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EC REVISES ECONOMIC FORECAST

EC Economic Affairs Commissioner Henning Christophersen recently presented the Community's downwardly revised annual economic report for 1990-91, which forecasts 1.25% GDP growth in the EC for 1991, around half 1990's growth rate. On the positive side, projections for 1992 foresee a rebound to a more robust 2.5% EC growth rate.

According to Christophersen, the deterioration in the Community's economic performance since last autumn is only partially explained by the Gulf crisis. While higher oil costs and reduced business and consumer confidence stemming from the Gulf crisis unquestionably played a part in the downward revision, the deeper-than-expected recession in the UK and slower growth in France have also had a telling effect on the figures.

Because of lower GDP growth, employment growth will likely slow to less than 0.5% in 1991. Coupled with an expected increase in the labor force, EC unemployment is projected to rise to 8.75% (1990: 8.2%), the first annual increase in the unemployment rate since 1986. Despite the slowdown, the report forecasts EC inflation to remain stubbornly high at 5%, suggesting the existence of underlying cost-push pressures in the Community. Between 1988 and 1990, inflation rates diverged within the EC, which is an unwelcome development from an economic and monetary union (EMU) standpoint.

Christophersen highlighted two major areas of policy concern: high wage settlements and rising budget deficits in some of the member states. These problem areas could undermine the medium-term economic outlook and slow economic convergence within the EC, an essential element of EMU. Mr. Christophersen singled out member states Italy and Greece for their excessive budget deficits, and called for restrictive fiscal policies in both cases. High levels of public debt also exist in Belgium, Ireland, the Netherlands and Portugal. Further, unification has led to a significant degeneration in Germany's fiscal position. While increased government expenditures are certainly defensible in light of economic and social problems of the five new Länder, the size and speed of this budgetary swing is not without inflationary risks.

"There is no room for a relaxation of monetary policy (within the EC) unless inflationary pressures subside," said Christophersen. For him, it is crucial now in stage one of EMU to strengthen EC economic policy coordination through multilateral surveillance. This will help promote economic convergence and prepare the Community for the next two stages of EMU.

Despite the current slowdown in the world economy, however, the Commissioner sees improved prospects for the resumption of stronger growth. The Gulf crisis now seems to have had a smaller and probably more transitory economic effect than initially feared, and there are incipient signs that the relatively deep recessions in some industrial countries (e.g. the US and UK) are bottoming out.

SOFTWARE COPYRIGHT DIRECTIVE ADOPTED

As of January 1, 1993, computer software will receive the same basic copyright protection in the EC as literary, musical and artistic works under the Berne Convention (albeit with some computer software-specific allowances which had been the object of fierce industry lobbying).

Adopted unanimously by the Twelve, the final text corresponds to the Council's Common Position on the directive (see EURECOM, January 1991). According to the Commission, the directive represents a "delicate balance of all the interests involved: producers of programs, their competitors...and the users."

Copyright holders will have the exclusive right to authorize the adaptation, reproduction, or renting of their "property", but users will be able to create back-up copies, correct program errors or study the program's general principles without permission. Reverse engineering – the most controversial item in the directive – will be allowed, but only "to the extent necessary to ensure the interoperability of independently created programs." This serves as a compromise between those who wanted the practice banned altogether because it could lead to piracy and those who believed it should be permitted so that smaller European firms could compete with larger computer companies.

Under the new regulation, companies will have the same level of protection in all member states, a major addition to the EC's intellectual property protection regime; at present, only five member states have specific copyright protection systems for computer programs. In 1989 (the latest available year), computer program piracy cost an estimated $4.5 billion in the seven EC countries lacking adequate protection.

EC MOVES TO CLEAN UP MONEY LAUNDERING

EC finance ministers have adopted a directive preventing the use of the EC's financial system for money laundering. The legislation, which defines money laundering as hiding money earned from drug trafficking or other criminal activities in the banking system, will require banks and other financial institutions (including branches and subsidiaries of non-EC banks) to identify their clients and to keep client records for five years after an account is closed.

For one-off transactions involving 15,000 ecu (ecu1=$1.15) or more, banks will be required to secure the customer's identity. If laundering is suspected, banks will have to inform national authorities which could then (where applicable) lift bank secrecy laws in order to conduct an investigation. Further, financial institutions will have to establish internal procedures against money laundering, including suitable staff training programs.

EC Financial Services Commissioner Sir Leon Brittan welcomed the unanimous adoption of the directive, calling it "a vital part of our strategy to develop and protect Europe's financial system." He remarked that "proceeds from drug dealing and other organized crime can now be more effectively shut out of the Community's internal market...There must be no hiding place for criminal proceeds anywhere in our financial system." Sir Leon added that the EC action complements the efforts of a task force on money laundering established by the G-7 group of major industrialized countries.

