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COMMISSION OPENS CABLE TV TO MULTIMEDIA SERVICES

After consulting member states and interested parties, the Commission has directly adopted legislation lifting restrictions on the use of cable TV networks for the EU-wide provision of liberalized telecommunications services — in particular multimedia services such as home shopping and on-line data bases — by January 1, 1996 (see EURECOM, January 1995).

The Commission adopted the directive under Article 90 of the EC treaty, now the featured vehicle for the EU's telecommunications liberalization drive. It allows the Commission to issue legislation without Council or parliamentary approval when acting in the public interest against public monopolies. Amending the 1990 Telecom Services Directive, the cable legislation does not affect the member states' right to maintain national monopolies in voice telephone service until January 1, 1998.

At present, most EU countries still limit cable TV networks to simple, one-way television broadcasting services, preventing cable operators from providing new interactive multimedia services in which they (through broad-band co-axial cable) have a built-in technical advantage over national telecom operators' (NTOs) networks. Only the UK already meets fully the liberalized conditions called for by the directive, and France and the Netherlands in part.

Where national telecom monopolies also operate cable networks (e.g. Germany), they must keep separate books for the two operations so that predatory prices for cable services are not "cross-subsidized". Before January 1, 1998, the Commission will assess whether this accounting separation is sufficient to avoid abusive practices.

While Competition Commissioner Karel Van Miert admits that the development of liberalized telecom services has been disappointing since the 1990 deregulation, he is convinced the cable directive will encourage investment and provision of new services, giving companies a viable alternative to NTOs' overly expensive high capacity lines.

MORE SCRUTINY FOR INSURANCE GROUPS

To provide policyholders a higher level of protection, and to guarantee a level regulatory playing field, the Commission has proposed a directive to tighten supervision of EU insurance groups.

Complementing existing single market legislation in the insurance sector, namely the Third Life and Non-Life Insurance Directives, the proposed directive calls for national authorities to look beyond individual insurance firms to assess their financial strength when they belong to a group. Initially, a subsidiary would be considered part of a group if the parent company owns at least a 25% stake.

The legislation covers three main issues: information on insurance companies in a group would have to be more easily available, accessible and exchanged between regulatory authorities; intra-group transactions between member companies would have to be reported to authorities at least once a year (with transactions adhering to the "arm's length principle"); and, most important, "double counting" or "double gearing", i.e. when several insurance firms in the same group count the same capital more than once for covering their minimum regulatory capital requirements, would have to be eliminated.

The proposal does not, however, impose a single supervisory method on national regulators: it will require that certain objectives be met in verifying the solvency and accounts of such groups, but will permit a range of techniques to be used by member state authorities.

Equivalent EU legislation already exists for supervision of groups of banks and securities firms (see EURECOM, April 1992), but compared to these groups, there is a lower risk of "contagion" between an insurer in financial crisis and its parent or subsidiary insurance companies. Hence, the Commission believes there is less merit in applying the banking and securities "supervision on a consolidated basis" to insurance groups.

The Commission aims to have the legislation in place by July 1, 1997, but this depends on timely approval by the Council and the European Parliament under the (often lengthy) co-dècision procedure.

AFTER CONCESSIONS, ATLAS JV SET FOR CLEARANCE

In a landmark case, the Commission has reached an agreement in principle with state-owned **France Telecom** (FT) and **Deutsche Telekom** (DT) — along with French and German governments — on the proposed **Atlas** data transmission joint venture after securing concessions to prevent a limitation of competition.

Satisfying one of the Commission's chief concerns, FT and DT agreed that Atlas would not be allowed to offer low-level data services like e-mail on the French and German markets until January, 1998 — the EU's deadline for full telecom services and infrastructure liberalization. "We really thought it was needed because...in the run-up to January 1, 1998, Atlas could build further on an already dominant position on its home markets," said Competition Commissioner Karel Van Miert.

Further, and most important for EU telecommunications in general, France and Germany have agreed to permit alternative telecom networks, such as those operated by utility and railway companies, to compete against FT and DT by July 1, 1996.

Before 1998, Atlas will be able to offer pan-European, international or "value-added" (e.g. corporate communications networks) services — a significantly smaller slice of Atlas's expected market. To enhance its international reach, however, Atlas has proposed a strategic alliance with US-based **Sprint** to operate a data transmission venture called **Phoenix**. Van Miert has said before that he sees no problem with Phoenix, and he remarked that now the two deals will be considered as a package. Having already cleared the US Department of Justice, Phoenix now awaits the opinion of the US Federal Communications Commission.

Van Miert expects a formal EU decision on Atlas and Phoenix by late next spring.

