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EUROPEAN PARLIAMENT APPROVES ENLARGEMENT TREATIES

Eliminating another obstacle to EU enlargement by January 1, 1995, the European Parliament (EP) voted overwhelmingly in favor of membership for Austria, Finland, Norway and Sweden on May 4.

Belying fears of a close vote, the EP gave the applicants a surprisingly large welcome, voting 374 to 24 in favor of Austria and Norway, 377 to 21 in favor of Finland and 380 to 21 in favor of Sweden. For the EP to give its assent, 259 of the sitting 517 members (MEPs) had to vote in favor of each candidate country.

The EP's large approval margin had a price: many MEPs had tied this enlargement to a greater EP role in the scheduled 1996 intergovernmental conference on the EU's future institutional structure (see EURECOM, April 1994), which was not secured. In the end, however, most MEPs believed that holding up enlargement would damage the Parliament's credibility going into the June elections. Further, many MEPs decided they should not penalize the applicants for the EU's own institutional controversies. With highly developed democratic systems, the potential new members would be valuable contributors to more open and efficient EU decision-making. "We have a lot to learn from these countries," said Jean-Pierre Cot, leader of the Socialist group, the EP's largest bloc.

Now the spotlight turns to the applicant countries themselves, where referenda on EU membership must be held (and where popular support is far from assured). While polls indicate solid support for EU membership in Austria and Finland, voters in Sweden and Norway are still extremely skeptical about membership, with only 33% and 30%, respectively, in favor at present (albeit with large numbers of "undecided"). Austria will kick off the voting on June 12, followed by Sweden, Finland and Norway in November.

EU member states' parliaments must also ratify the treaties. Although no difficulties on the individual agreements are foreseen, it will take a great effort for all 12 member state parliaments to complete ratification procedures in time for the January 1, 1995 accession date.

EU REPORT ON US TRADE BARRIERS

Keeping with tradition, the Commission has published its tenth annual report on US barriers to trade and investment. A useful reference for EU-US bilateral trade negotiations and issues, the report also summarizes the obstacles to the free flow of transatlantic trade and investment and the chief barriers European firms face in important US markets.

As usual, the Commission report follows the publication of the US National Trade Estimate Report, which identifies trade barriers faced by US companies abroad. The two reports differ in one major respect: under US trade law, the US report could prompt the Administration to impose unilateral trade sanctions through a recently renewed Super 301 procedure (see EURECOM, March 1994). The Commission report serves no such end.

This year's report also points out the areas where the US must implement the Uruguay Round agreement, the "faithful and timely transposition" of which is necessary to ensure the benefits of the Round are realized as soon as possible.

As in previous reports (and as mentioned above), the persisting **unilateral elements in US trade legislation** remain a major EU concern. No other EU trading partner has similar trade legislation. It is hoped that the comprehensive multilateral dispute settlement mechanism agreed in the framework of the new World Trade Organization (see EURECOM, January 1994) will restrain unilateral actions in trade disputes, obliging the US to bring its domestic legislation into conformity with Uruguay Round agreements.

Closely linked to US unilateralism is the **extraterritorial enforcement of US law.** Extraterritorial reach not only can cause clashes over sovereignty with trading partners, but it can also create conflicting legal demands on firms, seriously hampering trade and investment. Examples include the Cuban Democracy Act, re-export controls and the Marine Mammal Protection Act.

The US continues to put forth **national security considerations** to justify curbs on trade and investment for protectionist objectives. Measures range from limits on market share to procurement restrictions, i.e. those contained in the Berry Amendment, and from unilateral export controls to the screening and possible prohibition of foreign direct investment through the Exon-Florio Amendment. The EU is concerned that the vague US concept of "national security" is embracing aspects of domestic economic security as well.

Other disturbing features of US trade and investment legislation include: public procurement and "Buy America" legislation (see EURECOM, April 1994); discriminatory tax legislation, such as state unitary taxation and car taxes (which are the subject of a GATT panel request by the EU); high tariffs, fees and excessive invoicing requirements; conditional granting of national treatment to non-US controlled economic operators; and the multiplicity of standards at federal, state and municipal levels.

Despite the long list of complaints, however, the bulk of EU's trade with the US — trade flows between the two reached an estimated 165.5 billion ecu (1 ecu=$1.16) in 1993 — is unaffected by trade barriers. The magnitude of remaining barriers, important though some are, should be viewed in the context of a broadly balanced and improving EU-US trade relationship.

BRITTAN WARNS US ON URUGUAY ROUND DELAY

On a recent visit to Washington, DC, EU Commissioner for Trade Policy Sir Leon Brittan warned against any delay by the US Congress in ratifying the Uruguay Round trade agreement which was signed in Marrakesh, Morocco, on April 15.

