EURECOM
Monthly bulletin of European Union Economic and Financial News

VOLUME 7, NUMBER 11 DECEMBER 1995

EU, US LAUNCH NEW TRANSATLANTIC AGENDA IN MADRID

EU-US relations moved into a new era on December 3 with the adoption of a **New Transatlantic Agenda.** Formally endorsed at the EU-US summit in Madrid by US President Bill Clinton, European Commission President Jacques Santer and Spanish Prime Minister (and current EU Council President) Felipe Gonzalez, the New Agenda aims to make the EU-US partnership more effective in the post Cold War world through joint efforts over a wide range of international economic and political issues.

EU Commission Vice President Sir Leon Brittan, responsible for transatlantic relations, said: "What we have here is both the vision and the action, and the combination of vision and action is a potent one. We have to work together and together we have to work for a better world."

The most comprehensive and far-reaching definition of the relationship since the Transatlantic Declaration was signed in November 1990, the New Agenda commits the EU and the US to deepen their cooperation in some 120 joint actions covering four priority areas: promoting peace and democracy around the world; responding to global challenges; expanding world trade and economic relations; and "building bridges" across the Atlantic.

In terms of **promoting peace,** support for the Middle East Peace Process, assisting the establishment of peace and reconstruction in the former Yugoslavia and helping to consolidate political and economic reform in Central and Eastern Europe and the New Independent States are just several (among other) areas where common efforts are envisioned.

In response to **global challenges,** both sides resolve to fight international crime jointly, including active cooperation between the US and the future European police organization, EUROPOL. Further, they pledge greater cooperation to combat diseases such as AIDS and to improve the effectiveness of multilateral efforts to protect the environment.

By ensuring the new World Trade Organization works as intended, by fully implementing (and finishing) Uruguay Round commitments and by promoting common approaches to new multilateral trade issues (e.g. investment, competition policy and labor standards), the EU and US will work together to **expand world trade and economic relations.** Along these lines — following recommendations of the first-ever meeting of the **Transatlantic Business Dialogue** (TABD) last month in Seville, Spain — the New Agenda calls for a joint study into further reduction or elimination of transatlantic tariff and non-tariff barriers, possibly leading to a "Transatlantic Marketplace". In fact, the New Agenda contains an EU-US agreement to negotiate mutual recognition of product standards and testing and certification procedures in a number of sectors.

Last, both sides pledge to **"build bridges"** across the Atlantic, nurturing "the mutual understanding and...shared purpose that has been the hallmark of the post-war period." This entails action in four areas: business, science and technology, education and culture. As indicated in Seville, the TABD represents a major new "span" across the Atlantic, illustrating that EU and US business leaders will devote time and effort to improve the economic relationship.

EURO-MED CONFERENCE BREAKS NEW GROUND

The EU Fifteen and 12 Mediterranean basin states — Cyprus, Malta, Morocco, Tunisia, Algeria, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria and Turkey — achieved a far-reaching Declaration on closer cooperation at the Euro-Mediterranean ministerial conference in Barcelona on November 28 (see EURECOM, July/August 1995).

Despite Middle East rivalries and large disparities in levels of development, the 27 conferees agreed in the Declaration to respect human rights, cultural and religious diversity, freedom of speech and national sovereignty, to fight international crime and drug trafficking and to address the politically-charged problem of illegal immigration.

Economically speaking, the Declaration calls for a free trade area in industrial goods by 2010, along with progressive liberalization of trade in agricultural goods and trade in services (including the right of establishment) with due regard to GATT. It also underscores the importance of creating "an environment conducive to investment." To this end, the EU has maintained its pledge of 4.6 billion ecu (1 ecu=$1.28) in aid to the region for education and infrastructure projects over the next five years. Further, the UK government and the European Commission will conduct a joint study on how to attract foreign investment to the Mediterranean basin. The results of this study will be presented at a London conference later next year.

Having already signed bilateral association agreements with Israel, Morocco and Tunisia, the EU has made a good start toward a Mediterranean free trade area. However, North African and Middle East nations will have to integrate their own economies more intensely if they are to secure full access to EU markets.

Although the EU derives almost a quarter of its total energy imports from the Mediterranean countries at present, overall trade flows are still very small, with the EU running a sizeable surplus.

EMI RELEASES SCENARIO FOR THE SINGLE CURRENCY

The European Monetary Institute (EMI), the forerunner to the future European Central Bank (ECB), has published its reference scenario on the changeover to the single currency. It corresponds, in large measure, to the Commission's Green Paper on the transition to the single currency (see EURECOM, June 1995), albeit with some significant differences.

Under the EMI's timetable, around one year before the start of stage III of economic and monetary union (EMU) on January 1, 1999, the European Council will decide which countries will participate in the European currency area. This will be followed by the establishment of the ECB.

