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US RESURRECTS AIRBUS DISPUTE

In keeping with the new administration's tough tone on trade policy, US President Bill Clinton has strongly criticized Airbus in recent weeks, claiming that the subsidized European aircraft consortium is responsible for many of the lay-offs in the US aerospace industry. Such barbs have reopened an issue which had (theoretically) been solved through a bilateral agreement to limit the amount of government subsidies to civil aircraft manufacturers (see EURECOM, September 1992).

The EC-US accord, which President Clinton wants reviewed "as to its adequacy", prohibits future production subsidies, limits direct development subsidies to 33% of total development costs and sets terms for the repayment of state aid. Not surprisingly, US Trade Representative Mickey Kantor has called for consultations with the EC on Airbus, to which the EC has agreed, but this is kicking at an open door: such consultations are not only foreseen in the accord, they are (according to Article 11) obligatory.

Despite the US' complaints, EC External Economic Affairs Commissioner Sir Leon Brittan said he received assurances from James Dobbins, US Ambassador to the EC, that the US would abide by the agreement, which is up for review this July. Subsequently, President Clinton also confirmed that he does not want to abrogate the treaty: he wants it "enforced".

Under the agreement, both sides have committed to "multilateralize" in GATT the limits on government civil aircraft support by July; failing this, either party can walk away from the pact.

Upping the ante even further, however, two US senators have introduced legislation which would bring an antidumping case against Airbus and establish a US aerospace technology consortium to assist US civil aircraft development. Given Boeing's 60% world market share and far more orders from European carriers than Airbus has in the US, US trade action against Airbus could boomerang against US manufacturers and lead to the scrapping of the EC-US agreement.

EEA REVISIONS NAILED DOWN

EC foreign ministers have endorsed a protocol negotiated by the Commission and six EFTA countries cutting Switzerland out of the European Economic Area (EEA) accord. It will be formally signed by the EC and EFTA foreign ministers on March 17.

Requiring ratification by the 18 EC and EFTA national parliaments and the European Parliament, the protocol allows Switzerland to join the massive free trade zone of over 370 million at a later stage if it so desires. Further, about 60% of Switzerland's expected share toward a "cohesion fund" for the EC's four poorest countries — Greece, Portugal Ireland and Spain — will be covered by the six remaining EFTA countries (Austria, Finland, Iceland, Liechtenstein, Norway and Sweden). This had been the largest obstacle to moving forward with the EEA without Switzerland, which rejected the accord last December (see EURECOM, December 1992). In return, the EFTA countries received some concessions, including an agreement allowing EEA provisions on agricultural trade to enter into force on April 15.

Although the aim is still for the EEA to enter into force by July 1, lengthy ratification procedures in several EC member states suggest that delays are possible.

CHANGE OF TACK ON HDTV

After eight years and millions of ecu, EC Industry Commissioner Martin Bangemann has announced that the Community no longer plans to impose an EC standard for high-definition television broadcasting (HDTV).

Due to major delays in the EC's HDTV strategy, coupled with recent US advances in an entirely digital HDTV system, Bangemann believes there is no point to promoting a European system which would quickly become obsolete.

Unlike EC analogue-based HDTV technology, which requires either satellite or cable transmission, digital standards can be used for broadcast via earth-based transmitters as well. Ironically, 80% of European households receive television broadcasts through terrestrial TV stations, making the digital system ultimately more practical for the European market.

While conceding that the use of digital technology will spread and transform the nature of television, the Commission is convinced that an orderly approach to digital broadcasting is necessary. The goal must be to maximize the potential of this powerful new technique while reducing the risk of market fragmentation from a haphazard, uncoordinated approach.

According to Bangemann, a single EC standard for HDTV broadcasting might protect the Community market, but it would also hinder EC firms wanting to expand into international markets. In order to be competitive on the world stage, the European market must remain open. "Global standards are always the best solution," he said.

Nevertheless, the Commission realizes that market conditions and technical infrastructures vary in different parts of the world; hence, different standards may continue to exist, albeit with an increasing number of common elements.

To salvage the EC's HDTV efforts, Bangemann wants to allocate an already budgeted (but currently blocked) 500 million ecu (1ecu=$1.16) in HDTV support to promote the television industry's application of the new 16:9 wide-screen format — generally viewed as the nucleus for a whole range of advanced services in coming years — irrespective of the eventual HDTV broadcasting standard.

EC REQUESTS GATT TALKS ON US STEEL DUTIES

The EC has formally requested talks with the US under the GATT Anti-Dumping Code on the new preliminary US antidumping duties on flat steel products from seven EC countries (see EURECOM, February 1993).