In adopting the directive, which takes effect January 1, 1993, the member states stated unanimously that they will take the necessary steps to enact criminal legislation against money laundering by the implementation date. At present, only the UK, France, Luxembourg and (to a limited extent) Italy treat money laundering as a crime.

COMPARATIVE ADVERTISING PROPOSAL UNVEILED

As foreshadowed in the April 1991 issue of EURECOM, the Commission has proposed a directive which would allow companies in the EC to advertise the advantages of their products by direct comparison with rival goods. The aim is to improve consumer information in the single market, to stimulate competition and to harmonize EC regulation of comparative advertising. Existing legislation in the EC is confusing: while four member states expressly permit such advertising, in some other EC countries the mere mention of a competitor's name without permission is illegal.

Far from allowing the freedom of comparison granted US advertisers, however, the directive would permit comparisons only of essential product features, supported by objective and verifiable proof. Further, when using comparative tests conducted by third parties, advertisers would have to carry the liability for the veracity of test results. Advertising that discredits competitors or causes confusion between trademarks would be banned.

EC Consumer Affairs Commissioner Karel Van Miert said that the proposal will provide consumers better information while barring "denigrating" advertising and making firms wholly responsible for the validity of their claims. Van Miert also added that there could be some borderline cases where the courts would have to determine whether a company discredited a rival or made inaccurate claims. To combat these potential grey areas, he called on the advertising industry to formulate a code of conduct on comparative advertising, which would define more precisely the limits of acceptability.

SWEDEN, FINLAND PEG CURRENCIES TO THE ECU

Underlining their desire to intensify economic integration with the EC, both Sweden and Finland have linked the external value of their currencies to the ecu (as Norway did last year). Both Sweden and Finland previously linked the external value of their currencies to a trade-weighted index of international currencies that included the US dollar.

EC Commission President Jacques Delors welcomed both decisions, which he said will "help to extend beyond the borders of the Community the zone of stability created by the European Monetary System (EMS)" and enhance the ecu's role as an international currency.

Sweden's move to peg the krona to the ecu surprised the financial markets and underscored the seriousness of its bid to join the EC. The value of the krona was set at SKr7.4 to one ecu, and it will be allowed to fluctuate above and below that rate by a margin of 1.5%. Swedish Finance Minister Allan Larsson also added that Sweden would like to join the exchange rate mechanism of the European Monetary System (EMS) as soon as possible, but EC Economic Affairs Commissioner Henning Christophersen ruled out a formal krona-EMS link for now, saying it would complicate EC efforts to create a single currency and a European central bank. Still, Christophersen said that the new Swedish policy would lead to closer consultations between Brussels and Stockholm.

Not surprisingly, Finland followed hard on Sweden's heels, announcing that the markka's value would be fixed at 4.89 markka to one ecu with a fluctuation margin of 3% above and below that rate.

TETRA PAK/ALFA-LAVAL MERGER CLEARED

Following a full inquiry into the proposed $2.7 billion bid of the Swiss-based packaging group Tetra Pak for the Swedish food processing equipment firm Alfa-Laval (see EURECOM, April 1991), the Commission has lifted its suspension of the merger and will give it official clearance in July. Said an EC official: "...The Commission sees no point in holding back the merger when for all intents and purposes there is no problem with it: delay would be expensive and cause bad feelings."

The inquiry removed earlier Commission reservations that the deal would give Tetra Pak too much control over the EC dairy industry's vertical ("cow to carton") chain of production. For their part, the two companies assured the Commission that they will continue to build packaging machines compatible with rival models.

This was the first investigation of two non-EC companies to go this far under the new merger regulation. The EC's merger-control task force continues to win kudos with its speedy decisions based on competition policy (as opposed to industrial policy) criteria.

QUOTES

"It is Britain's prime concern to ensure that the 'New Europe' is open and liberal and that it works in growing harmony with the United States and the other members of the Atlantic community." ***Queen Elizabeth*** *during her recent visit to the US.*

"An urgent effort is needed to ensure a common future in key sectors like cars and electronics: let us be bold and inventive...Forty years ago the founding fathers created a European Coal and Steel Community; today it is a true Electronics Community that we need." Newly appointed French Prime Minister ***Edith Cresson*** *speaking in front of the French National Assembly.*

"We would of course prefer to see all 12 member states enter simultaneously into the final phase (of EMU), but we know that this would unnecessarily delay the whole process and possibly undermine the credibility of EMU." Belgian Finance Minister ***Philippe Maystadt****.*

