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EU ENLARGEMENT: THE APPLICANTS CLINCH TERMS...

After five days of continuous negotiations, three of four applicant countries — Sweden, Finland and Austria — completed terms for EU membership on March 1. The fourth applicant, Norway, achieved agreement on March 15 — right as EURECOM went to press — after resolving a deadlock over fishing rights. Notwithstanding the many remaining hurdles, if all four countries succeed with EU membership, it would mark the biggest single enlargement in EU history.

While still possible, accession of the four countries by the target date of January 1, 1995 is in jeopardy due to an EU row on Council voting procedures and the timing of the European Parliament (EP) elections in June.

The completed negotiations mark the end of 13 months of complex talks covering 29 separate areas (see EURECOM, February 1993 and January 1994). Although conducted in parallel, the negotiations were complicated by the different circumstances prevailing in some sectors among the applicants (e.g. arctic agriculture and alpine truck transit), and the need for the 12 EU member states to fix common positions.

In the final, frantic stages of the talks, there were four principal areas of dispute: agricultural transition measures, financial contributions to the EU budget, Alpine truck transit (Austria) and fisheries (primarily, but not solely, Norway).

On agriculture, the applicants agreed to a Commission proposal requiring them to adapt immediately their agricultural prices to EU levels, ensuring no border controls. Where farm prices fall steeply, compensation will be paid to farmers, financed primarily through national budgets. In addition, a new category of EU structural funds has been proposed for the unique problems of the arctic region and its farmers.

In terms of the EU budget, Sweden, in particular, wanted to avoid a fiscal shock from large, immediate contributions. In the end, the EU conceded that budget contributions could be phased-in, with some compensation for the immediate alignment with EU farm prices foreseen. Still, accession will result in a net inflow to EU coffers.

Unquestionably influenced by the recent Swiss vote to ban international truck traffic in the Alps after 2004, Austria held out to keep restrictions on the number of EU trucks using its roads. Averting an Austrian walkout, the EU agreed that failing clear improvement in periodic environmental assessments of Austria's Alpine region, Austria could extend transit controls up until 2004.

...BUT OBSTACLES REMAIN

Enlargement is not, however, a fait accompli. Although negotiations with the four applicants are finished, the EU member states (as EURECOM went to print) are still deadlocked on the number of votes which will constitute a blocking minority in a qualified majority vote in the Council after enlargement. At present, 23 votes out of a total of 76 can block EU legislation; to accommodate enlargement, an increase to 27 (out of 90) has been proposed. Fearing erosion of the larger countries' clout, the UK and Spain want to keep the blocking number at 23. Failing any agreement on the issue, the accession agreements cannot go to the EP, where they also require ratification.

Further, while the EP is in favor of enlargement, it has threatened to torpedo the process if the member states maintain the blocking minority at 23 votes in the (enlarged) Council. Also, due to the EP elections, if the Parliament does not receive legal texts in time to vote by May 7, the EU will miss the January 1, 1995 goal for formal accession.

Last, and most important, each applicant must submit its accession agreement to a public referendum — no sure bet in any of the candidate countries.

COMMISSION OBJECTS TO US RENEWAL OF "SUPER 301"

On March 3, responding to US President Bill Clinton's reactivation (by executive order) of "Super 301", the US trade retaliation instrument used against countries that (in US eyes) fail to open markets to US products, EU External Trade Commissioner Sir Leon issued the following statement:

"...It is disappointing that the United States has decided this action. The European Union will be examining carefully the ambit of these measures and checking whether their implementation would be contrary to the United States' trade obligations, including those in the Uruguay Round..."

Though Super 301 can be directed at any country, its renewal stems from US frustrations at Japan's persistent and huge trade surplus with the US ($59.3 billion), as well as from Japan's refusal to lift trade barriers and to accept numerical targets for US exports in certain sectors. While the EU also has a large and growing trade deficit with Japan — and many of the same complaints about closed markets — the Commission believes the aggressive US approach raises more problems than it solves. "[Super 301] is a crowbar that can make a market clam up rather than pry it open," said a Commission spokesman. Further, the numerical targets favored by the US to open up Japanese sectors are discriminatory, especially against the EU.

Strongly opposed to unilateral action, Sir Leon has called for a more collaborative, trilateral approach between the US, Japan and the European Union to open Japanese markets and resolve the structural problems at the root of Japan's excessive trade surplus with the US and Europe.

"What we must all do is to work to remove [trade barriers] constructively through negotiation rather than resorting to finger-pointing," said Sir Leon.

