forced to conduct their US activities on the basis of the US subsidiary's capital rather than the bank's worldwide capital (as at present).

Second, the requirement that foreign banks create a holding company in order to establish securities or insurance subsidiaries would significantly increase the administrative burden (and operating costs) for EC banks.

Last, any attempt to impose higher capital standards on foreign parent banks than the minimum standard set out by the Basel Committee (as a condition for conducting securities or insurance activities) would be inconsistent with such international efforts to facilitate the worldwide activities of banks.

HEADWAY IN EMU DEBATE

EC finance ministers recently cleared several hurdles that had been blocking progress in the intergovernmental conference on economic and monetary union (EMU), improving the odds for the completion of a draft treaty by year's end.

On a suggestion by EC Commission President Jacques Delors, the ministers agreed in principle that the UK — the only EC member state still officially opposed to a single currency — could sign an EMU treaty without committing itself to participate in a European central bank and a single currency. Final UK participation would be determined by a future British parliament at a later date. This would allow EMU to proceed without the threat of an imminent UK veto.

Commenting on the compromise, Belgian Finance Minister Philippe Maystadt said that "...no country should be allowed to stop others advancing to EMU, and no country could have a single currency imposed on it."

It was also agreed that the weaker EC

economies with large budget deficits would receive special attention in the form of budgetary scrutiny from EC finance ministers. These member states would submit their economic plans to the ministers for review; the prospect of criticism from fellow member states would help promote sounder economic policies.

The ministers also discussed for the first time the possibility of a "two-speed EMU", in which EC countries that are not ready for EMU could adopt the EC currency at a later date. This marks a significant change in attitude from last year when German Bundesbank President Karl Otto Poehl was largely denounced for first suggesting the "two-speed" concept.

Still, the issue of timing on the creation of a European central bank remains unresolved. While the Commission and some member states want the bank to start operations on January 1, 1994, others are opposed to setting a date at all, preferring to wait until the bank can be given full control of EC monetary policy.





COMMISSION ENCOURAGES EC BIOTECH INDUSTRY

In a recent policy paper, the Commission has spelled out the importance that biotechnology holds for the EC's economic future and the need to encourage its development. The Commission wants to ensure that public fears and over-regulation do not stifle this important growth industry.

According to the report, while the EC biotechnology sector does not suffer from inherent structural weaknesses in terms of R&D, production facilities, investment or market penetration (at home and abroad), there are three problem areas that require attention to make European biotechnology more competitive: insufficient patent protection; the fragmented and limited nature of the EC's biotechnology data bases; and biotechnology's bad image with some policy makers and the general public.

Concerning intellectual property, the Commission recognizes that firms will not invest in long-term, high-risk projects unless they are guaranteed adequate protection for the results of their research. At present, however, US and Japanese competitors have the advantage of longer patent protection. To illustrate this problem, the Commission notes that in 1987, European firms invested almost 2 billion ecu (ecu1=\$1.18) in biotechnology in the US compared with the 12 million ecu US companies invested in Europe. To bridge this competitive gap, the Commission is giving priority to two proposals — one granting legal protection to biotechnological inventions, and the other introducing an EC system for patenting plant varieties developed through genetic engineering.

In terms of the regulatory framework, the paper stresses that biotech products should generally be assessed on the traditional basis of safety, quality and efficacy rather than on purely socio-economic grounds (the so-called fourth hurdle). Still, it concedes that some exceptional cases could raise socio-economic questions

which would require a different approach (i.e. matters relating to human life and identity, and animal welfare issues).

The Commission will also attempt to simplify the relationship between sectoral and horizontal legislation affecting biotechnology so that they interact more effectively and take account of the rapid scientific and technical developments in the market place.

In 1992 the Commission will review ongoing Community R&D efforts in the biotech field and, if necessary, will increase the EC's contribution. Ten EC countries devoted 800 million ecu to biotech research in 1987 (excluding funds from the EC budget), compared with 2.5 billion in the US. Since 1981, the Commission has spent some 190 million ecu on various R&D projects in biotechnology.

