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A RESOUNDING "JA": AUSTRIANS VOTE FOR EU MEMBERSHIP

The EU is now guaranteed to increase by at least one member state after Austria's landslide vote on June 12 to join the EU. Marking the first of the four EU candidate countries' referenda on accession, the Austrian result — 66.4% voted "yes" in an 81.3% turnout — is an encouraging start.

"Austria has stood its crucial test on Europe. The door to a bigger Europe is now open," said Austria President Thomas Klestil. Commented Commission President Jacques Delors: "The...result in Austria shows that despite Europe's problems, other peoples still want to join us in this beautiful adventure."

Up until a week before the referendum, polls predicted a close vote. However, outrageous scare tactics by the opposition (chiefly Jörg Haider's Freedom Party) combined with the pro-EU government's vigorous response, contributed to the overwhelming "yes" vote.

With its historical and commercial ties to Central and Eastern Europe, Austria will no doubt advocate a stronger EU presence in the region and become a valuable go-between on issues like EU membership for some former communist countries.

As EU member states' parliaments plod through perfunctory accession ratifications, the next real hurdle takes place on October 16 when Finland goes to the polls, followed by Sweden on November 13 and Norway on November 28. While surveys show a comfortable approval margin in Finland, a majority of Norwegian and Swedish voters are still clearly opposed. On the bright side, however, polls also indicate the "yes" vote will increase if neighbors vote in favor.

"This (Austrian) vote sends a positive signal to the other states which have applied to join. I hope citizens in Finland, Sweden and Norway make equally clear commitments to an integrated Europe," said German Foreign Minister Klaus Kinkel.

APATHY BIG WINNER IN EP ELECTIONS

Punctuated by the lowest EU-wide turnout (56.5%) since direct elections began in 1979, the European Parliament (EP) elections on June 9 and 12 yielded a mixed bag of results. For the most part, governing parties (with notable exceptions) fared poorly, particularly in Spain and the UK. Turnout ranged from just under 36% in the Netherlands and Portugal to 90.7% in Belgium (where voting is compulsory).

As in past elections, domestic rather than European issues predominated. At the expense of established parties, anti-EU parties did best in Denmark (winning 27.5% of the vote) and in France. Far right parties experienced slippage in France and Italy, and even failed to win seats in Germany, but made significant inroads in Belgium. Moderate center/right parties made gains across Europe, offset in part by Labour's drubbing of UK Prime Minister John Major's Conservative party.

In the election's biggest surprise, Helmut Kohl's Christian Democrats (CDU/CSU) defied opinion polls and improved on their 1989 showing, indicating that Kohl's prospects for victory in the October German general election are far from dead despite recession and record unemployment. In Spain, incumbent Felipe Gonzalez's Socialist party, dogged by scandals and 23% unemployment, lost its first nation-wide election in 12 years, losing by almost 10 percentage points to the conservative opposition. And Silvio Berlusconi's Forza Italia party proved its success in the recent Italian general election was no fluke by garnering 10 percentage points more in the EP poll (30.6%).

In the new, larger EP (expanded from 518 to 567 members to account for German unification), the European Socialist Party (courtesy of Labour) will remain the largest grouping with 200 members. Despite gains, the center-right, anchored by the Christian Democratic EPP (European People's Party) will be more fragmented due to the success of more Euro-skeptical elements like Forza Italia. In the EP, members are grouped according to political, not national, affiliation.

With more small non-aligned parties represented and traditional cooperation between the Socialist and EPP groups less likely, EP effectiveness in the post-

Maastricht EU will be severely tested. By using the new powers conferred by the Maastricht treaty effectively, including legislative co-decision with the Council on many issues, the Parliament hopes to win an even greater EU role in the future. But after the low voter turnout, coupled with its "gravy train" reputation, the EP has much to prove.

EASIER EU RULES FOR STOCK EXCHANGE LISTING

At the May 16 Ecofin Council, EU finance ministers formally adopted an amendment to a 1980 directive simplifying procedures for listing on European stock exchanges.

The new rules will ease cross-border listing requirements for securities of (mainly) large, internationally recognized companies which have been listed in the Union for at least three years and have complied with EU listing legislation. Such companies will be able to list on other member states' exchanges without publishing a new listing prospectus — a lengthy and costly process. Instead, firms will make available a simplified set of documents, i.e. their latest annual report and audited accounts, to investors in the host member states.

Further, this and other future information would not necessarily have to be published in a member state's official language, provided that the language used is an EU language and is easily understood in "the sphere of finance".