EU EMPLOYMENT STRATEGY ON TRACK (SO FAR)

If the EU manages to achieve its objective of 3 - 3.5% investment-led annual economic growth through 2000, EU unemployment could fall from the current rate of 10.7% to 7.5 % by the end of the century. And if these macroeconomic developments are accompanied by structural measures to increase the employment intensity of growth, unemployment could fall another 2.5%.

These bold projections are found in the Commission's October 1995 report on the European Strategy for Employment, which was agreed at the Essen European Council last December (see EURECOM, December 1994). The update reflects the Commission's two-track approach to reduce unemployment, which combines macroeconomic measures to restore member states' public finances (and to prepare for EMU) with vigorous structural reform in labor market policies.

According to the Commission, the basic conditions for growth and new jobs in Europe are better than they have been for 20 to 30 years: EU inflation is lower than at any time in the last three decades; business profits are high; and the EU is enjoying a trade surplus. Further, member states are starting to put social security and pension systems on a sounder footing, and recent collective bargaining arrangements are contributing to lower wage expectations.

Amid the optimism, however, the report warns that there are plenty of potential pitfalls. External shocks, such as continued dollar weakness against European currencies or further intra-EU currency turbulence, could derail progress. In addition, EU social partners must continue working together to avoid inflationary wage settlements, governments must commit themselves to further labor market reforms (including more vocational training) and businesses must transform their current, high profits into new investment and jobs.

While welcoming the report's emphasis on better training and reduced non-wage costs to stimulate employment, EU finance ministers questioned whether unemployment could be reduced as much as the Commission contends, with some of them warning against over-optimistic growth assumptions.

MONETARY TURMOIL AND THE SINGLE MARKET

A new Commission study on the effect of monetary fluctuations on the single market finds that the overall effect on cost competitiveness, considering both "hard" and depreciating currency countries, is largely neutral, requiring no remedial action (e.g. compensatory payments) as some countries and industries would like. They do, however, create certain difficulties for the EU economy, although these are in no way attributable to single market rules.

The EU has witnessed considerable currency fluctuation since the summer of 1992; in fact, five currencies (those of the UK, Italy, Spain, Portugal and Sweden) have depreciated by 20% or more against the stable EMS currencies in three years. Despite these large movements, only Italy and Sweden recorded appreciable gains in cost-competitiveness, while Spain experienced a drop and the UK stayed the same. Of the countries with appreciating currencies, Germany saw a clear decline in cost competitiveness, but France remained stable.

Member states' trade balances seem to be less influenced by currency fluctuations than by structural factors and growth differentials between countries. Further, exporters in countries whose currencies have depreciated have improved their profit margins since 1992, whereas exporters have reduced theirs, thereby limiting the visible macroeconomic effect of the fluctuations, at least in the short- to medium-term.

Still, among certain sectors, notably automobiles and textiles, an erosion of profit margins and a decline in exports (in volume terms) have occurred in the "hard" currency countries. Also, some border regions close to the weaker currency countries have also experienced some specific difficulties. It is still unclear how firms will respond to the resulting changes in profitability, as some might pursue "more aggressive commercial policies" while others might use increased profits for investment.

Unquestionably, the chief cost of currency turmoil is the resulting uncertainty among economic agents which, according to the study, has shaved off 0.25 to 0.50 percent-

age points (dollar-related effects included) from the EU's 1995 GDP growth rate. Europe can ill afford this type of drain: without sustained growth, the EU's excessive unemployment cannot be reduced (see previous piece).

In the end, the Commission believes the single currency is the essential complement to the single market, and that EMU (economic and monetary union) is the appropriate response to the difficulties monetary fluctuations cause the European economy. Any other solution would risk being worse (e.g. further fragmentation of the single market) than the problems it seeks to resolve.

The Commission will soon publish a separate study on how non-EMU member state currencies could be linked to the single currency in some sort of exchange rate mechanism.

QUOTES

"...If the US wants to be effective around the world in promoting our shared values of support for human rights and democracy and belief in market economies, there are many areas where it can only succeed if it works closely with the EU — even if the EU is not the easiest animal with which to deal." Commission Vice President ***Sir Leon Brittan*** *in a speech to the EU/US Journalists Conference at Airlie, VA on October 31.*

"You will not have EMU (European Monetary Union) without a political roof." Former European Commission President ***Jacques Delors.***

"The Intergovernmental Conference (IGC) must do for foreign and security policy what Maastricht did for economic and monetary union." German Foreign Affairs Minister ***Klaus Kinkel.***

"(European Parliament) rejection will give the upper hand to the fundamentalists here and in the region because the Moslem world looks up to Turkey as a model. Turkey needs Europe, but Europe needs Turkey even more." Turkish Prime Minister ***Tansu Ciller,*** *commenting on the upcoming EP vote on a Turkey - EU customs union.*

"For too many politicians, Europe has become a vehicle for their flights of fancy; the national debate must be less political and more practical." ***Robin Gelard,*** *president of the British Chambers of Commerce.*

"NOVEL" FOOD RULES MOVE FORWARD

After more than a year of deadlock, the Council has reached a Common Position on controversial rules for the marketing and labelling of novel foods and food ingredients, including genetically-modified organisms. The proposed regulation now goes to the European Parliament for approval (under the co-decision procedure), where it faces a rough ride.

