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## PORTUGAL JOINS EXCHANGE RATE MECHANISM

In an unexpected move, Portugal has joined the European Monetary System's exchange rate mechanism (ERM), underscoring its commitment to harness inflation and to become a charter member in EMU (economic and monetary union). Portugal's ERM application had been expected later this year or in early 1993, but based on "the good performance of the Portuguese economy", the government decided to take the early plunge.

Like the Spanish and British currencies, the Portuguese escudo will be allowed to fluctuate in a wide 6% band above or below bilateral central exchange rates with the 10 other ERM currencies. All other ERM currencies (besides the British pound, the Spanish peseta and the escudo) fluctuate within the standard 2.25% band. With Portugal's entry, all member states except Greece are in the ERM.

Marking a first in the ERM's history, Portugal requested that the benchmark central rate for the escudo be against the ecu rather than the German deutschemark. After EC finance ministers agreed on a parity of 178.735 escudo to the ecu (1ecu=$1.25), all other rates, including the mark's, were derived from it.

Commented Portuguese Prime Minister Cavaco Silva: "The decision of this government to choose the European Currency Unit as the reference for the escudo entry...underlines the growing importance of the ecu."

## EEA FINALLY OVERCOMES EC COURT'S OBJECTIONS

After months of serious legal snags, the EC Court of Justice has finally approved the revised European Economic Area (EEA) accord between the EC and EFTA (see EURECOM, March 1992), ruling that it was compatible with EC law. Now that EC and EFTA governments have initialled the agreement, the ratification process in the 19 EC and EFTA legislatures and in the European Parliament will soon begin.

In its ruling, the Court said it could accept the accord provided that decisions from a joint committee established to settle EEA-related disputes do not conflict with the Court's decisions. In addition, the Court said the procedures for dealing with competition cases under the accord are compatible with existing EC law.

The Court did not rule on the European Parliament's institutional caveats, particularly those on the early consultation (but non-voting) rights EFTA countries will have in future EC legislation.

Once ratified, the EEA will be the world's largest trading area, where the free movement of goods, services and people will encompass an area covering 19 European nations, 380 million people and over 40% of world trade (see EURECOM, November 1991). However, the agreement's life span could be short-lived: EFTA members Austria, Sweden and Finland have already applied for full EC membership, and Norway and Switzerland are expected to follow suite later this year.

## CONSOLIDATED SUPERVISION OF EC CREDIT INSTITUTIONS

The Council has formally adopted a Directive on the Supervision of Credit Institutions on a Consolidated Basis, strengthening the supervisory framework for the single market in banking and financial services and reinforcing protection of EC depositors (see EURECOM, November 1990 for original proposal).

Slated to enter effect on January 1, 1993, the directive calls for banking regulators to apply EC regulations on capital adequacy and on limits for loan risk to consolidated banking and financial groups as a whole (including foreign holding companies), even if separate legal entities exist within the group. This will afford regulators a comprehensive overview of the activities of a banking group, of its capital structure and of the risks taken on anywhere in the group which could ultimately lead to a run on the bank's resources.

Member states' authorities will be obliged to exchange information on the financial fitness of parts of a group operating in their territory. However, the member state where most of the group's business takes place will be responsible for supervision. For example, if a parent company is located in one member state, but all banking activity occurs in other EC countries, the legislation places regulatory responsibility on the home country authorities of the largest bank in the group.

EC Financial Services Commissioner Sir Leon Brittan welcomed the directive, commenting that the BCCI case has shown there is a pressing need for rules to ensure effective supervision of complex multinational banking or financial services organizations at the EC level.

In light of BCCI, the Commission is discussing with representatives of the financial services sector further measures to regulate financial conglomerates.

## COMMISSION OPENS GERMAN ICE CREAM MARKET

Just in time for the warmer weather, the Commission has ordered Germany's two largest ice cream producers, Langnese-Iglo (a subsidiary of Unilever) and Schoeller Lebensmittel, to let retailers sell Mars ice cream bars.

Based on Article 85 of the EC treaty, the Commission's decision was in response to complaints by Mars Inc., a US-based confectionery firm, that its entire German ice cream operations were threatened because of restrictive contracts between retailers and Langnese and Schoeller. The ruling severs the exclusive ties between retailers and the two largest German ice cream producers, giving Mars the right to supply German stores with ice cream versions of its Mars, Milky Way, Bounty and Snickers candy bars.

According to the Commission, "without...immediate intervention Mars would suffer serious and irreparable damage," particularly because other firms like Jacobs Suchard (which has ties to Schoeller) are following Mars' marketing approach (i.e. introducing their own ice cream versions of name brand candy bars) while Mars is largely prevented from entering the market.

