EURECOM

Monthly bulletin of European Union Economic and Financial News

VOLUME 7, NUMBER 3 MARCH 1995

GROUP OF 7 "INFORMATION SOCIETY" SUMMIT MAKES STRIDES

The Group of 7 (G-7) ministerial conference on the "information society" which took place on February 25-26 in Brussels marked a number of firsts: not only was it the first G-7 meeting to concentrate solely on global information networks, but it was also the first such meeting ever hosted by the European Commission and attended by industry executives.

Progress in information technologies and communication is changing how we work and do business, how we educate, train and do research and how we are entertained. One of the most important tasks in the last decade of the 20th century is a smooth and effective transition to the global information society. The results of the conference show that the G-7 partners are committed to playing a leading role. For example, 11 pilot projects, ranging from electronic links to libraries and museums to a global emergency management system, were proposed as the first steps to promote the information society.

The world's seven largest industrialized countries (along with the Commission) also found common ground on many framework issues, including global interconnectivity of infrastructure, continued world-wide telecommunications liberalization, intellectual property protection and data security.

In his address to the summit, US Vice President Al Gore said the US would soon open fully its telecommunications sector to foreign ownership (foreign companies are at present restricted from holding more than 25% of a US telecommunications firm), but only to foreign firms whose home countries open their markets to US enterprises. Although EU Telecommunications Commissioner Martin Bangemann welcomed the US initiative, he wondered who would decide which countries would benefit — "the US Senate or someone else?"

For the Commission's part, it announced that two new advisory groups would be formed: one, an information society forum, representing users, trade unions and suppliers of hardware and services; second, a high-level group to address social issues related to the information society.

Commissioner Bangemann also emphasized that the information society must not be divided "into the have's and have-not's." South Africa's First Deputy President Thabo Mbeki, who spoke to the conference on behalf of developing countries, hit this home, telling the ministers that "there are more telephone lines in Manhattan, New York than in sub-Sahara Africa."

To realize the potential of the global information society, the G-7 partners agreed to cooperate in the following areas: promoting dynamic competition; encouraging private investment; defining an adaptable regulatory framework; and providing open access to networks. They assured that they would do this while: ensuring universal provision of and access to services; promoting equality of opportunity to the citizen; promoting diversity of content, including cultural and linguistic diversity; and recognizing the necessity of worldwide cooperation with particular attention to less developed countries.

CURRENCY TURMOIL FORCES PESETA, ESCUDO DEVALUATION

Turmoil in world currency markets has led to a flight from the US dollar (and other currencies) to the "safe haven" German mark, bringing the exchange rate mechanism (ERM) of the European Monetary System — after a 16 month respite — once again under acute pressure (see EURECOM, September 1993). This, combined with recent domestic political uncertainty and financial scandals, forced the Spanish government to seek a devaluation. After a meeting on March 5, the EU Monetary Committee announced a 7% devaluation of the peseta as well as a 3.5% devaluation of the Portuguese escudo against the other ERM currencies.

For Spain, this is the fourth ERM devaluation since September 1992; for Portugal, its third. In the escudo's case, the 3.5% devaluation stemmed more from Portugal's large volume of trade with Spain and perceived links to the peseta in international markets rather than from macro-economic or political factors.

According to Economic and Monetary Affairs Commissioner Yves-Thibault de Silguy, the decision to realign the peseta and the escudo is proof that the EU's ERM works. Both currencies remain "at the heart of the exchange rate mechanism," he said.

Realignment, while rare and not always desirable, is an essential feature of an adjustable-peg mechanism like the ERM. The ERM is by no means a system of fixed exchange rates.

Commissioner de Silguy also stressed that the progress toward a single currency was not affected by the decision and that all the preparatory measures for its achievement should be in place by the end of 1996.

In a communique, the EU Monetary Committee reported the Spanish government's pledge to reduce its budget deficit and to stay within the ceilings established in its revised convergence program (i.e 5.9% of GDP for 1995). Further, structural reform to improve the economy's efficiency, including privatization and labor market deregulation, will be a high priority.

MEMBER STATES IMPROVE SINGLE MARKET IMPLEMENTATION

According to the latest Commission figures, member states have reached 90% implementation (as opposed to Council adoptions, which is at 95%) of the White Paper single market measures. Still, despite the progress, implementation continues to vary considerably by member state and by sector.

Among the member states, Greece (77%) and Germany (84%) bring up the rear, while traditional stalwart Denmark (95%) heads the class, followed closely by France (94%) and Luxembourg (93%).

By sector, the member states are behind in "transposing" legislation in public procurement, intellectual property, insurance and pharmaceuticals. In particular, implementation of public procurement directives lags badly at 67%, with many member states avoiding the requirement to put government contracts up for EU-wide tender.