On January 1, 1999, exchange rates between participating member state currencies will be replaced by irrevocably locked conversion rates. The national currencies and the single European currency will become "different expressions of what is economically the same currency." National banknotes will remain the only bank notes with legal tender status until the introduction of European banknotes. The ECB and the European system of central banks (ESCB) will start conducting a single monetary policy in the European currency, and public debt will be denominated in it as well. Still, private economic agents, like commercial banks, will not be compelled to use the single currency (which the Commission's Green Paper advocates), although they could.

Three years after the start of stage III at the latest, the ESCB will begin issuing European banknotes and exchanging them for national banknotes and coins. Six months after the first day of introduction (compared with several weeks under the Commission's scenario), the changeover will be complete; national banknotes and coins will lose legal tender status in favor of the European ones.

"Practical considerations make inadvisable a near-instantaneous changeover following a sufficiently long preparatory period," said the EMI report. (The Commission believes this should happen as fast as possible.)

The EMI stresses that a clear legal framework for the single currency must exist from the very first day of stage III to provide economic agents with certainty vis-a-vis the single currency and its irrevocably fixed conversion rates with participating national currencies. And for the changeover to be credible to citizens, it must be relatively simple, user-friendly and cost-effective, aimed at avoiding competitive distortions.

EU finance and economic ministers have broadly endorsed the EMI's approach, but the final details on the changeover to the single currency, along with a decision on its name, will be decided at the Madrid European Council on December 15-16.

EU ECONOMIC OUTLOOK FOR 1996-97

The pace of the EU's economic recovery has slowed down in 1995, but healthy fundamentals should lead to a pick-up in growth late in 1996 according to the Commission's economic forecasts for 1996-97.

Slower growth in 1995 (EU GDP growth is expected to be 2.7% instead of the earlier 3.1% forecast) is primarily attributable to **currency fluctuations,** particularly against the US dollar, but also to the lack of credible budgetary consolidation in some member states. Nevertheless, fundamental factors (continued growth in world trade, improved business profitability, wage moderation and a good economic policy mix) augur well for **steady GDP growth,** which should reach **2.6% in 1996** and accelerate to **2.9% in 1997.**

After peaking at 11.4% in March 1994, the EU's **jobless rate** will drop to around **9.5% by the end of 1997** through the net creation of 2.4 million jobs in 1996 and 1997. Implementation of the European strategy for employment (see EURECOM, November 1995) could further improve the situation in the labor market.

As regards inflation, the forecast is for continued good performance: the inflation rate in most member states is around 2% or less, and **average EU inflation will fall from 3.1% this year to 2.7% in 1997.** Moderate increases in nominal wage levels will restrain increases in unit labor costs, and import prices will not feed inflation. This trend represents a degree of consensus across the EU found in no other policy area: price stability is considered essential to face the challenges of the real economy, especially unemployment.

Budget deficits will fall across the EU in 1996 and, assuming unchanged policies, also in 1997. The aggregate EU public deficit, which stood at 6.2% of GDP in 1993, will drop to 3.8% in 1996. For 1997, the forecasts show that eight member states (Denmark, Germany, France, Ireland, Luxembourg, the Netherlands, Finland and the UK) should be running a deficit of less than 3% of GDP, the Maastricht criterion for the single currency. **Average public debt** across the EU is expected to stabilize at around 71% of GDP over the forecast period. At present, only four countries (Germany, France, Luxembourg and the UK) have a public debt to GDP ratio of less than 60%.

NEW APPROACH TO EU FINANCIAL REPORTING

To secure easier access for European firms to international capital markets, and to improve comparability of consolidated accounts in the single market, the Commission has proposed an initiative to align, where possible, EU accounting rules with international accounting standards promoted by IASC (International Accounting Standards Committee) and IOSCO (International Organization of Securities Commissions).

In many cases, EU firms looking to raise capital on international markets have to prepare two sets of accounts because the major securities markets outside Europe do not accept accounts based on EU member states' legislation. For example, when Daimler Benz sought a listing on the New York Stock Exchange, it had to reorganize completely its accounting system to meet requirements imposed by the US Securities and Exchange Commission.

In addition, the necessity of two sets of accounts (and a corresponding lack of comparability across Europe) is confusing to investors, and reduces the credibility of EU accounting rules.

Looking to avoid major new EU legislation, the Commission has proposed that a panel of member state experts (the "Contact Committee"), assisted by the Accounting Advisory Forum (an accounting professionals' consultative body), investigate where there are conflicts between international standards and EU norms. Based on the panel's findings, the Commission will determine how best to interpret (or amend) existing EU accounting laws to achieve international comparability and acceptance.

