EURECOM

Monthly bulletin of European Community Economic and Financial News

VOLUME 4, NUMBER 11 DECEMBER 1992

EC AND US REACH FARM TRADE AGREEMENT

Narrowly averting a damaging trade war and opening the door for a successful conclusion of the GATT Uruguay Round world trade negotiations, the EC Commission and the US government reached a breakthrough agreement on the oilseeds issue and other agriculture-related items last month in Washington (see EURECOM, November 1992).

This breakthrough was solidified and confirmed in follow-up discussions between senior US and EC officials on December 2 and 3 in Brussels.

Under the accord, the two sides agreed that the EC would limit the area of land geared to oilseed production rather than the total amount of oilseeds produced (which the US had wanted). Up to 15% of that area — a total of 11 million acres — will be taken out of production ("set aside") in the first year and a minimum of 10% in future years. The US also accepted that oilseeds could be grown on set-aside land for non-food uses such as fuel for vehicles.

On other fronts, the EC agreed to cut the volume of subsidized agricultural exports by 21% over six years from the average of exports from 1986-1990, starting in 1994. The US accepted the principle of direct EC payments to compensate farmers who set aside 15% of their arable land under the recent reform of the EC's Common Agriculture Policy (see EURECOM, June 1992). And the US agreed to a "peace clause" under which it will not demand GATT panel investigations on EC oilseed subsidies or EC export refunds as long as they conform with an eventual world trade agreement in the Uruguay Round.

Under pressure from its politically powerful farmers, France has criticized the accord as incompatible with CAP reform and has threatened to block the agreement in defense of its "vital national interests" if a favorable overall GATT settlement is not achieved. In response to this criticism, the Commission has staunchly defended the agreement, insisting that it conforms with the CAP reform.

SWISS REJECT EEA

Throwing yet another wrench into further European integration, Swiss voters said "no" to closer European ties by rejecting the European Economic Area (EEA) treaty in a national referendum on December 6.

The EEA is a blueprint for creating a 19-nation single market comprising the 12 EC countries and the seven EFTA (European Free Trade Association) nations (see EURECOM, April 1992). Unless it is ratified by all EC and EFTA countries, the treaty cannot enter into effect.

Although only a slim overall majority (50.3%) voted against the treaty, the result was decisive: Under Swiss law, a majority of the 23 cantons is also required; by winning only seven French-speaking cantons, support for the EEA fell far short.

EC External Affairs Commissioner Frans Andriessen expressed disappointment, stating that "the Swiss have chosen isolation instead of active participation in the new Europe." Other EC and EFTA governments echoed this sentiment, expressing their resolve to pursue the EEA without EFTA-member Switzerland. EC foreign ministers will meet again to discuss the EEA on December 21; in the meantime, the Commission will contact the six other EFTA countries to discuss the next steps.

Seen largely as a transition to full EC membership for most of the EFTA countries, the accord already contains a clause which calls for a diplomatic conference should any "contracting party" fail to ratify the agreement. Of the seven EFTA countries, Austria, Finland, Norway and Sweden have already fully ratified the EEA. In the EC member states, ratification procedures are well advanced. And the European Parliament, which has veto power over third-country agreements (and which earlier had some caveats on the EEA), approved the accord on October 28.

At a minimum, the Swiss rejection means that the EEA will not start simultaneously with the EC's single market on January 1, 1993 as was originally intended. While the Swiss "no" does not scupper the agreement, it will significantly delay its implementation.

On Switzerland's future relations with the EC, Andriessen said that bilateral EC-Switzerland accords will continue to apply, but he added that Switzerland could not count on new negotiations to secure EEA-style advantages (e.g. the free movement for goods, capital services and people). Regarding Switzerland's recent application for EC membership, Andriessen questioned "whether it is realistic to count on the real will of the Swiss to participate fully in the Community since they oppose a much less ambitious step, that is to say, EEA."

INVESTMENTS SERVICES DIRECTIVE ONE STEP CLOSER

EC finance ministers have achieved a Common Position on the highly contentious Investment Services Directive (ISD), which will enable investment firms established in one EC member state to operate throughout the Community on the basis of a single passport as of January 1, 1996 (see EURECOM, July/August 1992).

Following the Council adoption, EC Financial Services Commissioner Sir Leon Brittan said: "This is a crucial and culminating step in the creation of the internal market in financial services. We now have Council agreement on the last main directive required to break down the barriers in Europe's financial services sector...Europe has taken another step on the road to becoming the foremost financial center in the world."

On the directive's content, Sir Leon noted that the structure of the ISD has required "long and arduous discussion" because it respects the different market models in the EC and does not impose any one type of approach.

The legislation now goes to the European Parliament, which has four months either to approve the directive as is or to suggest amendments (which have to be accepted by the Commission) before returning to the Council for final adoption. Because the ISD represents a delicate balance of interests, substantive changes from the Common Position are not expected.