CONVENTION ON CONTRACTS COMES INTO FORCE

As of last month, the European Convention on Contracts — otherwise known as the Rome Convention of 1980 — now governs contract disputes arising from the sale of goods and services between nine EC member state signatories.

The Convention stipulates that the law of the country where the consumer resides takes precedence over the law where the seller or supplier of services is based in the event of a contract dispute (provided that both parties reside in signatory countries). Signatory countries to date include Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands and the UK; Greece, Portugal and Spain, the EC's newest members, have been invited to sign the Convention by EC Consumer Affairs Commissioner Karel Van Miert.

Before the Convention took effect, the law of the seller's country generally applied in contract disputes, often to the detriment of the consumer. Under the Convention, the seller's law can still be used, but only if it is

explicitly stated in a written contract agreed to by both parties.

SPAIN AND GREECE EASE CAPITAL CONTROLS

Although Spain and Greece have until the end of 1992 to liberalize capital flows completely (as eight member states have already done), both have recently taken concrete steps toward this goal, a necessary condition for stage one of economic and monetary union.

Spain's decision to remove more controls will allow banks to lend in pesetas to non-residents and Spanish citizens to hold foreign currency accounts in banks registered in Spain.

In Greece, residents are now no longer subject to limitations on tourist expenditure outside of Greece, and for the first time ever they are free to invest abroad in real estate and securities markets.

EC Economic Affairs Commissioner Henning Christophersen welcomed developments in both countries, and cited Spain's actions as showing clearly "that Spain has been able to consolidate the situation of the peseta in the European Monetary System and build confidence in the Spanish economy."

RECONCILING "ECOLOGY" AND THE SINGLE MARKET

As the single market approaches, certain member states are setting their own, stricter environmental standards and offering tax incentives to encourage faster compliance with these new rules. According to EC Environment Commissioner Carlo Ripa di Meana, the rapid, chaotic growth of these unilateral measures could effect a "multi-speed" Community, threatening the integrity of the single market and EC competition policy.

In response, the Commission has adopted a new policy framework to promote high standards of environmental protection while maintaining



the unity (and balance) of the single market. Modelled after recent vehicle emissions legislation (see EURECOM, April 1991), the new strategy calls for a two-tier approach: in the first stage, a high, compulsory standard based on available technology will be set by the Commission and applied by all member states as soon as possible; in the second stage (agreed at the same time as stage one), a more stringent target standard (i.e. the highest level of protection feasible in terms of current scientific and technological findings) may be set for a later date. The Council sets the stage two target, which could be a single value or a range of values. Derogations from stage two values will be possible for member states, but only on a case-by-case basis.

Tax incentives will be authorized, subject to EC competition rules, to encourage early compliance with stage one values and — only after these have been achieved EC-wide — to achieve the tougher stage two norms. However, the Commission will not accept tax incentives designed to promote the application of non-EC standards.

EUROPEAN UNION: A CALL FOR US SUPPORT

In a recent speech at the Institute of International Economics in Washington, EC Economic Affairs Henning Christophersen made it clear that in these times of uncertainty in the Soviet Union and profound reform in Central and Eastern Europe, a stronger and larger EC would be in the best interest of the US.

According to the Commissioner, the 1990s will be marked by two major EC developments: greater cooperation on all levels in the Community resulting from the intergovernmental conferences on EMU and political union; and the expansion of EC membership. By the end of the decade, Europe will be a political and economic entity with a crucial role as a major engine of the world economy and as a

*"We (the EC) will be forced after 1992 to strike a new balance between our economic might and our political status. The Gulf war provided an important lesson...on the Community's limitations. Economic renewal is not enough. The Community must assume its share of political and military responsibility if it is to meet the challenges of the 1990s." EC Commission President **Jacques Delors** in a recent speech to the Council on Foreign Relations in New York.*

"This is an unprecedented moment in history and clearly requires equally unprecedented deeds...There is a chance that by the end of this century, Europe can become a firm community of

QUOTES

*democratic states and free citizens for the first time in its dramatic history." Czechoslovak President **Vaclav Havel** on receiving the Charlemagne Prize for promoting European unity in Aachen, Germany.*

*"The economic integration of Western Europe is the most important event of our times, more important even than events in Eastern Europe." US Senate Majority Leader **George Mitchell**.*

*"We should not pull the wool over our own eyes...Western Europe is not going to foot the bill for 40 years of Communism. Just like it didn't pay for 40 years of (Franco) Franquismo." Spanish Prime Minister **Felipe Gonzalez**.*

stabilizing factor in world affairs.