Mars manufactures its popular frozen bars at a recently completed $35 million plant in eastern France, the largest of its kind in Europe, from which it aims to supply the entire European market.

The Commission's order is a temporary measure while it conducts a more thorough investigation into the restrictive retailing practices that predominate in the European ice cream industry.

## GUIDELINES FOR EC MONEY TRANSFERS

To fight the high costs and delays associated with transferring money across borders in the EC, Sir Leon Brittan, EC Commissioner for Financial Services, recently announced a Commission initiative to improve the situation.

The Commission fears high bank charges for transfers by individuals and small businesses will impede cross-frontier business in the single market. In fact, EC research reveals that sending funds across frontiers can cost twenty times more than moving them within one member state.

Based on a collaborative effort among bankers, payment system users and public authorities (see EURECOM, October 1990), the Commission's program (which does not call for binding legislation) has two main themes: helping the private sector provide better systems, and improving the consumer's ability to insist on better service.

Acting as a catalyst, Commission will help the private sector meet the growing demand for cross-border payments by developing consistent legal and technical standards for payment systems; clarifying competition rules for banks establishing such systems; easing reporting requirements (i.e. "red tape") for such fund movements; and ensuring easy and competitive access to telecommunications infrastructure. The Commission will also finance studies on the national payment systems in the less-developed member states to ascertain how to improve their pan-european payment system links.

On the consumer side, the Commission has drafted a "Users' Charter", which outlines what information consumers should be able to secure from banks about their transfers. According to the "charter", banks should inform customers about the best method available to transfer funds to another member state. Further, banks should also specify in advance how much the service will cost and allow the sender to pay all charges so that the recipient receives the full sum. Users should have access to a redress procedure at least equivalent to that existing for domestic transfers. Already eight member states have such procedures, and three more will soon introduce comparable legislation.

As long as banks continue to cooperate on the guidelines and improve their performance on transfers, the Commission will refrain from proposing binding legislation, keeping the guidelines on a "self-regulatory" basis. Still, legislative measures could be introduced if banks fail to make progress.

## CORNERSTONE FOR SINGLE MARKET IN MEDICINES

The Internal Market Council recently set the stage for a single market in medicines by formally adopting a package of directives covering the labelling, legal classification (prescription or over-the-counter), distribution and advertising of medicines for human use (see EURECOM, September 1991). The legislation aims to facilitate the free movement of pharmaceutical products while ensuring a high degree of consumer protection.

Most controversial among the agreed measures is the directive that restricts advertising by pharmaceutical firms. Internal Market ministers agreed to ban all advertising of prescription drugs to the general public, to prohibit misleading or unclear advertising of over-the-counter medicines and to restrict free samples to health professionals. Sponsorship of doctor's conferences by drug companies will be allowed as long as the hospitality offered to health professionals is limited.

In terms of labelling, producers will have to list a product's ingredients and describe its proper use on the container. Either on the package or on an enclosed leaflet, more detailed information on precautions and possible side effects will also be required. These practices are already standard in some EC countries.

The package also contains rules for wholesale distributors of pharmaceuticals. These will require the distributor to possess adequate facilities for preserving medicines, to keep detailed inventory records and to have an emergency plan for withdrawing products from the market.

Another directive sets criteria, such as potential danger to a patient's health without proper medical supervision, for deciding which drugs require prescriptions in the Community. It does not, however, establish a common EC list of drugs needing a prescription; member state governments will continue to draw up separate lists.

To complement the classification directive, a proposal for an EC agency to evaluate new medicines and to centralize the approval process is in the EC's legislative pipeline.

## QUOTES

*"Further progress towards political union is probably indispensable for the lasting success of monetary union." German Bundesbank Vice-President* ***Hans Tietmeyer****.*

*"In US-EC relations there are two broad priorities. One is addressing the sweeping changes that are underway in Central and Eastern Europe. And the second is renewing and giving new impulse to our trading relationship. In one of them I think we have achieved a high degree of cooperation. In the other, the picture is less certain."* ***James Dobbins****, US Ambassador to the EC.*

*"A lesson to be drawn from the breakdown of trading links between the former COMECON countries in 1991 is the need for the Independent States (of the former Soviet Union) and the countries of Eastern Europe to avoid erecting new economic barriers among themselves. While the international community will be willing to offer extra help, it will not provide assistance merely to compensate for the avoidable consequences of regional economic disintegration." EC External Affairs Commissioner* ***Frans Andriessen****.*