The Commission stressed that failure by the member states to respect an implementation deadline (as well as to implement single market measures properly) would automatically result in formal infringement proceedings under Article 169 of the Treaty of Rome. If a member state still refuses to implement the legislation, the case would eventually be referred to the EU Court of justice.

PROGRESS IN FIGHT AGAINST MONEY LAUNDERING

Implementation of the EU's 1991 directive on money laundering "has had an obvious impact on the establishment of anti-money laundering systems by the member states" according to a report just released by the Commission. However, the report (which covers only the "Twelve" member states) also calls on all the EU countries to ratify the Vienna (UN) and Strasbourg (Council of Europe) Conventions concerning criminal law in the field of money laundering.

Going beyond the directive, the report also suggests that the EU should make full use of Title VI of the Maastricht Treaty with regard to judicial and police cooperation (including the use of Europol).

"This report shows that encouraging progress has been made in the fight against money laundering," commented Internal Market Commissioner Mario Monti, "but we can't afford to rest on our laurels."

The directive obliges credit and financial institutions to require identification of all their customers when beginning a business relationship (especially the opening of an account or a safe-deposit box), when a single transaction or linked transactions exceed 15,000 ecu (1 ecu=$1.28) or when they suspect laundering. Germany, Belgium, France, Ireland, Italy, Luxembourg and Portugal have set their thresholds below 15,000 ecu. Suspect transactions cannot be carried out until responsible national authorities have been informed.

Since the directive's passage, laundering of money from drug trafficking has been made a criminal offense in all 12 member states, irrespective of where the principal offense is committed. When the Commission first proposed the directive in 1990, laundering of drug proceeds was a criminal offense in only one member state. And laundering of money from all criminal activities is a criminal offense in six member states (Denmark, Germany, Ireland, Italy, the Netherlands and the UK), while laundering of proceeds from a wide range of activities is outlawed in the rest.

COMMISSION PROPOSES WORLDWIDE INVESTMENT RULES

Following up on External Affairs Commissioner Sir Leon Brittan's recent call for worldwide investment rules (see EURECOM, February 1995), the Commission has sent a Communication to the Council on the creation of a global investment instrument to open investment markets.

According to Hugo Paemen, deputy director-general of DG I (External Economic Relations) and the EU's chief trade negotiator, the Commission paper is both highly important and unspectacular: it is important due to the sheer size of investment in the world economy, and unspectacular because it is only the first step in a long-term process. "It is essentially a kind of Uruguay Round for investment that we intend to launch," he said.

Studies have shown that investment is becoming a determining factor in external economic relations. Traditionally, trade has generated investment, but this has now reversed: investment is viewed as the best way of generating trade as companies establish themselves in new territories to capture markets. Correspondingly, the EU and the US together absorb — both in terms of inflows and outflows — 50-60% of all foreign direct investment (FDI). Yet the share of developing countries in worldwide FDI has risen to nearly 40% according to a recent UN study.

In this new initiative, the primary EU objectives are to open markets, to ensure equal treatment and to stop other rules from hampering the operation of investments once establishment has been achieved. Further, it wants a solid dispute settlement mechanism.

As to the appropriate forum, the EU favors maximum use of the OECD, which has already established a non-binding investment code. However, Paemen commented that parallel negotiations in the WTO should also start as soon as possible because most investment obstacles are found in non-OECD countries. Preferring the bilateral approach, the US favors use of the OECD, said Paemen, while the EU, whose very structure militates against bilateralism to achieve trade objectives, is more comfortable with multilateral fora.

QUOTES

"We (Europeans) have to be the designers, the constructors, content providers, repairers and the financiers of the global information society and not technology hitchhikers in the wrong galaxy." Commission President ***Jacques Santer****.*

"We need the strengthening of competitiveness of the European media industry through deregulation. We need cultural diversity without protectionism." ***Michael van Swaaij****, director of new technologies at Bertelsmann, the German media group.*

"Without fixed exchange rates between European currencies, the single market will never be secure because political pressure on national governments towards competitive devaluation or protectionist measures against devaluing countries cannot be excluded." Commissioner ***Mario Monti****.*

"It (1997) is not certain and if a single currency is not reached by then there is a real danger of weakening the credibility of our monetary approach. I prefer therefore to speak of 1999...Let's practice a policy which envisages 1997 and then we will have every chance of not missing 1999." Luxembourg Prime Minister ***Jean-Claude Juncker****.*

"The single currency is a good idea in principle if economies run at the same rate. The problem is that they don't." ***Roger Leverton****, CEO of Pilkington, the UK glassmaker.*

BREAKTHROUGH ON DATA PROTECTION DIRECTIVE

After more than four years of negotiations, EU industry ministers have adopted a Common Position on data protection rules, aiming to ensure the free movement of personal data while maintaining a high level of privacy protection for individuals throughout the Union. Now the legislation goes to the European Parliament (under the co-decision procedure) for approval, where it awaits a lively debate.

