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EU WARNS US ON IRAN/LIBYA SANCTIONS BILL

With a strong sense of déjà vu, the EU has formally expressed its concerns to US Congressional leaders on Iran/Libya sanctions legislation (H.R. 3107), mirroring those raised by the recently enacted Cuban Liberty and Democracy Act (see EURECOM, May 1996).

Apart from the legal and commercial problems related to the bill, the EU emphasized that it shares "the same objectives, the same preoccupations and the same sentiments" as the US with regard to its opposition to terrorism and to totalitarian regimes. Divergences exist, however, on how to tackle these problems: there is and should be room for differences of approach to complex issues of this kind.

What causes deep concern in the EU is that the US should attempt to impose its terms on the rest of the world by adopting secondary legislation with extraterritorial effect. Together with the legislation on Cuba, H.R. 3107 could become a serious problem in EU-US trade relations. "Unilateral measures against Europe, with the risk of WTO challenges, counter-measures and a spiral of conflict, will only ultimately distract attention from our common opposition to the regimes in question," wrote EU Ambassador to the US Hugo Paemen.

With regard to Libya, multilateral sanctions encompassing trade have already been adopted in the form of binding UN Security Council resolutions, which the EU has implemented and strongly maintained. If the US enacts the proposed sanctions, it would target European interests in strategic oil supplies stemming directly from longstanding European investment in the Libyan oil sector. Further, it would go beyond the scope of existing UN Security Council resolutions.

The EU hopes these considerations will be taken into account.

EU'S SPRING FORECASTS SHOW SLOWER GROWTH

EU economic growth remains disappointing in the Commission's recently released Spring economic forecasts. In fact, EU GDP growth has been revised downward to an expected 1.5% for 1996 compared with the Autumn forecast of 2.6% (see EURECOM, December 1995). The Commission still expects growth to accelerate in 1997 (+2.5%), but considerably slower than the 2.9% projected earlier.

On the other hand, despite the weakness in activity, there has been progress with economic convergence, particularly in relation to inflation and public deficits.

According to the Commission, the chief factors in the downward revision were: the greater than anticipated effects of the **March/April 1995 monetary turbulence;** a disappointing **rate of budgetary consolidation,** which had a negative effect on markets; and the **high level of interest rates** in 1994 and much of 1995 (the average long-term interest rate in Europe was 9% in December 1994).

The European employment situation also continues to worry. Despite the creation of 840,000 jobs in the EU in 1995, unemployment increased again at the end of the year and now resides at 11% (18 million people). The forecasts indicate that it will only fall very gradually during the 1996-97 period, to around 10.5% by the end of 1997.

In terms of economic convergence — and the "convergence criteria" set out in the Maastricht treaty for monetary union (EMU) — the Spring forecasts show that in 1995, 11 member states already met the inflation criterion. Inflation should further decelerate to an EU average of less than 2.5% in 1997.

Further, even with the slower GDP growth, public deficits are forecast to fall to 3.4% of GDP in 1997 (down from 5% in 1995) due to the consolidation efforts in public finances by all the member states. Based on current scenarios, which assume "unchanged policies", seven member states (Denmark, Finland, France, Germany, Ireland, Luxembourg and the Netherlands) would have deficits below 3% (the Maastricht reference value) in 1997, and six others would have deficits between 3% and 3.7% (Austria, Belgium, Portugal, Spain, Sweden and the UK).

Based on the above, the Commission is convinced that a significant number of member states will qualify for EMU and believes that the timetable for the introduction of the single currency (the"Euro"), January 1, 1999, remains realistic.

GERMANY FLUNKS FISCAL CHECK-UP

Based on Commission recommendations (called for by Article 104c of the Maastricht treaty), EU finance ministers have added Germany, normally a paragon of fiscal discipline, to the list of member states running "excessive deficits". At the same time, they let Denmark out of the fiscal dog house, acknowledging impressive budgetary consolidation and debt reduction efforts.

Under the "excessive deficits" procedure, once profligate countries are identified, the Commission makes recommendations for corrective measures, which the Council then either approves or rejects. There is, however, no enforcement mechanism for this procedure at present, but in discussions on a post-EMU "stability pact" (see EURECOM, May 1996), this is being addressed.

Tracking the slowdown in German economic activity and the steady rise in unemployment, the German public deficit rose to 3.5% of GDP in 1995 (1994: 2.6%), and the total government debt to GDP ratio climbed to 58.1% (1994: 49.4%). In 1994, Germany, along with Ireland and Luxembourg, were the only member states selected as not having excessive deficits.