The amendment will also facilitate the transition to official listing of those companies on certain junior markets, when such companies are subject to disclosure requirements equivalent in substance to those imposed on officially listed companies (the junior and official markets being in the same member state).

These changes are based on the widely held assumption that the information required by investors to assess a firm's financial health and prospects is already in the market.

Expected to lead to a more efficient EU securities market, the directive will assist the launch of the Federation of European Stock Exchanges' much delayed EUROLIST project. EUROLIST aims to provide deeper and more liquid markets for around 250 — 350 if the whole European Economic Area is included — large, high quality EU companies by listing their shares simultaneously on at least five exchanges outside their home country.

EU-WIDE DEPOSITOR PROTECTION SEALED

EU finance ministers also formally adopted a directive providing minimum protection of 20,000 ecu (1 ecu=$1.18) for EU depositors in the event of bank failures.

The directive, which went through a Council-Parliament conciliation committee under the new co-decision procedure, initially called for 15,000 ecu of protection as of January 1, 1995, rising to 20,000 ecu of protection after a five-year transition period (see EURECOM, October 1993). In the committee, Parliament succeeded in raising EU-wide protection to 20,000 ecu as of July 1, 1995, except in the cases of Portugal and Greece (which have no deposit guarantee systems), Spain and Luxembourg. These countries must offer no less than 15,000 ecu of protection from July 1, 1995, and will have until December 31, 1999 to introduce insurance on the full 20,000 ecu.

Believing that depositors should bear some responsibility for investing in an insolvent bank, the Council and Parliament agreed that EU countries may limit the guarantee to 90% of the minimum 20,000 ecu.

Member states will be free to set (or keep) protection levels above 20,000 ecu, and will determine how their plans will be financed. However, member states will not be allowed to export higher deposit coverage than local banks in other member states until after December 31, 1999.

The Commission will review the amount of minimum coverage every five years, taking into account developments in the banking sector and the EU economic and monetary situation. If appropriate, the Commission will submit a directive to amend the minimum guarantee.

COMMISSION PROBES AIR FRANCE AID PACKAGE

In a closely watched case, the Commission has opened a full-scale inquiry into the French government's proposed record FF20 billion ($1=FF5.68) injection of new capital into Air France.

The French government notified the Commission of the intended capital increase in March 1994, which forms part of a restructuring plan to restore the airline's financial and economic health by the end of 1996. Air France lost FF3.2 billion in 1992 and a record loss of FF7.5 billion is expected for 1993.

On May 25, the Commission formally opened a state aid procedure on Air France's injection to verify whether the restructuring plan is sufficient to redress the plight of Air France and to assess the aid's effect on competition within the single market.

Under the procedure, the Commission will clarify, inter alia: that the aid would not adversely affect trading conditions on routes where the Air France group competes with other European airlines; that the aid is not disproportionate to restructuring needs; that the aid is the last granted to the group (see EURECOM, February 1994); and that it would not be used to acquire additional shareholdings in other EU carriers.

Already, the Commission has determined that the money involved is indeed state aid, subject to Article 92(1) of the Treaty, because it fails the "market economy investor principle". In light of Air France's huge debts, negative cash flows and continuous losses, coupled with the sector's low profit margin, the Commission considers that "a rational private investor could not expect, even in the long term, an adequate return on the investment under examination."

In addition, the Commission has serious doubts whether the injection qualifies for an exemption under Article 92(3)(c), which allows such aid where it does not distort "trading conditions to an extent contrary to the common interest."

The French government and all other interested EEA governments and parties (the case has an EEA dimension) have until July 3 to send their comments on the case to the Commission.

PROGRESS ON POST-BCCI DIRECTIVE

On June 6, the Ecofin Council has reached a Common Position on the so-called Post-BCCI (Bank of Credit and Commerce International) Directive, which intends to strengthen supervision of EU financial institutions to prevent BCCI-types of financial collapse.

Drafted by the Commission last July, the directive would amend seven existing EU directives on banking, insurance and financial services. Welcoming the Common Position, the Commission reiterated that the follow-up measures are necessary to complete the surveillance system foreseen in single market financial services directives, and to reinforce the capacity of authorities to monitor financial institutions adequately.

In particular, the directive would: expand conditions for approving credit institutions, including more detailed surveillance of branch offices; require credit institutions and insurance companies to have their principal operating office in the same member state as their legally registered headquarters; extend the list of bodies with which regulatory authorities can exchange confidential information on supervision; and oblige external auditors to inform competent authorities of any irregularities they come across.