Once adopted, the directive will narrow the differences between national data protection laws which, at present, limit the growth of financial products (e.g. mortgages and life insurance) and mail order businesses ("distance selling") across the single market. If each member state had its own set of data protection rules, for example on how data subjects could verify the information held on them, cross-border provision of services, notably over the information highways, would be virtually impossible, and this extremely valuable market opportunity would be lost.

The legislation sets out common rules for those who collect, hold or transmit personal data as part of their business or administrative activities. It obliges them to collect information "only for specified, explicit and legitimate purposes", and to hold it only if it is "relevant, accurate and up-to-date."

The directive will also allow individuals to refuse to provide information and entitles them to be informed of the identity of organization using the data and for what it will be used. Other important rights include: the right of access; the right to know where the data originated; the right to have inaccurate data rectified; and the right to recourse in the case of unlawful processing.

Member states will have certain latitude in implementing the directive. For example, they will determine how to reconcile freedom of the press and privacy.

EP KILLS BIOTECH DIRECTIVE

It's back to the drawing board on biotech for the EU after the European Parliament's veto of the directive on the legal protection of biotechnological inventions.

For the first time, the EP rejected a compromise text worked out by a Council-EP conciliation committee under the codecision procedure. The legislation, which has been under discussion for almost seven years, failed, in the end, because many MEPs complained it still did not have enough ethical safeguards in areas like animal welfare and the use of human genes and body parts.

"Without common legislation, European (biotech) research and the use of results for therapeutic purposes will be discouraged and at a disadvantage compared to competitors in third countries," commented Internal Market Commissioner Mario Monti.

"The negative message that this sends to would-be investors in Europe's future cannot be overstated," said the European Federation of Pharmaceutical Industries' Association. "We in Europe have taken another step down the road to becoming just consumers of innovative health-care products, rather than worldwide suppliers," it said.

Because it believes the single market cannot function properly with separate national rules in this area, the Commission has decided to redraft the directive.

...IN BRIEF

...In the just released fifth annual Eurobarometer poll of Central and Eastern European countries (CEEC) and New Independent States (NIS), three out of four Russians (west of the Urals) oppose moving toward a market economy. However, while support for a market economy has dropped 25 percentage points in Russia since the last survey, it has jumped 19 percentage points in Romania.

Based on interviews with 18,834 people in 18 CEEC and NIS countries, the poll also shows that Russia is viewed as increasingly more important in the republics of the former Soviet Union except Georgia and the Baltic states.

Absolute majorities in all Europe Agreement countries (Poland, Hungary, Czech Republic, Slovakia, Romania and Bulgaria) believe private business will be the clear winner as their country increases its ties with the EU. But an absolute majority of farmers in these nations (58% to 17%) think that they will lose out from eventual EU membership.

...According to a recent Eurostat report, the European Union still exhibits substantial regional economic disparity. Based on 1992 data, twelve regions in the EU-15 have per capita GDP below half of the EU average, including the new German Länder: Thüringen (38%), Mecklenburg-Vorpommern (41), Sachsen (42), Sachsen-Anhalt (43) and Brandenburg (44); the Greek regions of Voreio Aigaio (45) and Ipeiros (47); the French overseas departments of Guadeloupe (37) and Réunion (45); and the Portuguese regions of Alentejo (41), Madeira (44) and Centro (48). No region in Greece or Portugal attains the EU average (15,882 ecu per head) and only one, the Balearics, does in Spain. At the other end of the spectrum, seven regions have per capita GDP higher than 150% of the EU average: Hamburg (196), Brussels (174), Darmstadt (174), the Paris region (169), Vienna (166), Bavaria (157) and Bremen (155).

...Commission President Jacques Santer welcomed the UK and Irish governments' Framework Document on Northern Ireland as "a further important step towards peace and reconciliation" in the province. The EU has consistently supported moves towards peace in Northern Ireland, most recently through a decision to allocate 300 million ecu (in addition to other EU regional programs) to foster economic development and regeneration and grassroots cross-border cooperation.

...On April 20 and 21, 1995, Fordham University School of Law will present its third annual conference on International Intellectual Property Law and Policy in New York City. Featuring speakers from the European Commission, WIPO (World Intellectual Property Organization), the US government, academia and the US and international bars, the two-day conference will analyze international developments in copyright, patent and trademark law (e.g. "The Effect of EU Copyright Directives on Doing Business in Europe"). For more information, please contact Helen Herman at (212) 636-6885.

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Printed on Recycled Paper.

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