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EU LEADERS OPEN CONFERENCE ON THE UNION'S FUTURE SHAPE

Despite the fallout from the UK beef industry's "mad cow" (BSE) disease crisis — and from the EU's worldwide ban on British beef to restore public confidence — the EU heads of government successfully launched the intergovernmental conference (IGC) to revise the EU's treaties (see EURECOM, January 1996) in Turin, Italy.

(Before the European Council summit focused on the IGC, the member states, in a show of solidarity, gave assurances to the UK government of EU technical support and financial aid for the British beef industry once a definitive action plan for limiting BSE is agreed.)

In a former Fiat factory, now a renovated, state-of-the-art conference center, the EU leaders pledged to bring the Union closer to its citizens, to strengthen its capacity for external action and to prepare its institutions for future enlargement.

Expected to last at least a year, the IGC, which is, in reality, a constitutional convention, will consist of monthly EU foreign minister meetings, chaired by the current (now Italian) EU presidency. These meetings will attempt to consolidate ongoing negotiations conducted by member state representatives and experts. For the first time, member states have agreed to keep the European Parliament closely associated with the IGC's work. In the end, the European Council will determine the conference's final terms, which will then have to be ratified by the member states.

To make the EU **more relevant to its citizens**, the IGC must ensure better protection against international crime (terrorism, drug trafficking); develop more coherent and effective asylum, immigration and visa policies; and clear up divergent views on jurisdictional and parliamentary control of EU decisions in the field of justice and home affairs.

Although it did not call specifically for an "employment chapter" in the treaty, the European Council asked that the IGC explore how the EU could better cooperate and coordinate national policies to combat high unemployment without dismantling social protection.

It must also secure better application and enforcement of the subsidiarity principle, promote transparency and openness in the EU's work and explore the possibility of simplifying and consolidating the EU treaties.

In terms of strengthening the **EU's identity and effectiveness in the international arena**, meeting the existing objective of a common foreign and security policy (including, possibly, a common defense policy), the IGC must: improve the EU's identification of principles and areas of the common foreign policy; better define the actions necessary to promote the EU's interests; and construct procedures and structures allowing for more effective and timely decisions. In matters of security and defense, it will have to define more clearly the relationship of the Western European Union with the EU.

As for **future EU enlargement**, "a historic mission and a great opportunity for Europe", as well as a challenge to the EU "in all its dimensions", the IGC's focus will be on institutional aspects. As regards the Council of Ministers, the conference will consider the expansion of majority voting, the weighting of the votes and the threshold for qualified majority decisions.

Further, it will consider widening the scope of co-decision in truly legislative matters, which implies an extension of the European Parliament's (EP) role. In addition, the size and composition of the EP, as well as uniform voting procedures in the member states for EP elections, will be on the table.

The IGC will also examine the future composition of the Commission and to what extent national parliaments could better contribute to the EU's tasks.

NEW CALL FOR EU APPROACH TO TAXATION

The Commission has made a new pitch for an EU approach to taxation, claiming that lack of progress has hindered the fight against EU unemployment and threatens the smooth functioning of the single market.

It argues that the tax burden as a per cent of GDP has shifted to the less mobile tax base, labor, to make up for the erosion of other, more mobile factors, like capital. In fact, between 1980 and 1993, the implicit tax rate on labor for the EU as a whole grew by some 20%, while the same indicator for other factors (chiefly capital and self-employment) fell by more than 10%. In Single Market Commissioner Mario Monti's view, "the burden on labor cannot be made heavier if we are not to worsen the negative effects on labor costs and employment."

In general terms, the Commission is studying whether a minimum rate of effective taxation throughout the Union, which would be set at a level that would not drive businesses and wealth out of the EU, would achieve the necessary stabilization of revenue from the different types of taxation. This, coupled with improved transparency in tax measures, could limit unfair tax competition.

According to Monti, considerable progress is also required to eliminate distortions in the single market, both in direct and indirect taxation. Removing tax obstacles will bring economic benefits and administrative simplifications to consumers and firms while, at the same time, preventing cross-border tax arbitrage, tax avoidance or tax evasion. The Commission believes a fully functioning single market needs: a simplified VAT (value-added tax) system that treats intra-EU transactions exactly like domestic ones; progress in approximating excise duty rates where justified by the free movement of goods; non-discriminatory treatment of non- resident tax payers and the elimination of tax disadvantages linked to cross-frontier financial transactions (e.g. pensions, insurance premiums); and reducing discrimination against subsidiaries in other member states by abolishing double taxation on interest and royalty payments (see EURECOM, November 1994).

