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EDINBURGH SUMMIT PUTS COMMUNITY BACK ON TRACK

With their backs against the wall, the EC heads of government reached agreements on a host of crucial issues after two days of tough negotiations at the European Council in Edinburgh last month, pointing the way forward again for European integration. UK Prime Minister and (then) EC Council President John Major remarked that Edinburgh would go down "as the summit that put the Community back together."

Of most immediate importance was an agreed (and legally-binding) response to the Danish question vis-a-vis the Maastricht treaty, which will enable the Danes to have a second referendum late this spring. Striking a delicate balance, the compromise met Denmark's requirement for legally binding exemptions without reopening the treaty or producing a text that would require re-ratification by the member states.

Under the agreement, Denmark reaffirmed its right to opt-out of a single currency, and won exemptions from participation in EC defense arrangements, in a European citizenship and from cooperation in justice and home affairs. For its part, Denmark agreed that its opt-outs could not prevent the other EC countries from moving ahead with the objectives of Maastricht.

The summit also solved the fractious issue of the EC's future financing (the "Delors II" package), where there had been a serious split between the richer and poorer member states over increased regional development funds (the "cohesion fund") to Ireland, Greece, Portugal and Spain. EC leaders reached a seven-year deal, freezing EC resources at 1.2% of GDP for two years, with phased increases to 1.27% by 1999. The overall EC budget will grow from 66.8 billion ecu in 1993 (1 ecu=$1.20) to 84 billion ecu in 1999 (in terms of 1992 money). Regional funds available to the four "cohesion" countries will almost double; as a result, less money will go directly to areas such as transport, the environment and research.

With the Edinburgh decisions on Maastricht and Delors II, the Council agreed to start accession negotiations with the first three EFTA applicants — Austria, Sweden and Finland — early this year. Before Edinburgh, the EC had ruled out enlargement negotiations until Maastricht had been ratified by all the member states.

Following up on its commitment made in Birmingham (see EURECOM, October 1992), the Council also adopted guidelines to apply the principle of subsidiarity (under which the EC will act only when member states cannot achieve objectives as well) and to effect more openness in EC activities.

In response to the deteriorating EC economic outlook, the Council decided in cooperation with the Commission and the European Investment Bank (EIB) to make available immediately a temporary lending facility of 5 billion ecu to promote economic growth and to combat growing unemployment. It will accelerate the financing of infrastructure projects related to trans-European networks. Further, the Council also agreed to establish a European Investment Fund, which, after capital contributions and guarantees by the EIB, other financial institutions and the Commission, could support new infrastructure projects up to 20 billion ecu.

NEW EC COMMISSION TAKES OFFICE

Washington DC is not the only political hub in transition these days.

On January 4, a new EC Commission, sporting seven new faces and significantly shuffled portfolios, took office for a term of at least two years. Normally, Commissioners serve a four-year term, but under the Maastricht treaty, the Commission's term would be aligned with the five-year term of the European Parliament. Hence, if Maastricht is ratified, this Commission will only last two years; a new five-year Commission would be formed for January 1995 when the newly elected Parliament takes office.

The Commission's 17 members — two each appointed from France, Germany, Italy, Spain and the UK and one from each of the other seven member states — act in the EC's interest, independently of their national governments. Based in Brussels, the Commission is responsible for applying and enforcing EC treaties, proposing Community policies and legislation and overseeing the EC's administration.

As agreed at the Lisbon European Council in June, Jacques Delors stays on as Commission president. Nine members of the previous Commission — Martin Bangemann, Sir Leon Brittan, Henning Christophersen, Manuel Marin, Abel Matutes, Bruce Millan, Peter Schmidhuber, Christiane Scrivener and Karel Van Miert — were reappointed by their respective governments.

The seven new members are Joao de Deus Pinheiro (Portugal), Padraig Flynn (Ireland), Ioannis Paleokrassas (Greece), Antonio Ruberti (Italy), Rene Steichen (Luxembourg), Hans van den Broek (Netherlands) and Raniero Vanni d'Archirafi (Italy).

Reflecting the Maastricht treaty's goals of deeper political, economic and social integration, the recast portfolios in the new Commission augur well for more emphasis in the EC's external relations, both in terms of trade and foreign policy.

Most significant for the US was the division of former Dutch Commissioner Frans Andriessen's external relations dossier between Sir Leon Brittan and Hans van den Broek, who was previously the Netherlands's foreign minister. Brittan now has responsibility for external economic affairs with the industrialized nations, which includes the wrap-up of the GATT negotiations and EC commercial policy (i.e. antidumping). Van den Broek is in charge of the Commission's external political relations, its future role in a common foreign and security policy (assuming Maastricht is ratified) and enlargement negotiations.