PESETA, ESCUDO DEVALUED IN (ANOTHER) EMS REALIGNMENT

After another bout of currency speculation, heightened by Sweden's decision on November 19 to abandon its informal ecu-link and to float the krona freely, the EC Monetary Committee agreed to devalue both the Spanish peseta and the Portuguese escudo by 6% against the remaining ERM (Exchange Rate Mechanism) currencies.

Marking Spain's second devaluation (see EURECOM, October 1992) and the EMS'(European Monetary System) third realignment since September, the committee's action on November 22 aimed to stave off speculative pressure on the peseta and to make further adjustment of the peseta unnecessary when the Italian lira rejoins the ERM.

Because Portugal carries out a large percentage of its trade with Spain, the committee decided the escudo should move downward with the peseta despite the fact that the escudo had held its value after September's realignment.

In a statement, the Monetary Committee reported that Spain and Portugal "will implement strictly all the measures necessary to ensure that the objectives of their convergence programs are achieved." In addition, Spain agreed to immediately lift the exchange controls it imposed after the September currency speculation battles.

Unlike ERM currencies such as the Danish krone, the Irish pound and the French franc, which continue to face speculative pressures despite strong fundamentals, i.e. low inflation and sound public finances, the peseta and escudo appear to have stabilized.

US SLAPS DUTIES ON EC STEEL EXPORTS

Never a dull moment on the EC-US trade front.

Acting on complaints from US steel producers, the US Department of Commerce (DOC) recently announced preliminary countervailing duties on flat-rolled steel imports from Belgium, France, Germany, Italy, Spain and the UK. While the duties vary by member state, product and company under investigation, they reach, in several cases, as high as 59%.

The Commission expressed "shock" at the high rates chosen by the US administration, which will affect some 2 million tons of EC steel worth nearly $1 billion. This "unjustified" action, whether intended or not, will effectively close the US market to a number of EC exporters.

In a formal statement, the Commission stated that the US steel industry has unduly blamed foreign competitors for what are primarily domestic problems. Further, it pointed out that EC steel exporters could not have caused injury to the US steel industry because they did not even export the quantities they were entitled to under the voluntary restraint arrangements that expired last spring.

In the EC's view, the DOC has taken some extreme views with respect to subsidies received by the EC steel industry, considering as "countervailable" subsidies granted to state-owned enterprises that were subsequently privatized; state money provided for the retraining and redeployment of steel workers; and loans granted by the European Investment Bank and the European Regional Development Fund to assist the restructuring of an industry in crisis.

Describing the move as "not necessarily fruitful for the climate of the general (GATT) negotiation", a Commission spokesman did not rule out eventual EC retaliation.

THE SINGLE MARKET: 92% IN DECEMBER '92

With less than three weeks to go before the January 1 starting date, the EC has adopted 92% of the 282 White Paper measures needed to realize its huge single market. And although member states are still lagging in their implementation of single market directives, the overall "transposition" rate of the member states has risen to 79% (see EURECOM, September 1992).

As ever, Denmark sports the best implementation record at almost 95%, while Italy has fallen — after a sustained period of improvement — back to the rear at just under 70%. EC Internal Market Commissioner Martin Bangemann recently urged the UK, Spain, Belgium, Luxembourg and Italy to accelerate the transposition of EC directives into national law in order to prevent a badly flawed market.

Even though some of the framework legislation will not be in place everywhere — like VAT legislation for companies in half of the member states — the Commission expects all border controls on goods shipped within the EC to disappear by January 1. Border controls on people will persist after the deadline, in some cases because EC countries are behind in reorganizing their airports to eliminate passport checks on intra-EC travelers, and in others because of principle (i.e. immigration and crime concerns).

Looking toward the functioning of the single market, the Commission has backed the findings of the Sutherland report (see EURECOM, November 1992). These call for improved transparency and implementation of EC laws, greater cooperation between the Commission and the member states to enforce rules and strengthening the national courts' role in EC jurisprudence.

QUOTES

"The Community should never leave its fate in the hands of lawyers." British Foreign Minister ***Douglas Hurd.***

"I can only hope the construction of (a united) Europe will go ahead with those who are willing to share this ambition and shoulder their share of international responsibility. My feeling is that if some don't want to do it, others will. If it's not possible as 12, another solution will have to be found in order to continue." EC Commission President ***Jacques Delors.***

"Europe is not stalled. Ten countries out of 12 have ratified. One country said no...Britain is lagging behind and the delay should not be too lengthy, but I have not given up hope of seeing Britain adhere to the treaty." French President ***Francois Mitterrand.***