Sir Leon said that he was astonished that some people in the US, even in Congress, seemed to think that the Uruguay Round was being imposed on the US by "wily foreigners". This did not correspond to reality, he said, pointing out that the US and the European Union were the main players during the eight years of negotiations.

Sir Leon also remarked that at no time during the talks had the US side raised the question of lost revenue resulting from reduced tariffs, one of the chief issues being cited by Congressional opponents of ratification.

"I hope that the trade experts and leading politicians in this city recognize the magnitude of the deal...Cuts in industrial countries' tariffs from (an average of) 6.3% to 3.9% have been secured so that in the future nearly 43% of OECD imports will be duty-free, compared with 20% now," he said.

According to the GATT Secretariat and a number of leading economic institutes, the overall benefit of the Uruguay Round to the world economy should be an increase of about 1% in world GDP ($200 - 300 billion) by the end of the decade.

"Any delay in the implementation process, from whatever quarter or whatever reason, will directly hold up the benefits of the Uruguay Round and thereby fail to catalyze and support an increase in economic activity in the world economy. That in turn means fewer jobs, lower incomes and less opportunity," added Sir Leon.

NEW CREDIT RULES FOR DERIVATIVES PROPOSED

The Commission has released a proposal to amend the EU's solvency ratio for credit institutions, which would extend its coverage of derivative instruments to interest rate and foreign exchange contracts, including options, swaps and futures contracts.

It would ensure that supervisory authorities recognize the effect of legally valid bilateral netting agreements on the amount of capital required to cover credit risks in derivative contracts. Through reference to the Capital Adequacy Directive (see EURECOM, April 1993), the proposal would affect not only credit institutions, but also investment firms (once the CAD takes effect in January 1996).

The Commission's amendment is based on an April 1993 proposal from the Basle Committee on Banking Supervision to update the 1988 Basle Capital Accord. As far as possible, the Commission wants to maintain convergence between the 1988 Basle Accord and the EU Solvency Ratio directive.

In light of recent equity and bond market turmoil, including some massive losses by companies in commodity and foreign currency derivatives, the Commission — with consent of the member states — is setting up a working group of national government experts to assess the prudential supervision of the derivatives market.

COMMISSION UPGRADES EU ECONOMIC FORECAST

In its Spring Economic Forecasts, the Commission expects economic growth rates of 1.6% in 1994 and 2.5% in 1995, considerably higher than the estimates of 1.3% and 2.1%, respectively, from last November. This should be seen against the background of negative 0.3% growth in 1993.

The recovery is mainly export and investment driven, a pattern compatible with the medium-term strategy in the Commission's White Paper on Growth, Competitiveness (see EURECOM, December 1993). It also reflects stronger-than-expected economic performances in Germany, France and Italy. If present forecasts prove correct, EU GDP growth could accelerate further to 3% or more in 1996.

Still, while the general outlook has improved, EU unemployment projections give no grounds for complacency. Modest economic growth in 1994 and 1995 will be insufficient to reduce the EU's unemployment rate, which is expected to peak at 11.7% in 1994 and to fall only slightly to 11.6% in 1995.

Of the forces behind the Commission's more upbeat assessment of the EU economy, three stand out: a more favorable international economic environment, a further decline (recently assisted by the Bundesbank) in short-term interest rates in the Union and a restoration of business and consumer confidence.

First, a successfully concluded Uruguay Round and the improved performance of the US economy point to a more auspicious international economic environment for EU exporters than previously anticipated.

Second, given the good progress on the inflation front, coupled with budgetary and wage developments in line with the monetary stability objective, a continued decline in short-term interest rates is expected.

Last, heightened expectations of recovery, fewer uncertainties surrounding European integration and EU enlargement and the calm in the ERM (Exchange Rate Mechanism) since August 1993 have all contributed to improving the mood of economic agents, particularly in the business sector, since last summer.

QUOTES

"Economic integration alone will not be enough to create a stable European Union. The other objectives of the Maastricht treaty, a common security and foreign policy, must be implemented without undue delay." ***Edzard Reuter,*** *Chairman of Daimler-Benz.*

"We must stop being defensive about Europe. There must be self-criticism, but it must be done with optimism." Commission President ***Jacques Delors.***

"America's transatlantic policy is European in scope. It is not a series of individual or compartmentalized bilateral policies, and never has been. It is the policy of one continent to another." Outgoing US Ambassador to the UK ***Raymond Seitz.***

"My preference is to retain the wide (ERM) bands as long as possible and then see what to do (about EMU)... Exchange rate stability has been reinforcing itself, and stability is the fundamental objective." European Monetary Institute President ***Alexandre Lamfalussy.***

A CALL FOR OPEN EU MOBILE COMMUNICATIONS

After two years of research, the Commission has issued a Green Paper on mobile communications, aiming to hasten liberalization in the fastest growing sector within the EU telecommunications industry.