QUOTES

*"I actually believe that [the Maastricht treaty] will destroy Europe." Billionaire **Sir James Goldsmith**, newly elected member of the European Parliament who ran on the anti-Maastricht "Another Europe" ticket in France.*

*"It would be...naive to claim that the creation of the single market has totally removed the considerable structural rigidities that continue to dog European competitiveness." Commissioner **Sir Leon Brittan**.*

*"I do not happen to think that it threatens Europe if (EU) member states are free to do some things in their own way and at their own speed. It is simply good old-fashioned common sense." British Prime Minister **John Major**.*

*"It is not by backtracking on social policy that we will resolve our [competitiveness] problems...Don't throw the baby out with the bath water." European Commission President **Jacques Delors**.*

*"Priority No 1 is to resist the temptation to over-regulate. Instead, the EU should continue creating conditions for the free play of market forces." **Percy Barnevik**, Chief Executive of Asea Brown Boveri.*

*"This illustrates a certain disinterest in Europe. People have the impression that Europe is just a show far away from their beds, something they have nothing to do with...They are wrong." Belgian Prime Minister **Jean-Luc Dehaene** commenting on poor EU-wide turnout for European Parliament elections.*

Now the directive must go back to the European Parliament for a "second reading" or consultation (with possible amendments) before the Council can formally adopt it.

COMMISSION ISSUES NEW GSP GUIDELINES

Spurred by the completion of the Uruguay Round and responding to new economic realities, the Commission has proposed revisions to the Generalized System of Preferences (GSP), an important component of the EU's trade and development policy. The review's chief aim is to redirect GSP benefits to the least developed countries (LDCs).

Introduced in 1971, the GSP grants tariff advantages on manufactured goods to developing countries which do not benefit from EU preferential trade agreements such as the Lomé Convention or the Mediterranean Program. In light of tariff reduction, and because more developing countries aim to join the multilateral trading system, the GSP is viewed as complimentary to GATT.

Since the last review in 1981, some beneficiary countries, in particular the east Asian "tigers", have made spectacular economic progress, enabling them to reap maximum advantage from GSP. On the other hand, many LDCs have scarcely benefitted from GSP. While no countries have yet been named, some "super competitors" will lose GSP benefits completely; others may lose it or have it scaled back only in certain competitive (or sensitive) sectors.

New GSP tariff concessions will be based on flexible, progressive reductions from most-favored-nation (MFN) schedules established in the Uruguay Round (i.e. 50% of MFN, 75% of MFN, 100% of MFN). They will vary according to likelihood that certain imports will be detrimental to domestic EU industry.

The Commission also wants to grant additional tariff reductions to LDCs that follow sound environmental policies and observe international labor standards. It will also favor regional integration of LDCs and efforts by the Andean Pact and others to combat the drug trade. And to assist South Africa's transition, the EU will extend it GSP treatment by the projected January 1, 1995 starting date for the new scheme.

...IN BRIEF

...With Europe mired in recession, it has become fashionable to speak of the US' Asia-Pacific future. Against this common perception, a joint Economic Strategy Institute-North Atlantic Research study contends that Europe will remain the US' most important economic partner for many years to come. Entitled "Shrinking the Atlantic: Europe and the American Economy", the report analyzes US-European relations in trade, foreign direct investment and technology, finding the overall US-Europe relationship more beneficial than comparable US-Asia links. For example, Asia accounts for nearly 75% of the US' $1.25 trillion in cumulative trade deficits since 1980. By contrast, US-EU trade has been roughly in balance since 1989, with the US running modest surpluses in some years. Further, the US tends to exchange raw materials for high-tech goods with Asia, which is not the case with Europe. Because trade with Europe is so vital, the study warns the US against allowing EU-US trade disputes to threaten the fundamental economic interests and values it shares with Europe.

...The EU and Ukraine have signed a partnership and cooperation agreement, establishing the prospect of a free trade area between them before the end of the century. In the meantime, both sides will extend "most-favored-nation" treatment, giving each other trading terms as good as those offered to GATT trading partners. The agreement also guarantees national treatment for EU companies established in Ukraine (with some limited exceptions). A similar accord with Russia is slated for signing at the Corfu European Council summit June 24-25.

...Contrary to popular belief, Germany is not the "paymaster" of the European Union. Although it is the largest net contributor in the EU, Germany "has clearly profited from more than three decades of European integration," says the German Federation of Chambers of Commerce (DIHT) in a new study. While the study includes detailed figures on Germany's financial contributions and receipts from structural, regional and research funds, it argues that the many indirect economic and political benefits of membership are more important. Accounting for nearly a quarter of all intra-EU trade, "Germany is the main beneficiary of free trade in the EU," it said.

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