Commented Sir Leon Brittan, EC Commissioner for external economic affairs: "Not only are the duties unjustified on economic grounds, but they send the wrong political sign at a time when the world needs reassurance of America's intention to stand behind its commitment to free global trade. The Community is urgently consulting with the US in order to verify whether the GATT rules have been respected both in procedural and substantive terms."

In particular, the Community is concerned about the US Department of Commerce's (DOC) use of the "Best Information Available" principle (the so-called "Doomsday BIA), which can lead to arbitrary findings, especially if information is taken from the complainants themselves. In addition, the EC questions the imposition of retroactive duties in some cases, as well as the treatment of Value Added Tax (VAT) calculated on steel exports to the US.

The Community also doubts that EC steel imports could have caused material harm to US steel producers, and under the GATT Antidumping Code, the US must clearly prove injury. In recent years, EC steel exports to the US either stagnated or decreased in almost every product category under the 10-year Voluntary Restraint Agreement (VRA) to which they were subjected. In fact, EC market shares in the US in the various product categories over the 1989-92 period fell to below 0.5%. There has also been little or no significant undercutting of US prices by EC exports.

Based on forthcoming DOC estimates, the US International Trade Commission is scheduled to reach a final decision on the level of antidumping duties on steel imports by late May.

COMMISSION APPROVES RAILWAY PRICE PACT

To promote the use of combined (i.e. intermodal) transport services in the international transport of goods, the Commission has approved a price structure agreement among the 12 main EC railway companies good for five years.

In general, European railway companies seldom sell intermodal services directly to consignors; in the vast majority of cases, such services are sold by independent, specialized operators or by subsidiaries of railway firms.

Concluded in 1990, the agreement establishes a common price structure — based on the lengths and weights of loads — for the sale of rail haulage to operators specializing in combined transport services. While the Commission acknowledges that the agreement will restrict price competition among the railways, it believes that this will be offset by less complicated international prices, enabling intermodal firms to compare international routes more easily. In addition, a common tariff structure over several years will provide a stable investment climate for combined transport operators.

Attached to the Commission's authorization, however, are conditions that protect intermodal firms from abusive conduct by the rail companies.

EC LAUNCHES POLICY FOR SAFE SEAS

Following the oil tanker disasters earlier this year at La Coruna, Spain and in the Shetland Islands, the Commission has released a Communication — "A Common Policy for Safe Seas" — calling for stricter implementation of international maritime safety rules to prevent future environmental catastrophes.

It seeks the enhancement of safety and pollution prevention at sea through the elimination of substandard operators, vessels and crews from EC waters, without regard to nationality of ship.

Before the end of the year, the Commission will propose legislation requiring member states to comply with minimum rules on safety, ship maintenance and training which have already been established by the International Maritime Organization (IMO).

"There's a great deal of leeway between adopting an international convention and actually applying it: that can lead to a lax approach that can lead to accidents," said EC Transport Commissioner Abel Matutes.

While any subsequent maritime legislation would be coordinated with the IMO, Commissioner Matutes made it clear that the Commission will press for more stringent checks for all shipping.

Additional EC legislation would include measures to promote maritime traffic infrastructures, bringing maritime safety into the electronic age; minimum training requirements for seafarers; minimum reporting requirements for vessels carrying dangerous goods bound for or leaving EC ports; common rules on technical safety standards; and the establishment of a "Committee on Safe Seas".

SINGLE MARKET FOR MONEY MARKET FUNDS

Under a new Commission proposal, money market funds will be permitted to operate throughout the EC.

At present, each member state has different rules regulating such funds, which trade in financial instruments like treasury bills.

The proposal would bring money market funds under existing EC law covering the coordination of Undertakings for Collective Investment in Transferable Securities (UCITS). Given the proliferation of money market funds since 1985 (when UCITS was adopted), the Commission feels justified in extending UCITS to such funds. However, the new proposal omits property funds, which were included in an earlier draft, but which will be addressed separately at a later date.

The Commission cited the extension of the UCITS law as one of the priorities for the financial services area in its 1993 legislative program, along with tightening the powers of EC banking supervisors and strengthening intra-EC cooperation among regulatory bodies to avert banking disasters like the collapse of the Bank of Credit and Commerce International (BCCI).

BACKING FOR MARKET STILL STRONG IN EASTERN EUROPE

According to the latest Eurobarometer poll on Central and Eastern Europe, the most comprehensive survey ever conducted in the region, support for the market economy has faltered in the Commonwealth of Independent States (CIS), but remains solid (i.e. two-to-one in favor) elsewhere in Central and Eastern Europe.