If adopted, the legislation would help complete the single market for foodstuffs, provide protection and information to consumers and set a legislative standard for new technologies in the EU.

The compromise (to which Austria, Germany, Sweden and Denmark were opposed) establishes labelling rules to inform consumers of any difference between a "novel" and conventional food in terms of properties or characteristics. And any food product containing a genetically-modified living organism would have to be clearly labelled as such.

To illustrate how the regulation would apply, a tomato containing a genetically-engineered strawberry protein would have to be labelled to alert consumers allergic to strawberries. However, sugar from a beet that has been genetically-modified to resist disease would not have to be labelled, because the resulting sugar would be no different than that derived from "conventional" beets.

The legislation would require manufacturers to secure permission before placing new foods or ingredients on the market, with some exceptions for products substantially equivalent to existing foods. Approval could come from a member state government, which would be obliged to give the Commission and other EU countries time to scrutinize. Under some circumstances, a product would require EU approval under procedures involving a panel of member state experts and the Commission.

...IN BRIEF

...In response to the oft-asked question "which member state has the next EU Council presidency?", we considered it an opportune time to list future presidencies into the next century. Spain currently holds the six-month rotating office, which runs through December. Thereafter (barring any institutional changes in the upcoming IGC) the order is as follows: 1st half **1996:** Italy, 2nd half: Ireland; **1997:** Netherlands, Luxembourg; **1998:** the UK, Austria (its first ever); **1999:** Germany, Finland (its first); **2000:** Portugal, France; **2001:** Sweden (its first), Belgium.

...In 1994, taxes and social contributions amounted to 41.7% of EU GDP according to a report just published by Eurostat. At closer examination, however, considerable variation exists among the member states. At 51.2% of GDP, Denmark collected the most taxes and social contributions in the EU, followed closely by Sweden (50.4%) and the Netherlands (47.5%). Predictably, the UK registered the lowest ratio at 33.8%, while both Spain (35.8%) and Ireland (37.6%) fell under the 40% mark. Looking only at taxes, Spain collected the least total tax in terms of GDP (22.7%); broken down even further, France surprisingly collected the smallest percentage of tax on wealth and income — 10.1% of GDP — compared with the EU average of 13%. By far, Denmark was the EU's taxation champion (49.5% of GDP), but this is because its social welfare system is almost entirely financed by taxes. Hence, Denmark also had the lowest percentage of social contributions by employees and employers (1.7%). At the high end of social contribu-

tions was the Netherlands at 19.8%, compared with 15% EU-wide.

...Based on the results of a survey of over 2,500 European companies, the Union of Industrial and Employers' Confederations of Europe **(UNICE)** has published a report calling for a special EU Commissioner to oversee EU regulatory reform, and a minister designated for the same purpose in each member state. Entitled "Releasing Europe's Potential through Targeted Regulatory Reform", it says that firms want less and more relevant (and efficient) legislation. Tax regulations cause the most headaches, followed by employment and environmental laws. Contrary to popular belief, however, the report says that fault for over-regulation lies not in Brussels, but at the national and regional levels where most regulations are made.

...**The European Institute**, a Washington-based research group, has released a timely report on ways to strengthen the EU-US relationship in light of the EU's 1996 IGC. The study, "A Transatlantic Blueprint", advocates negotiations for a Transatlantic Free Trade Area (TAFTA) after the EU concludes its IGC. This would not be an attempt to reserve free trade for rich nations at the expense of developing countries, but rather a catalyst for a wider process of trade liberalization. Global negotiating "Rounds" via the WTO are becoming unrealistic: too many issues, players and interests are now involved, says the report.

More immediately, the study maintains that the EU and US should enter negotiations on a "Transatlantic Economic Area", which would address non-tariff barriers to trade. Among areas for negotiation (and where work has already started) would be technical regulations and standards, government procurement, competition policy and intellectual property.

Further, the "blueprint" admonishes the US Treasury and the Federal Reserve for lack of attention to European Economic and Monetary Union, a crucial medium-term test for EU integration. A single European currency would have implications for the dollar as a reserve currency and the balance of power within the Group of Seven industrialized countries.

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