QUOTES

*"Business, not government, is in the best position to say what real remaining barriers exist to transatlantic commerce, and what should be done to remove them." US Secretary of Commerce **Ron Brown** speaking at the November 11 meeting of the Transatlantic Business Dialogue in Seville, Spain.*

*"The New Transatlantic Agenda should be welcomed by all countries around the world as a force for democratic development, the protection of human rights and greater global economic prosperity." Commission President **Jacques Santer,** speaking at the December 3 EU-US summit in Madrid.*

*"We see a seamless Europe, united around democratic and free market values, and therefore we've worked in the context of this transatlantic initiative to see to it that Central and East European countries are incorporated as rapidly as possible into Western institutions." US Ambassador to the EU **Stuart Eizenstat.***

*"The ecu will disappear on January 1, 1999 and (bond) issues in ecus will be exchanged at a rate of one for one into the single currency...without changing the other terms of the contract." Commissioner **Yves Thibault De Silguy.***

REGULATORY FRAMEWORK FOR TELECOM TAKES SHAPE

To complete the regulatory framework for a fully liberalized telecommunications market in the EU by January 1, 1998, the Commission has proposed two new draft directives: one covers general authorizations and individual licenses granted by member states for telecom services, and the other updates the EU's existing Open Network Provision (ONP) legislation.

Under the first directive, member states will introduce **general authorization** procedures for the provision of telecom services, enabling new entrants that meet certain conditions to start operations immediately rather than having to wait for an individual license requiring prior approval. If member states prefer to leave their telecom markets completely open, approval schemes will not be necessary. EU governments should not limit the numbers of new market players except to ensure the efficient use of radio frequencies.

The legislation also includes provisions to help companies operate across EU borders, and calls for the establishment of an EUTC (European Union Telecommunications Committee), composed of national regulatory bodies and chaired by the Commission. This body would be charged with setting up a "one stop shop" authorization procedure, so that EU companies would only need approval in one member state to operate throughout the EU.

In general, **ONP** obliges national telecom operators (NTOs) to make their infrastructure available to competitors and consumers in an open, non-discriminatory way. The proposed ONP amendments aim to increase the independence of national regulatory authorities and to expand the availability of leased lines to new competitors.

To enhance regulatory independence, the new directive would forbid a state-controlled NTO from being both managed and regulated by the same body (i.e. a telecom ministry). ONP rules on leased lines, which require a minimum number of lines available to all users, would apply not only to NTOs, but also to providers with "significant market power" — defined as 25% of the relevant market where it is authorized to operate.

Relatedly, the Council has formally adopted the long-delayed ONP directive for voice telephony (see EURECOM, February 1995), which has been a political football between the Council and the European Parliament in the co-decision process.

...IN BRIEF

...As foreshadowed in last month's issue of EURECOM, the Commission has released a study on a future currency arrangement between the single currency and those member states left outside. Without specifying exactly how such an alignment would work, the Commission believes it must assist the convergence process in non-participating countries, enabling them to join the monetary union as soon as possible, and ensure exchange rate stability for the orderly functioning of the single market. Any exchange rate arrangement "should not interfere with the conduct of a single monetary policy" and must be perceived as "credible and sustainable" by financial markets.

Achieving stability will require an appropriate institutional framework capable of providing "necessary policy responses", and the implementation of convergence-oriented polices by non-EMU countries.

...In response to several similar cases in front of the European Court of Justice, Advocate-General Giuseppe Tesauro has advised the Court that EU governments can be held liable for damages in "serious and manifest breaches" of EU law. Member state failure to "transpose" or implement EU directives into national law qualifies as such a breach. For example, a group of German tourists should get refunds from the German government for canceled tours because it should have already adopted protective EU legislation (the "Package Tours" directive) at the time. However, national legal systems should determine "the types of injury for which reparation may be awarded and the criteria for quantifying the loss or damage." Although non-binding, the Advocate-General's opinion is usually followed by the Court.

...Estonia has become the second Baltic republic to apply formally for EU membership, joining Latvia in an ever-growing line of former communist nations seeking EU entry. Lithuania, the third Baltic state, is expected to apply for membership next year. While the EU has agreed that the Baltics can apply with the other Central and Eastern European countries, it is unlikely that any of the three countries will be in the next wave of EU enlargement.

...Just days after the Transatlantic Summit in Madrid, the New Transatlantic Agenda (NTA) and Action Program are at the tips of millions of on-line users on both sides of the Atlantic. As part of "building bridges across the Atlantic", the EU and the US have already launched information on the NTA in cyberspace through their respective sites on the Internet's World Wide Web: the Europa server—**http://www.cec.lu/en/agenda/tr01.html;** and the USIA's—**http://www.usia.gov/usis.html.**

EURECOM Monthly bulletin of European Union Economic and Financial News

If you would like additional information on any article in this issue, please write or telephone Christopher Matthews or Kerstin Erickson at (212) 371-3804.

Please send a regular free copy of EURECOM to:

Name ____

Position ____

Organization ____

Address ____

Special Interests ____

EURECOM is published by Barbara Noël, Director of Press & Public Affairs, the European Commission, 3 Dag Hammarskjold Plaza, 305 East 47th Street, New York, NY 10017. It is edited by Christopher Matthews. The contents of EURECOM do not necessarily reflect the views of the European Union's institutions.

EURECOM

European Commission
3 Dag Hammarskjold Plaza, 305 East 47th St., New York, NY 10017
Telephone (212) 371-3804