According to the paper, Europe now has more than 8 million mobile phone users, over double the number from three years ago. Further, there are also over 8 million users of other mobile communications services like pagers and private mobile radio systems. By the end of the decade the Commission forecasts that 40 million people will use some form of mobile communications.

Yet despite being the largest growth area in European telecommunications, the sector is still hampered by market barriers and fragmentation, holding back its tremendous potential.

With "mobility" being at the very heart of the Union, the Green Paper proposes five major changes to the current EU mobile communications environment in order to develop it further: 1) abolition of remaining exclusive or special rights in the sector; 2) removal of all restrictions on the provision of mobile services across the EU; 3) full freedom for mobile operators to develop infrastructure networks, whether self-provided or through another company's infrastructure; 4) unrestricted ability to offer combined services via both fixed and mobile networks; and 5) mutual recognition of standards, type approval and coordination of licensing and award procedures to facilitate pan-European operation and service provision.

COMMISSION RULES AGAINST FRANCE ON AIR ROUTES

The Commission recently decided that French authorities can no longer block EU airlines from exercising traffic rights on the Paris-London route operating from Orly airport as well as on some French domestic routes.

The decision follows a complaint by the French airline TAT (which is 49.9% owned by British Airways) that it was not allowed to operate on the London-Paris route from Orly, the most convenient Paris airport for the business traveler. TAT charged that the French government was violating the EU's Third Liberalization package for air transport.

Current French air traffic rules provide that French domestic flights and flights between France and Spain, Greece or Portugal can be operated from either Orly or Charles de Gaulle airports, but that other intra-Community international air services can only use Charles de Gaulle, including services between Paris and the UK.

In its decision, the Commission found that the distinction between French domestic flights and other intra-EU flights has discriminatory effects, particularly regarding access to French domestic connections via Orly. Further, it found that the French rules run counter to the single market, constituting "an unjustified obstacle" to the freedom to provide air transport services within the EU.

The Commission gave France six months to open up its Paris-Toulouse and Paris-Marseille routes, but said that London-Paris/Orly must be opened immediately to EU carriers. After much hesitation, and a bitter row between the French and UK government, France has agreed to open the London-Orly route, marking, in the words of UK Transport Minister John MacGregor "a victory for open European skies." Still, France has appealed the Commission's decision to the European Court of Justice.

...IN BRIEF

...Concerned about discriminatory investment policies on both sides of the Atlantic, both European and US multinational companies are advocating either an EU-US investment treaty or a broader investment accord among OECD members. "While the rules governing trade have advanced, most recently in the Uruguay Round, the rules on investment have not kept pace," said Mr. Willard Berry, president of the European-American Chamber of Commerce, which is heading the initiative for an investment treaty. "Practices are emerging everywhere that denigrate the national treatment principle," he added.

...Three years in the making, a group of six Central and Eastern European commercial banks belonging to the Brussels-based Clearing Bank Association (CBA) have started a private clearing system for the settlement of trade-related accounts in ecus (see EURECOM, March 1993). The system will deal with payments in 18 convertible currencies between the six banks, with a daily settlement in ecus provided by three western clearing banks — Belgium's Generale Bank, Italy's Bancario San Paolo di Torino and the UK's Barclays Bank. The Eastern European banks include two Czech and two Hungarian banks, one Slovakian and one Russian. According to the CBA, the system should expedite payment flows in the region and increase the safety of transactions.

...Spain has formally announced it will fully liberalize its telecommunications sector by 1998, five years ahead of the date suggested by the Commission and agreed by the Council last summer (see EURECOM, July/August 1993). Along with Ireland, Greece and Portugal, Spain had secured a derogation from full telecom liberalization until 2003. Now Spain, with one of Europe's fastest growing telecommunications markets, joins Germany, France, Italy, Denmark, the Netherlands and the UK in the EU's deregulation vanguard.

...Marcelino Oreja has replaced Abel Matutes as one of Spain's EU Commissioners. Matutes, who recently resigned from the Commission to run in the June European Parliament elections, was in charge of energy and transport policy, which Mr. Oreja now assumes. A former foreign affairs minister and MEP, Oreja will hold the post at least until December, when the current Commission's special two-year term expires.

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