"There is throughout Europe, drift, postponement of hard decisions and surrender to determined sectional forces at the expense of the more general interests...Just at a time when change is needed, many European governments are weak, divided or coming to the end of their mandate." EC Commissioner ***Ray MacSharry.***

"We must act quickly to ensure that 'Eurosclerosis' does not take hold again. The recent gains — in economic cooperation, through the single market, and in foreign policy — must be guarded and extended. We must not forget, in our 'domestic' quarrels, the wider international context, and Europe's grave responsibility to act in the best interests of the world." EC Commissioner ***Sir Leon Brittan.***

COMMISSION FORESEES LOWER EC ECONOMIC GROWTH

In its latest economic forecast, the Commission confirms the prevailing view of pessimism about the EC economy's short-term prospects. Preliminary Commission estimates indicate that aggregate EC Gross Domestic Product (GDP) growth could be as low as 1.1% in 1992 and will remain within the range of 1-1.5% in 1993. Unemployment will continue to rise and budget deficits in the member states could climb to as high as 5.5% of EC GDP.

In terms of prices, forecasts of higher inflation in some EC countries that have experienced currency depreciation will not be completely offset by lower inflation in some other member states.

The slowdown, which began in 1990-91, could become more pronounced and lead to stagnant growth in the short-term before improving again in the medium-term to a growth potential of around 3%.

The report identifies the deterioration of business and consumer confidence as the primary obstacle to recovery. Large public deficits, high interest rates and wage and inflationary pressures in many member states have contributed to this sagging confidence. Coupled with certain new factors, such as the uncertainties spawned by the Maastricht treaty, the recent currency turbulence and the delay in concluding the Uruguay Round, pessimism is winning the day.

Commenting on the outlook, EC Economic Affairs Commissioner Henning Christophersen said that the deterioration in the EC economy since last spring requires action aimed at improving growth fundamentals and better economic policy coordination among the member states.

However, he acknowledged the very limited room for fiscal maneuver in the member states. In fact, fiscal consolidation is a precondition for bringing down interest rates and creating confidence.

To send a positive signal to businesses and consumers, Christophersen called on EC leaders to coordinate their efforts to spur economic growth at the European Council in Edinburgh (which EURECOM will report on in the January issue). "We must avoid the mistakes of the 1970s when there was no coordination between the member states," he said.

In the short-term, Christophersen recommended using EC instruments to boost private and public investment. Additional actions should include faster implementation of the single market, a successful conclusion of a GATT world trade agreement and EC enlargement.

...IN BRIEF

...After three previous attempts, Norway has once again formally applied for EC membership, joining fellow EFTA members Austria, Finland, Sweden and Switzerland in the Community's membership line. Norway voted "no" to EC membership in a divisive 1972 referendum; before that, the Norwegian government applied in 1962 and 1967, but both attempts were blocked by France, which opposed expanding EC membership back then.

As prescribed under EC law, the Commission will submit a formal opinion on Norway's application in the near future. Few believe there will be difficulties — save fishing, whaling and agriculture — with accession negotiations. In Norway, however, recent polls indicate most citizens oppose membership, and they will have to be consulted in another referendum after the talks are completed, probably in 1994 or 1995.

...For journalists aged 25-35 and interested in expanding their knowledge of European affairs, the *Journalists in Europe* program could be an excellent vehicle. Based in Paris, the program combines seminars given by experts in politics, economics and culture with 10-day reporting assignments in the field. Both are designed to equip journalists with a working knowledge of the critical issues affecting Europe today. Since its creation in 1974, 507 journalists from 79 countries have participated. For more information on the program and its requirements, please contact this office at (212) 371-3804. The application deadline for the 1993-94 session is January 15, 1993.

...The Fordham Center on European Community Law and Antitrust is offering the following four evening courses and seminars: European Community Law; EC Competition Law; EC Intellectual Property Licensing; and US International Antitrust and Trade Law. All courses and seminars meet for 14 weeks beginning in January. For more information, please contact Ms. Helen Herman at (212) 636-6885.

...Multimedia, Inc. has just released an updated version of its acclaimed video business guide to the single market — "Shedding Light on the European Single Market: 1993 Edition". Geared to companies, business schools, libraries and associations, the video incorporates state-of-the-art graphics and thorough, up-to-date analysis. For more information or to order the video, please call MultiMedia at (800) 682-1992 or (201) 569-7599.

EURECOM Monthly bulletin of European Community Economic and Financial News

If you would like additional information on any article in this issue, please write or telephone Christopher Matthews or Kerstin Erickson at (212) 371-3804.

Please send a regular free copy of EURECOM to:

Name ____________________

Position ____________________

Organization ____________________

Address ____________________

Special Interests ____________________

EURECOM is published by Barbara Noël, Director of Press & Public Affairs, the Commission of the European Communities, 3 Dag Hammarskjold Plaza, 305 East 47th Street, 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.

EURECOM

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