Concerning the internal market, Commissioner Martin Bangemann ceded part of his single market tasks, but retains his industrial affairs dossier. He has also been given authority over the information technology and telecommunications directorate (DGXIII), thus making his portfolio a mini-"MITI" of sorts. Raniero Vanni d'Archirafi oversees the internal market areas of technical standardization, public procurement and financial services. And Christiane Scrivener keeps her taxation and customs union portfolio, with the added responsibility of consumer policy.

Also of interest to the US is Ray Mac Sharry's replacement for agriculture, Mr. Rene Steichen, who has been Luxembourg's Minister of Agriculture since 1989. Former Transport and Environment Commissioner Karel van Miert has taken over competition policy, which Sir Leon Brittan previously managed.

With transition both in Washington and Brussels, 1993 should prove an interesting and important year to watch EC-US relations.

EUROPEAN BUSINESS SEES TOUGH YEAR AHEAD

After a tumultuous 1992, a recent survey of leading European business executives indicates that only 38% believe their company's prospects will improve over the next 12 months, compared with 55% that thought they would do better in the spring of 1992.

This sharp deterioration in confidence was recorded in the Winter 1993 edition of the **European Business Monitor,** published by the US-based United Parcel Service in conjunction with Harris Research in London. The survey of 1,485 executives from seven EC countries serves as a follow-up to a poll conducted last spring (see EURECOM, May 1992).

Most gloomy about this year's outlook are German executives, with only 22% saying their firm's fortunes will improve, compared with 33% expecting deterioration. However, for the medium term (3-years), 71% of the respondents — particularly the non-Germans — selected Germany as likely to show the strongest growth, followed by France (48%). According to 51% of all respondents (and 54% of the Italian executives) Italy is expected to show the weakest growth over the next three years.

Despite Maastricht's difficulties, overall support for the treaty by European business remains quite high, with significant minorities against it only in the UK and Germany. This backing of Maastricht is dampened, however, by the overall belief (and in all the member states represented except Belgium and the Netherlands) that interest rates should be set according to individual country needs rather than to maintain parity within the Exchange Rate Mechanism (ERM).

For most of the participants, the single market already exists: 71% said they intend to pursue business strategies based on the reality of the single market whatever happens to Maastricht. And while 45% do not think customs procedures and border controls will disappear fully in 1993, 67% believe that movement of goods within the EC will become easier this year.

Outside Europe, the respondents predicted that a North American Free Trade Agreement will not preclude open trade between Europe and the US.

BRITTAN PUSHES FOR GATT CONCLUSION

Shortly after taking on his new assignment, EC External Economic Affairs Commissioner Sir Leon Brittan said that a GATT deal in the Uruguay Round by this month represents "a formidable challenge for the Commission, but not an impossible one."

"I am determined to take that challenge seriously. It is vital for the Community and its trading partners to conclude and ratify a full GATT agreement as soon as possible," he added.

US President George Bush, UK Prime Minister John Major and Commission President Jacques Delors agreed in Washington at the biannual EC-US summit on December 18 that negotiations on the "other" issues within the Uruguay Round — excluding agriculture, which was resolved bilaterally on November 20 — should be accelerated, with the aim of achieving a balanced and comprehensive agreement by mid-January.

Sir Leon has instructed Commission officials back to Geneva (GATT headquarters) to reopen the six-year-old talks.

MORE SCRUTINY FOR NATIONAL TECHNICAL STANDARDS

In light of the enormous progress made towards achieving the single market, the prevention of new technical barriers to trade between the member states is essential to ensure its proper functioning.

To this end, the Commission is seeking expanded powers to examine national standards and rules by amending a 1983 directive on the harmonization of technical standards (directive 83/189).

The proposal includes an amendment to clarify which national measures should be notified for examination at the EC level. This stems from some recent national measures, particularly in the environmental field (e.g. tax breaks in Germany, the Netherlands and Luxembourg to promote "clean" cars) which were seen as "borderline cases". In the Commission's view, such measures should be notifiable in order to increase the transparency of regulation within the single market.

In addition, the proposal calls for lengthening the "standstill" period, during which draft national standards can be delayed by the Commission if discussion on EC-wide standards in the same area has begun in the Council, from one year to 18 months.

COMMISSION MOVES ON EEA

The Commission has proposed a negotiating mandate aimed at going forward with the European Economic Area (EEA) treaty linking the European Free Trade Association (EFTA) to the EC's single market without EFTA member Switzerland.