"My suspicion is that when the time approaches [for EMU], the British people and the British Parliament will not wish to be left behind once again on the margins of Europe." ***Sir Geoffrey Howe****.*

"As Europeans write the rules for how outsiders gain access to the Common Market, who does and does not get associate memberships, who has preferential access to prevent migration, and what it takes to be considered a 'European firm', the European Community will effectively be writing the rules of trade for the 21st century." ***Lester Thurow****, Dean of MIT's Sloan School of Management.*

"The adage that trade is better than aid applies, as elsewhere, to the countries which have recently emerged from the distortions of totalitarian economics...I welcome the efforts of former Comecon countries to find practical ways to restore trade flows among themselves." EC Commissioner ***Frans Andriessen****.*

PROPOSED BAN ON TOBACCO ADVERTISING

In a controversial move, the Commission has proposed an almost complete ban on tobacco advertising in the EC. The directive would allow print advertising inside tobacco sales outlets only; all other publicity options — newspapers, billboards, television and goods that sport tobacco company logos — would be banned. Free distribution of tobacco products would also be disallowed. Tobacco companies would still be permitted to sponsor cultural and sporting events (and they could inform the public that they do), but they would be forbidden from using a tobacco trademark or logo at these events since this would be perceived as advertising.

EC Social Affairs Commissioner Vasso Papandreou said that the motivation for the legislation was health-related. "Some 444,000 people in the European Community die of cancer caused by tobacco each year," she noted.

In addition to health reasons, the proposal would also harmonize EC policy on tobacco advertising. For example, Portugal and Italy already have strict regulations on tobacco advertising, and France is moving in that direction. Still, nine member states have few or no restrictions on such advertising.

Although the European Parliament passed a resolution last year calling for a total ban on tobacco advertising, the Commission proposal must still be passed by the Council of Ministers, where it faces significant opposition from several member states. Further, powerful tobacco lobbies have fully mobilized to fight the proposal.

INTERBANK INTEREST RATE ACCORDS REVISITED

EC Competition and Financial Services Commissioner Sir Leon Brittan has instructed EC banks to give information within four weeks on any existing interbank agreements that set interest rates. Recently, the Commission's competition directorate sent letters to all national banking associations and related groups requesting this information.

"Every business and individual in the Community has a right to a genuinely competitive service from the Community's banking sector, and I shall make sure that they get it," said Sir Leon.

Brittan's action serves as a follow-up to a statement made in November 1989 (see EURECOM, December 1989), when he made it clear that there is no justification for agreements among banks on setting interest rates and that EC competition rules would apply. Since his 1989 statement, no such agreements have been notified, "as should have happened if they exist." Warned Sir Leon: "If we come across any evidence that the consumer is not getting a fair deal we shall pursue it vigorously."

...IN BRIEF

...The Commission has proposed using the prefix 00 as an access code to the international telephone network across the EC. Six EC member states already use the 00 prefix, but in the other six countries there are six different two and three digit numbers. Given the increasing volume of international calls within the EC as the Community further integrates, a single access code would certainly make life easier. The Commission wants to see the code in place by December 31, 1992, the deadline for the single market, but it realizes that technical, financial and organizational hurdles could cause some delays in some of member states.

...The Berlaymont's days are numbered. The Commission has announced that its imposing glass and steel headquarters, also known as the "Berlaymonster", will be demolished due to asbestos insulation. Because renovating the building would cost as much as tearing it down and rebuilding, and because further renovation would risk the release of cancer-causing asbestos, the decision was academic. The massive task of relocating the 3,300 Commission employees who toil at the headquarters will start immediately and will be an unwelcome disruption as the single market approaches.

...According to a recent report by the Bank for International Settlements, foreign direct investment (FDI) into the EC exceeded that into the US over the past year. Last year, direct investment in the US totaled $25.7 billion, down from $72.2 billion in 1989. In the EC, the FDI figure rose to $72 billion in 1990 from $69.8 billion in 1989. This change obviously reflects the economic slowdown in the US, which has tarnished the lure of the US for foreign investors. The bank also cites the single market program as a major reason for the turnaround, which has increased the willingness of Japanese and US companies to commit investment funds to Europe. The switch marks the first time since the late 1970s that Europe has received more FDI than the US.

...The European Parliament recently passed a resolution criticizing the EC for falling behind on single market issues. "The European Parliament notes with great concern that serious backlogs exist in those areas to which the old unanimity procedure applies. This is particularly so in the fields of taxation, internal security and the social dimension," read the text. Appropriately, the Commission's Sixth Progress Report on the White Paper will be available soon and will be reported on next month in EURECOM.

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