*"We can have no illusions that without sustainable development we are heading for environmental catastrophe. To bring about sustainable development, we cannot continue in the way we have until now as regards production and consumption." EC Environment Commissioner* ***Carlo Ripa di Meana*** *introducing the EC's Fifth Environmental Action Plan.*

*"Our slogan is: build Europe without dismantling France...It would be quite unacceptable to give a blank check for the transfer of responsibilities...so depriving the concept of national sovereignty of all meaning." French opposition leader* ***Jacques Chirac*** *(RPR).*

## EC RELEASES REPORT ON US TRADE BARRIERS

The EC has published its eighth annual report on US trade and investment barriers, which serves as a tool for the Commission to keep track of the obstacles EC firms encounter in the US market. In keeping with tradition, it follows the publication of the annual US National Trade Estimate Report, which points out trade barriers faced by US companies abroad.

This year's report indicates that the US closed slightly to EC exports over the last year, and warns of a further drift toward protectionism during a US election year. Further, it cites several worrying examples relative to the US trade policy trend: the continuing use of "Super 301" legislation, which requires unilateral US trade sanctions if alleged foreign trade barriers are not removed; the growing number of US bilateral trade deals with Asian countries; and the increasing use of "national security" to prevent foreign suppliers from winning public procurement contracts (see EURECOM, March 1992).

The size of the respective EC and US reports illustrates that much remains to be done to resolve trade issues both at a multilateral and bilateral level. A successful outcome to the Uruguay Round would be the single most important step toward reducing the EC-US trade issues agenda.

Still, despite the slight increase in the number of obstacles identified, the report characterizes the EC-US economic relationship as the most important in the world, with two-way trade totalling some $190 billion in 1991. Since 1989, the US has been running a steadily growing trade surplus with the Community, which in 1991 stood at $17 billion. Further, the EC now takes almost 30% of US exports, compared with the US, which takes only 18% of EC exports.

For a copy of the EC's Report on US Trade Barriers, please write the EC Office of Press and Public Affairs, 2100 M Street N.W., 7th floor, Washington, DC 20037. Quantities are limited.

## ...IN BRIEF

...Buttressed by parliamentary support, Finland has formally submitted its application for EC membership, joining fellow EFTA members Austria and Sweden in the application line. (Cyprus, Malta and Turkey have also applied.)

Finnish Prime Minister Esko Aho believes the accession negotiations could start at the beginning of 1993, in parallel with the negotiations between EFTA partners Austria and Sweden and the EC. However, timing will depend on the member states' progress in ratifying the Maastricht Treaty on European Union, the current EC budgetary debate (on the "Delors II" package) and the guidelines on the enlargement issue expected at the next European Council summit meeting on June 26-27 in Lisbon.

According to Aho, the primary topics of membership negotiations would be defense and security policy in light of Finnish neutrality, agriculture and food production and regional and fiscal policy.

Commented Aho: "I understand very well that in the word 'neutrality' there are certain question marks as far as the EC vocabulary is concerned. But through the negotiation process, it will be possible to see if this kind of foreign policy and defense Finland is pursuing can combine with the requirements of full membership...after the Maastricht conference." At present, he does not expect problems on this issue.

...A new European testing and certification body for electrical goods, Elsecom (European Electrotechnical Sectoral Committee), was recently launched. An arm of Cenelec, whose 18 national delegations from the EC and EFTA draw up pan-European standards for electrical products, Elsecom will ensure that tests, certification marks, inspection and quality assessment reports for factories and products are issued and accepted uniformly across Europe.

...After an initial one-month inquiry under the EC's merger regulation, the Commission concluded that a bid by Nestle SA for the French mineral water firm Source Perrier raises "serious doubts as to its compatibility with the common market." Consequently, the Commission has opened a full inquiry "in view of the leading position of the merged entity in highly concentrated markets." In the overall French market for bottled waters — and in the different segments identified thus far (e.g. mineral waters, flat and sparkling waters) — the merged entity would attain market shares exceeding 50%. Under the merger rules, the EC's Merger Task Force must complete its full scale investigation in four months.

...The European Parliament recently became the first parliament in Europe to give its blessing to the Maastricht Treaty on European Union, albeit without much enthusiasm. Still, the Strasbourg-based assembly accepts that although the Treaty was less of a move toward a federal Europe than it wanted, it is better than nothing. By a vote of 226 to 62, with 31 abstentions, the Parliament passed a resolution calling on the member state parliaments to ratify it quickly. While Maastricht's ratification was not contingent on the European Parliament's approval — only the national legislatures can ratify it — several member states' legislatures had indicated that if the European Parliament rejected the Treaty, they would have followed suit.

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