Swiss voters rejected the EEA in a national referendum on December 6 (see EURECOM, December 1992), significantly delaying the treaty's implementation. Swiss Foreign Minister Rene Felber subsequently ruled out another vote this year. All other EFTA countries — Austria, Finland, Iceland, Liechtenstein, Norway and Sweden — have ratified, and the EC member states should complete the ratification process soon.

If approved by the General Affairs Council on February 1, the mandate will serve as a basis for talks between the Commission and the other EFTA countries sometime in February. This diplomatic conference would hammer out a protocol to the EEA treaty covering any changes made necessary by Switzerland's withdrawal. The Commission hopes the protocol, which would require re-ratification by the EC and EFTA countries, would be complete by July, then allowing the EEA to come into force.

QUOTES

"What is good for Volkswagen is not necessarily good for Europe." Former French defense minister ***Jean-Pierre Chevénement.***

"Europe à la carte, in which each partner chooses what he particularly likes about Europe, can no more be our goal than a Europe which has to move at the pace of the slowest ship in the convoy." German Chancellor ***Helmut Kohl*** *speaking after the German parliament ratified the Maastricht treaty.*

"We must cease looking inward, spending most of our time with the EC's own institutional problems. We must offer membership right away to the most advanced of our neighbors, and support others in preparing their entry through extensive EC agreements. At the same time, the EC must continue its process of integration in order to strengthen economies and democratic institutions." Danish Foreign Minister and current holder of the EC Council Presidency ***Uffe Ellemann-Jensen.***

"There is a strong practical link between the Maastricht treaty and the prospects for a single market. British companies risk being left behind if there is a two-speed Europe." ***Sir Denys Henderson,*** *head of ICI.*

"We've already had a million Germans and a million British guests, and to have those numbers in France without a war going on is really something." Disney chief executive ***Michael Eisner*** *commenting on visitors to EuroDisney.*

NEVER ON A SUNDAY (IN ENGLAND AND WALES)

The EC Court of Justice recently ruled that the UK's restrictions on Sunday shopping in England and Wales do not conflict with EC law.

According to the Court, the national rules restricting the opening of shops on Sundays reflect "choices relating to particular national or regional socio-cultural characteristics", and do not contravene Article 30 of the EEC Treaty. (Article 30, which was the basis for the complaint, bans trade distorting laws in the Community.)

It sounds like the Court knows the principle of subsidiarity.

While setting a precedent for the non-application of EC law in this situation — and the UK is not the only member state grappling with rules on store hours — the issue is far from over in England and Wales. As well as being anachronistic in some cases (i.e. fresh vegetables can be sold on Sunday, but canned vegetables cannot), the UK Shops Act is being openly ignored by some of the largest British retailers.

IN BRIEF...

...The nine Schengen agreement members have approved a common 30-day visa which will enable people from 120 nations to obtain one permit valid for visits to the following EC countries: Belgium, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal and Spain. Visas will not be required of citizens from some countries, like the US. This marks an important step toward achieving the Schengen goal of open borders between these countries by June or July.

...Lower unemployment and greater European currency cooperation are the main economic priorities of the current Danish EC presidency. "Recent developments on the currency markets have underlined the need for closer cooperation on the economic and currency fronts inside the EC," said Danish Economics Minister Thor Pedersen. With 16 million unemployed in the Community, Denmark intends to implement fully the EC growth initiative agreed at the Edinburgh European Council. Pedersen also identified improved currency cooperation between the EC and the non-EC Nordic states, expanded trading links with Central and Eastern Europe and a common EC carbon tax as major Danish economic goals for the presidency.

...To take account of German unification, EC leaders agreed at Edinburgh to give Germany an additional 18 seats in the European Parliament in the next European elections in mid-1994. Most of the other member states will receive more seats in proportion to Germany.

Germany will have 99 members instead of its current 81. France, Italy and the UK will each have 87 seats compared with 81 at present. Spain's seats will increase from 60 to 64 and the Netherlands' representation will grow from 25 to 31. Belgium, Greece and Portugal will all receive one additional member, bringing their total to 25 a piece. Denmark, Ireland and Luxembourg will keep their current numbers (16, 15 and 6, respectively).

...Counter to generally held notions, US firms are now the largest investors in Eastern Europe according to the latest issue of **East European Investment Magazine.** US companies made 219 acquisitions, joint ventures and greenfield investments in 28 Central and Eastern European countries, representing a 30% share of the 719 deals that were monitored during the 12-month period ending September 30, 1992. US firms held a similar 29% share ($8 billion) in value terms. By far the largest recipient of US investments, both in number and in value, was Russia, with 78 deals worth $3.2 billion. Taken together, however, the EC countries had a larger overall presence in Eastern Europe than the US, with 276 deals at a disclosed value of $15.5 billion. For more information, please call East European Magazine at (212) 388-1500.

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