Moving in the opposite (and right) direction, Denmark registered a public deficit of only 1.5% of GDP in 1995, and its gross debt to GDP ratio has fallen steadily since 1993 to a level of 71%.

To join the single currency, countries must bring their budget deficits close to 3% of GDP, and their total debt must be "sufficiently diminishing and approaching" the reference value of 60% of GDP.

Hence, Denmark, Ireland and Luxembourg represent the EMU vanguard, at least in fiscal terms. Without countries like Germany on board, however, EMU's prospects for starting on time would be very remote. Still, given the latest economic forecasts (see previous piece), a "critical mass" of countries should manage to qualify for the single currency under the current timetable.

COMMERCIAL COMMUNICATIONS IN THE SINGLE MARKET

To ensure that cross-border "commercial communications" are not shackled with unnecessary restrictions as the Information Society evolves, the Commission has issued a consultative Green Paper aimed at discerning what action is needed to make the single market fully operational in this area.

Covering all forms of "commercial communications" — advertising, direct marketing, sponsorship, sales promotion and public relations (but not packaging) — the paper points out the potential damage to this growing sector, employing 250,000 people and generating 75 billion ecu in turnover, that rules made in "the public interest" can cause.

It identifies three types of barriers: restrictions involving an absolute ban on certain types of marketing activity; rules that limit but do not ban marketing activity; and restrictions directed at specific product categories or types of service. These barriers cover a large number of categories, ranging from food products to financial services to "taste and decency" issues.

Cross-border commercial communications services are a growing phenomenon in the single market, and differing national regulations could create obstacles for companies providing them. The risk of regulatory differences giving rise to barriers may be accentuated by the advent of new services developed in the Information Society. Hence, information about regulatory measures and market developments is becoming increasingly important both at the national and EU-level.

In the paper, the Commission proposes an assessment mechanism which would help determine whether a national or EU measure is in proportion to the objective it intends to achieve. This would be based on the case law of the EU Court of Justice and on a sound economic evaluation of the communications activity under scrutiny.

Further, the Commission would like to establish a committee of member state representatives to assist it in examining the broad issues in the field. Initially, this would focus on sales promotions and sponsorships, the two areas identified in a survey (for the Green Paper) as most problematic.

Last, to increase transparency, the Commission wants improved information exchange between it and interested parties. To this end, such "parties" have until the end of October to respond to the Green Paper.

BUSINESS CALLS FOR CLOSER EU-US IP COOPERATION

A recent workshop on intellectual property (IP) issues for EU and US industry representatives in Rome yielded near unanimous agreement that the EU and US should not only cooperate more closely on IP protection across the Atlantic, but also globally.

Part of the Transatlantic Business Dialogue launched in Seville last November, the May 28-29 workshop was attended by senior executives and IP experts of companies from a wide variety of sectors, ranging from pharmaceuticals to entertainment.

In relation to the Information Society, the workshop confirmed that both the US and Europe have a strong interest in adequate IP protection for digitally transmitted works. Without such protection, the production of contents, software, databases and movies would be discouraged. Maintaining that effective IP protection is essential to ensure fair and open trade, the executives called for a harmonized system of protection to cover the digital transmission of protected material on a global basis.

Concerning patent and copyright protection, both EU and US businesses encouraged their governments to assure that the WTO's TRIPs (trade-related intellectual property) provisions are fully implemented by developing countries and that efforts to accelerate implementation in some newly industrialized countries are undertaken.

EU industry also underscored the need

for full TRIPs implementation in the protection of geographical indications, namely for wines and spirits (e.g. "Champagne").

Commented EU Trade Commissioner Sir Leon Brittan: "I welcome...the wishes for greater cooperation across the Atlantic on IP issues. The Commission will work hand in hand with the US to secure correct implementation and effective enforcement...of TRIPs. The Commission is also committed to work with the US to devise international rules for IP protection adapted to the emerging Information Society. I hope that at the EU-US summit of 12 June 1996 we will agree on specific methods to ensure better cooperation on IP-related issues."

US DITCHES WORLD MARITIME TALKS

A disturbing trend has developed.

First, the US pulled out of WTO negotiations on financial services (see EURECOM, September 1995). Then it walked away from global telecommunications talks (see May, 1996). Now it has apparently withdrawn from negotiations to liberalize world maritime transport well before the June 30 deadline, claiming that other countries' offers are "woefully short of the objectives."

With arguably the most open offer on the table, the EU has pushed hard for a critical mass of countries to produce sufficient market- opening offers. According to EU spokesman Peter Guilford, the number and quality of offers has increased, and there are signs that further offers from around the world would be forthcoming. While more work is needed, "this is emphatically not the time for any country to abandon the negotiations," he said.