Covering 18 countries and 18,000 respondents (1,000 from each country), the survey found that despite all the hardships in the region and doubts in the CIS, most people in former Communist Europe want to speed up the pace of economic reform and privatization.

In contrast to the last Eastern European Eurobarometer (see EURECOM, February 1992), Romanians are now heavily in favor of a market economy, while citizens of the Baltic states have significantly lost confidence in the free market and in the development of democracy.

The vast majority of people in the region (71%) have heard of the EC: 44% have a positive view of it, 27% no opinion and only 4% negative. Over a quarter (26%) of the survey (excluding Russia) believe their future is inextricably linked with the EC, followed by Russia (19%) and the US (17%). Already high last year, support for associate and full membership has actually increased outside the CIS. Based on hopes that living standards and trade will improve, 78% of the respondents back full membership and 68% favor "Europe Agreements".

QUOTES

"Allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by." US Trade Representative ***Mickey Kantor.***

"In the guise of legal procedures, in both Washington and Brussels, a lot of protectionism is taking place." EC Ambassador to the US ***Andreas van Agt.***

"On such a beautiful and important day, I will refrain from commenting on the totally unjustified, and...uncalled-for noises from America on the Airbus issue." ***Jurgen E. Schrempp,*** *chief executive of Deutsche Aerospace AG (the German Airbus partner) at the introduction of the new Airbus A321 aircraft.*

"The Community is keen to foster cooperation between regional grouping such as Visegrad (Poland, Hungary and former Czechoslovakia). This is not an attempt to divert attention from EC markets or to postpone requests for EC membership, but an economic view based on the Community's own experience of the benefits of interregional trade. For some products and activities, doing business with one's nearest neighbors is plain common sense." EC Commissioner ***Sir Leon Brittan.***

"We are in danger of talking ourselves into a deep depression that is not justified by reality...The problems we face are global. As a Community we can overcome them. As individual states we cannot." ***Carlos Ferrer,*** *president of the European Employers' Federation (UNICE).*

...IN BRIEF

...Joining Poland, Hungary, the former Czechoslovakia and, most recently, Romania, Bulgaria has signed an association or "Europe" agreement with the EC, aiming to achieve bilateral free trade over the next decade and to strengthen political, cultural and financial ties.

Through the accords, the EC wants to promote the development of democracy and a market economy in the former eastern bloc countries, two essential conditions they must meet before they can become EC members.

In certain sensitive industries, like textiles, steel and agricultural products, there will continue to be restrictions to prevent a flood of cheap goods into hard-hit EC sectors. But Bulgarian Prime Minister Lyuben Berov urged the EC to do more. "We believe that greater access to the markets will be more beneficial for Bulgaria's economy than direct financial assistance. We therefore expect acceleration of the trade liberalization and extension of its coverage and depth wherever possible," he said.

...In one of the few economic bright spots of late, annual EC inflation fell to 3.5% in January, the lowest rate since June 1988 when it was 3.4%. In December 1992, annual EC inflation rate was 3.7%. Most of this decrease was attributable to the largest drop in UK inflation in 35 years, which fell 0.9% in January. In 10 member states, annual inflation is within 2 percentage points of the EC average. Still, inflation in Greece (14.5%) and Portugal (8.5%) is ten and six times higher, respectively, than in Denmark, which has the EC's lowest inflation at 1.5%.

...According to Eurostat, Luxembourg has the highest per capita GDP in the EC at $21,207 (based on 1991 data), compared with an EC average of $16,666 and a US figure of $22,515. Seven member states have a GDP per head above the EC average. The UK is very close to it ($15,910), while Greece, Portugal Spain and Ireland fall far below. Almost 80% of EC GDP is generated in four countries — Germany, France, Italy and the UK. Germany alone accounts for a quarter of EC output.

...Ten private Eastern European banks belonging to the Clearing Bank Association (ABC) have selected the ecu as their unit of currency for payment and clearing operations. As a result, the ecu will become the principal payment and settlement instrument for a geographic zone comprising Bulgaria, the Czech Republic, Hungary, Poland and Russia. Tests of the ecu-linked inter-bank system, which is open to all other Eastern European countries, are expected in three to five months. ABC was initially established to counter the breakdown of the former COMECON trading system and the collapse of trade flows between Eastern European countries.

...The Fordham Corporate Law Institute is offering its first annual conference on International Intellectual Property Law and Policy, which will take place on April 15-16, 1993 at Fordham Law School in New York City. The conference will cover international intellectual property developments in the EC (featuring Commission participation), the GATT, NAFTA and WIPO (World Intellectual Property Organization). For more information please call Ms. Barbara McFadden at (212) 636-6925.

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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.

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