REDUCED EU CAR EMISSIONS STARTING IN 1996

Having passed the European Parliament without amendment, the path is now clear for the Council to adopt formally a directive to reduce EU motor vehicle emissions at the March 24-25 Environment Council. Not only will it ensure that strict car emissions are enforced in the EU, but also that a stable regulatory environment is created for industry to adjust to the new standards.

Based on a Commission proposal from December 1992, the legislation amends an earlier directive (70/220/EEC), and will reduce allowable car emissions 50% from current levels, bringing EU standards into line with tough US federal guidelines. Covering pollutants such as carbon monoxide, hydrocarbons, nitrous oxide and soot particles, the new standards will apply for new vehicle types from 1996 and for all new vehicles from 1997.

In addition, the directive will permit the use of tax incentives by the member states — provided they are non-discriminatory — to encourage earlier compliance with the new standards.

Further, the legislation sets out an analytical framework for the next stage of car emission reductions, which is scheduled for the year 2000. Guideposts for setting future standards include the traditional improvement in engine technologies, reformulated fuels, better vehicle inspection and maintenance, better traffic management and other factors. Underpinning these points of reference will be the results of a joint research program — "Auto-Oil" — between the European auto industry, the petroleum industry and the Commission.

COMMISSION DIAGNOSES EU DRUG INDUSTRY

Though among Europe's best performing high-tech sectors, growing at an annual rate of 6% between 1982 and 1992 and generating a 4.9 billion ecu trade surplus in 1992, the EU pharmaceutical industry is showing the first signs of structural difficulties according to a recently released Commission paper.

In fact, for the first time in 20 years, total employment in the sector fell in 1993 — by 1.4% — and around 27,000 jobs are at risk through the end of 1995.

With eight European companies in the "top twenty" of world pharmaceutical groups, the EU drug industry is still relatively well placed. Yet these firms are behind their US counterparts in terms of size, profitability, R&D expenditure and growth rates. Further, the innovative capacity of EU firms appears to be in decline: twenty years ago, half of all new medicines were developed in the EU; today this share has fallen to one-third. And most distressing is the situation in the biotechnology field, where US companies hold 65% of worldwide patents compared with 15% for EU firms.

The report says that member states' attempts to cut public expenditure on medicines should not be allowed to endanger European pharmaceutical research, but it does not call for the abolition of direct price controls, which are often part of member states' social security systems.

To promote a more integrated market with more open competition, the Commission will work with the industry to: consolidate and update EU pharmaceutical regulations; speed up the EU's new system for marketing medicines, especially by establishing the European Agency for the Evaluation of Medicinal Products; enforce and improve intellectual property protection for pharmaceuticals; adjust the EU regulatory framework to provide a better climate for biotechnology research; integrate pharmaceutical R&D into the EU's Fourth Framework Research Program; examine the impact of national drug pricing and reimbursement on the single market to avoid distortions; and allow generic medicines to stimulate price competition.

ECOFIN ADOPTS SEVENTH VAT DIRECTIVE

EU consumers received a major bonus at a recent ECOFIN Council meeting, where member state finance ministers adopted the Seventh VAT (value-added tax) Directive. Slated for effect on January 1, 1995, the directive exempts the private sales of second-hand goods (including used cars), works of art, antiques and collector's items from VAT. For official dealers in these goods, VAT will be charged only on the mark-up rather than on the total value of their sales (which, at present, is the rule in most member states).

To preserve the position of EU art markets, the legislation introduces a special reduced VAT rate of 5% on art imports from third countries. Based on the importance of the London auctions, the UK won a derogation to apply a 2.5% rate during a transition period up to June 30, 1999.

In more good news for consumers, EU finance ministers agreed to increase duty-free allowances for people entering and travelling within the Union. Starting April 1 (at the latest), allowances for those travelling between member states will double to 90 ecu; for those arriving in the EU, limits will quadruple to 175 ecu. Of course, duty free shops will disappear for trips within the EU by July 1, 1999 (see EURECOM, December 1991) because they are "incompatible" with a single market with no internal borders. Since January 1993, there have been no limits (or VAT payments at borders) on goods purchased under normal tax conditions in another member state.

BACKING FOR FREE MARKET SLIPS IN EASTERN EUROPE

Reflecting the hardships of economic transition, the latest annual Eurobarometer poll on Central and Eastern Europe indicates slippage in support for a market-based economy across the region.

Covering almost 17,000 respondents in 16 different countries, the survey reveals that absolute majorities in all the CIS (Commonwealth of Independent States) countries polled reject the concept of a market economy. And although nowhere in PHARE (the EU's aid and technical assistance program for Central and Eastern Europe) recipient countries is there a majority against the free market — with Latvians, Slovenes and Slovaks equally divided — support has declined just as much in these countries (-6%) as in the CIS when compared with last year's poll (see EURECOM, March 1993).