Because taxation issues still require unanimity in the Council of Ministers — and because member states guard their sovereign right to set tax rates jealously — EU-wide tax coordination happens rarely at best. In fact, the Commission has 18 tax proposals on the Council's table at present, and has withdrawn some 30 others due to lack of progress. The Commission contends, however, that better tax coordination among member states would have avoided the present situation in which individual EU countries have effectively surrendered sovereignty to market forces in a field that should remain a public policy domain.

SAFEGUARDING MULTILATERALISM IN THE EU, US AND ASIA

European Commission Vice President Sir Leon Brittan recently outlined differences between the US and Europe's policies toward Asia, and asserted that there is no longer a place for unilateral action in an ever more multilateral world in a speech to the European Institute in Washington, DC.

According to Brittan, the emergence of the Asian region is forcing a rethink of how the two transatlantic partners relate to each other, as well as to Asia.

While the EU and the US have the same broad agenda in Asia — both seek market access, clarity and certainty for investors and observance of human rights — their approaches to individual countries and groupings within the region have differed. Although impossible to prove whose approach is better, Vice President Brittan cited Japan as an example of contrasting US and EU styles.

Faced with a steadily deteriorating trade balance over many years, the US has responded by concluding one trade accord after another to open up the Japanese market. This "managed trade" approach, replete with numerical targets, has discriminated against third country interests, and has led to resentment and a growing determination to resist such moves in Japan. Japan's refusal last year to agree to numerical targets on cars — and its current refusal to renew the US-Japan semiconductor agreement — point to the need for a less unilateral, more cooperative US approach.

In contrast, Brittan characterized the EU-Japanese relationship as based on mutual respect for the multilateral system. In the EU's view, the Japanese government recognizes that lack of access to its markets presents problems for the world economy, and it is working to improve it. The Japanese establishment also accepts that overregulation must be tackled, and the EU supports this, seeking to work "with the grain of Japanese politics." Where the EU has complaints about obstacles, it does not hesitate to act, as shown by WTO complaints against Japanese liquor taxes and lack of copyright protection in the recording industry (see EURECOM, March 1996).

Sir Leon admitted that Europe as a whole has been slower than the US in recognizing the far-reaching changes going on in Asia (see next piece). Political and public perceptions, however, have now caught up to current realities, assisted by the process leading up to last month's Asia/European Union (ASEM) summit in Bangkok. But ASEM should not be viewed as "APEC (Asia-Pacific Economic Cooperation) mark two"; the EU is not out to create a rival grouping. Nor does it propose a regional trade liberalization along the lines of APEC. "We wish APEC well, as long as it remains a force for further multilateral liberalization," he said.

In managing future relations between the EU, the US and Asia, Sir Leon concluded that "we must not fall back into the Cold War trap of thinking we have to choose between partners. We can cooperate on a shared agenda but are also competing for influence and market share and therefore each needs to forge its own set of relations. We must also give priority to multilateral solutions. Cozy deals between a few key players are no longer enough to secure our interests."

BOOSTING EU INVESTMENT IN ASIA

If Europe is to improve its investment performance in Asia, where it greatly lags behind Japan and the US, European companies will have to stop relying on direct exports to the region and build up extensive sales networks there. This is one of the conclusions of a report jointly sponsored by the European Commission and United Nations Conference on Trade and Development (UNCTAD) on the EU's investment performance in Asia.

As EURECOM goes to print, the report is being discussed by 60 top European and Asian businessmen in Geneva, giving substance to calls from European and Asian leaders at the ASEM summit in Bangkok last month to make investment a new focus in their relations.

Pulling no punches, the report says that EU companies have underestimated the growth potential of the dynamic Asian economies. Opportunities closer to home, arising from EU integration (46% of all EU foreign direct investment stayed within the EU in 1993), successive enlargements and the transition in Central and Eastern Europe, have diverted business attention from Asia.

There may also have been inadequate recognition of the significant relaxation of restrictive regulatory practices in much of East and South East Asia.

Further, US and Japanese firms, unlike the Europeans, have assiduously established marketing networks on the ground, giving them a competitive advantage not only in investment, but also in trade.

The report recommends that the EU should extend its investment initiatives to the whole of Asia and improve coordination between them, while Asian countries should further liberalize their investment laws and improve legal certainty and transparency for European firms investing in their territory.