Said Christophersen: "It is vital that the US fully understands that it is in America's best interest that this evolution proceed with as little friction as possible and that the US therefore would fully lend this process its full moral and political force.

We (the EC and the US) share the responsibility for establishing a new political and economic world order. Together with the newly industrialized countries in the Far East, we can form the backbone of the structure needed to enable the Soviet Union and Latin America to integrate in the world economy."

He also launched an appeal for trade liberalization, stating that the Soviet Union and Latin America cannot be integrated into the world economy unless the international trading system is maintained and broadened. Further, the democracies in Eastern Europe cannot attract the necessary investment unless the EC and the US allow them better access to their markets. In this light, the current GATT negotiations deserve to end in success.

MR. BANGEMANN GOES TO WASHINGTON

EC Internal Market Commissioner Martin Bangemann will be in Washington in mid-June for consultations with US congressional and administration leaders, including Secretary of Commerce Mosbacher and US Trade Representative Carla Hills. In addition, he will address the US Chamber of Commerce and the Institute of International Economics in the course of his visit.

During his stay, Commissioner Bangemann will also co-chair a conference on standards and testing and certification issues with Secretary Mosbacher. The aim is to cover recent developments in the EC and the US, and to reinforce the use of and commitment to international standard making procedures. This will continue the high level dialogue on standards and testing and certification that Bangemann and Mosbacher initiated in May 1989.

...IN BRIEF

...According to the latest Euro-

barometer poll, a majority of EC citizens believe that there will be a single currency, an enlarged EC, free movement of people and a common military force by the end of the century.

Out of the some 13,000 people polled, 60% supported a single currency to replace the EC countries' currencies in 5 or 6 years, and 64% believed this will be a reality by the year 2000. Further, 62% favored EC responsibility for a common security and defense policy, and 58% believed the EC will have a military intervention force by 2000. Regarding EC enlargement, 55% thought it was realistic to have Eastern European countries in the EC by the end of the decade. When asked if EFTA countries would be members by 2000, this figure climbed to 63%. In terms of general enthusiasm for the EC, only in the 5 new German Länder was there a decline in support from the previous survey (79% believe the EC is a "good thing" compared with 87% from the last poll).

...A study from the German Bundesbank reported that EC companies have supplanted US firms as the leading investors in the German economy for the first time. Similarly, German firms are now investing more in the Community than in the US.

The report suggests that the single

market program and the higher rates of economic growth experienced in the late 1980s spurred greater German investment in the EC, while after years of German expansion in the US, many firms are now consolidating their assets.

...The EC and Mexico recently signed a cooperation accord, covering areas such as trade, commerce, industry and the environment. Based on existing EC accords with Chile and Argentina, the pact's main goal is increased EC-Mexico trade, which

is about \$10 billion (or 15% of Mexico's total foreign trade) a year at present. Next month the EC will start similar negotiations with Uruguay and Paraguay.

...In what has become a yearly rite, the EC has released its 1991 report on US trade barriers, which cites some 70 practices that hinder EC companies doing business in the US. For a free copy, please write to the:

EC Office of Press and Public Affairs
2100 M Street NW, 7th floor
Washington, DC 20037

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EURECOM is published by Barbara Noël, Director of Press and Public Affairs, the Commission of the European Communities, 3 Dag Hammarskjöld Plaza, 305 East 47th St., New York, NY 10017. It is edited by Christopher Matthews. The contents of EURECOM do not necessarily reflect the views of the European Communities' institutions or of the member states. Any article may be reproduced without express permission. However, acknowledgement of the source and a copy of any material published would be appreciated.



Commission of the European Communities
3 Dag Hammarskjöld Plaza, 305 East 47th St., New York, NY 10017
Telephone (212) 371-3804