Perceptions of the EU's and Russia's importance in the region have grown, primarily at the cost of the US, which fewer believe is where their country's future lies (17% in 1993, 11% now). A gradual erosion in the generally positive image of the EU has, however, taken place in many countries. The EU's position in the Visegrad nations (Poland, Hungary, the Czech Republic and Slovakia), where "Europe Agreements" have either been signed or are in effect (see EURECOM, February 1994), remains more positive (37%) than neutral (34%) or negative (8%). Armenia registered the biggest jump in positive feeling toward the Union (16%) over last year's survey; Slovenia, the largest fall (-15%).

Dissatisfaction with the development of democracy runs high, both in the PHARE countries (two-to-one dissatisfied) and in the CIS (five-to-one discontent). Human rights are also a hot topic. Conceived primarily in economic terms, only in the Visegrad nations (except Poland), Albania and Estonia do majorities say there is respect for such rights.

QUOTES

"The Europeans are always delighted when they can hold our coats and we can go out and get our noses bloody. What we don't look for is criticism from those who sit on the sidelines and who are not willing to get into the game." US Trade Representative ***Mickey Kantor.***

"Governments should interfere in the conduct of trade as little as possible. Once bureaucrats become involved in managing trade flows, the potential for misguided decisions rises greatly." GATT Director General ***Peter Sutherland*** *in a speech to the European-American Chamber of Commerce in New York.*

"The solution to the European malaise is simple: give Adam Smith as much chance to work as possible. Remove paternalistic protection given to industry and workers, which in many cases is neither wanted or needed." ***Bae Soonhoon,*** *president of Daewoo Electronics.*

"European politicians must make greater efforts to understand where the world is going, rather than just concentrate on their own little gardens." Olivetti Chairman ***Carlo De Benedetti.***

"We, the representatives of Western Europe, would be committing a grave mistake if, guided by the feeling of superiority, we would remain a closed club." Commission President ***Jacques Delors.***

"The true European vision in 1994 lies in making a success of what we have already agreed and extending that success to other parts of Europe." British Foreign Secretary ***Douglas Hurd.***

...IN BRIEF

...EU industrial output declined by an estimated 3.5% in 1993, the largest drop since 1975, when it fell by 6.8%. Of the Twelve, only the UK and Ireland recorded industrial growth in 1993.

No doubt linked to the fallen output, EU seasonally-adjusted unemployment hit 10.9% in January, up from 10.8% in December and 10% in January 1993. This puts the EU jobless figure (those registered at unemployment offices in the EU) at 19.1 million. Despite the bad news, the January figures show a steadying or even slight fall in unemployment in Germany, Denmark, Italy, the UK and Ireland. Spain continues to have the highest EU unemployment rate at 22.9%, followed by Ireland at 18.2% and France and Italy both at 11.2%.

...For imbibers of the hard stuff, there should now be less room for confusion: the EU has concluded an agreement with the US on the mutual recognition of certain spirituous drinks. Under the agreement, the US will protect the use of the following European designations: "Scotch Whisky", "Irish Whiskey"/"Irish Whisky", "Cognac", "Armagnac", "Calvados" and "Brandy de Jerez". For its part, the Union will safeguard the US designations "Tennessee Whisky"/"Tennessee Whiskey", "Bourbon Whisky"/"Bourbon Whiskey" and "Bourbon". After the vote, the Council said it would do its utmost to extend protection to other traditional EU designations such as ouzo, grappa and Kornbrand in future agreements.

...In a recent poll of EU businessmen commissioned by the *Financial Times* and other leading European newspapers, 55% support lower barriers to imports from Asia and Eastern Europe, and 68% believe Europe will remain competitive in the world. On economic growth in 1994, however, the survey of 507 directors from top European firms in seven EU countries — Belgium, France, Germany, Italy, the Netherlands, Spain and the UK — is pessimistic, with 40% expecting the economy to contract and 51% foreseeing growth of 1% or less. And on the single market, 77% of the respondents said they have experienced no benefits from the completion of the single market program last year. 57% believe a single currency among at least three EU member states is likely by the end of the decade, and 51% believe a single currency would boost EU competitiveness.

...The European-American Chamber of Commerce, in cooperation with the Alliance of European Lawyers, is sponsoring a seminar entitled "International Environment Policy: Developments in the US and Europe". Aimed at senior corporate executives and policymakers interested in EU and US environmental regulation, the event will be held at the Hotel Intercontinental in New York City on May 10, 1994. For more information, please contact Marianna Knight at (202) 347-9292.

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