QUOTES

*"My ambition is for the Union gradually to assert itself as an active and powerful pole, on an equal footing with the United States, in the world of the twenty-first century, which, we can clearly see, will be a multipolar one." French President **Jacques Chirac**.*

*"The Germans asked me in what cases I thought unanimity (in EU voting) was needed and I said: 'If Europe were to decide to declare war on someone'." Italian Foreign Minister **Susanna Agnelli** at the EU summit in Turin.*

*"Russia still has an idea of the Atlantic alliance which is more in line with the 1950s, with the Cold War. What I'm trying to show (them) is that today's is a very different alliance." NATO Secretary-General **Javier Solana**.*

*"In economic matters, there are no certainties." European Monetary Institute (EMI) President **Alexandre Lamfalussy**, speaking at the launch of the EMI's second annual report.*

*"The British have received support from a Europe which has not always had support from the British." Swedish Premier **Goran Persson**, commenting on EU pledges of assistance to British beef farmers at the European Council summit in Turin, Italy.*

COMMISSION DEFINES "UNIVERSAL" PHONE SERVICE

In a fully "liberalized" environment, EU citizens should have guaranteed access to a basic, affordable phone service that enables them to use a fax or a modem, ensuring they can participate in the information society. Further, "universal service" also means that consumers should have access to operator assistance, emergency numbers and a large number of public pay phones.

This, according to the Commission, will be the scope of a guaranteed universal service in relation to the complete opening of the EU telecommunications market by January 1, 1998 (see EURECOM, March 1996).

To assure that such service is truly affordable, the Commission has proposed strengthening directive 95/62/EC on the application of Open Network Provision (ONP) to voice telephony (see EURECOM, December 1995). However, defining what is "affordable" and how to achieve it will be left to the member states. Still, the Commission will monitor relative price levels across the EU and collect information on what users are actually spending on local, long-distance or new services.

A major challenge posed by telecommunications liberalization is the current process of "price rebalancing", which involves operators bringing down the prices of long-distance calls that have traditionally subsidized basic phone service. Although the phasing out of "cross-subsidizing" is already leading to cheaper phone service overall, some member states may need to take special measures (e.g. targeted tariffs or price caps) to guarantee affordable service to those who make few long-distance calls, those with low incomes or those with special needs.

As regards financing a universal service, the Commission has proposed two options: a fund financed by payments from telecom operators, or "access fees" charged by universal service providers to competitors that use their networks. Later this year the Commission will produce some follow-up proposals on financing based on the assumption that traditional national telecom operators spend from 1 to 2% of their turnover on basic phone services.

Because universal service is a dynamic and evolving concept, the Commission will produce a report by January 1, 1998 exploring whether the current definition should be expanded to include new services or technologies.

...IN BRIEF

...Hamburg remains the wealthiest region in the EU with a GDP per capita of almost twice (190%) the EU average (100%), followed by Brussels (182) and Paris-Ile de France (166). Based on 1993 data, Eurostat reports that Portugal's Alentejo and Azores regions (42) are the EU's poorest, and that no region in Portugal, Spain or Greece exceeds the EU average (although Spain's Balearics and Madrid come close at 99% and 97%, respectively). Nevertheless, the number of regions with GDP per head below 50% of the EU average has significantly dropped, primarily due to the economic improvement in some regions in Portugal, Greece and, notably, the new German Länder.

...While the EU's investment performance in Asia is considered inadequate, its trade share with the seven ASEAN countries, China, South Korea and Japan — the "Asia Ten" — as a percent of total external EU trade has increased 3 percentage points since 1989, reaching 20.6% of EU imports and 14.4% of EU exports in 1994. This trend is primarily attributable to the EU's strong trade performance with ASEAN and China, while Japan's share both of imports and exports has declined over the six-year period. In 1994, manufactured products accounted for 91% of EU imports from and 88% of EU exports to the Asia Ten. The EU's high and structural trade deficit with the Asia Ten is mainly due to Japan and China.

...For journalists aged 25-35 and interested in expanding their knowledge (and coverage) of European affairs, the Journalists in Europe (JIE) program should be considered. Based in Paris, JIE combines seminars given by experts in politics, economics and culture with a series of writing assignments in the field. Since its inception in 1974, JIE has helped 592 journalists from 89 countries improve their understanding of European issues. The application deadline for the 1996-97 session is May 31, 1996. For more information, please contact this office at (212) 371-3804.

...In addition to the EU's existing Brussels-based Internet website, Europa (http://www.cec.lu), the Commission's Washington delegation has just opened its own web page, **http://www.eurunion.org**, which, among the many useful items and information it contains, sports an **electronic version of EURECOM.**

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