It is hoped that by achieving a common, high quality package of market opening offers, the US can be brought back on board. As EURECOM went to print, however, the US was giving mixed signals on whether to consider an improved offer. If the US maintains its opposition to a deal, then the EU and 37 other participating countries will have to consider either reaching a deal without the US (as in financial services) — a long shot at best — or perhaps postponing an agreement (as in telecommunications).

QUOTES

"A political Europe will above all help to make relations with the United States more effective." (New) Italian Prime Minister ***Romano Prodi.***

"The overall European federalist project...is in truth a nightmare. Were it to come about..does anyone suppose that such a power would not soon become a rival to America?...If this new Europe were not to follow the path to separate great power status, it would be the first such power in history to renounce its independent role." Former British Prime Minister ***Margaret Thatcher.***

"Without deficit control and low inflation, there will be a poor climate for investment. And in that climate, jobs will suffer. Ireland can do a lot to dispel the fear that...sticking to a policy of sound money is a real risk to jobs." Commission President ***Jacques Santer*** *during a recent trip to Dublin.*

"There are reasons to expect that the difficulties which beset the earlier ERM (exchange rate mechanism) will not recur, partly because the fundamentals are more favorable, partly because we have learned from past mistakes, but also because the planned features of the new mechanism...will inject more flexibility in response to shocks." European Monetary Institute President ***Alexandre Lamfalussy,*** *commenting on an "ERM II" for those countries initially outside the monetary union.*

"I want Spain to be in Europe's first division...among the wealthiest EU countries, those which make economic decisions." (New) Spanish Prime Minister ***Jose Maria Anzar.***

MAD COWS, BANS AND BRITISH OBSTRUCTION

Angered and beleaguered by the EU's worldwide ban on British beef and beef products due to health concerns over BSE ("mad cow" disease) — and repeated failures to have it lifted — the UK government has recently pursued a "non-cooperation" policy in the Council of Ministers, vetoing any EU measure requiring a unanimous vote until a framework for lifting the ban is in place.

Despite this "manifest and deliberate policy of obstruction", the Commission decided to ease the ban on June 5, "fully and exclusively based on scientific data", by allowing sales of some beef derivatives — gelatin, tallow and bull semen — even though the measure failed to win a qualified majority in the Council. (Under a special set of EU voting rules, if a simple majority of member states votes for the proposal, then the responsibility for a decision falls to the Commission.)

Germany, in particular, where beef consumption has plummeted in the wake of the BSE crisis, criticized the partial lifting of the ban. "If a decision does not find the necessary (qualified) majority in the Council of Ministers, then it should not be implemented," said German Agricultural Minister Wolfgang Borchert.

Commission President Jacques Santer warned that the British blocking policy is "against both the letter and the spirit of the treaty" and, now that the ban has been relaxed, he expects the UK to de-escalate immediately "this conflictual position" so that the ban can be lifted in due course as the fight against BSE continues. Given the continued opposition of a number of member states, however, the UK faces a difficult road to get the ban fully rescinded in the near future.

...IN BRIEF

...Competition policy-related cases rose sharply in the EU in 1995 according to the Commission's 25th Competition Policy Report. Over the entire range of areas covered — restrictive agreements and practices, mergers and state aid — the number of cases increased by more than one third over 1994, in large part due to the accession of three new member states on January 1, 1995. In the field of **merger control,** the Commission handled a record 114 cases in 1995. Most of these were successfully cleared within the initial one-month examination period, illustrating once again the advantages of the one-stop-shop for merging companies in the single market. The Commission, however, has not hesitated to act against operations leading to dominant market positions, particularly in the media sector.

...EU annual inflation remained at 2.7% in April, the same as in March and February. In April 1995 it was 3.2%. Ten member states were below the EU average, with Finland sporting the lowest rate of increase at 0.7%. Greece, as usual, had the highest EU inflation rate at 9.2%, compared with 9.9% over the same period last year.

...The EU has over 12 million non-EU residents (around 3.3% of its 1993 population), and 5.5 million EU citizens live in another member state. Germany has the highest proportion of non-EU foreigners in its population at 5.9%, 40% of which comprised by Turks and citizens of former Yugoslavia. Next comes Austria with 5.6%, with the same ethnic groups predominating as in Germany. Spain, Ireland and Finland have the lowest proportions at 0.5%, 0.6% and 0.7%, respectively. The largest group of non-EU nationals is Turkish (2.6 million or 14.7% of all non-nationals), followed by former Yugoslavs (1.4 million or 7.9%).

Of the EU citizens not living in their own member state, the Italians are the largest group (1.2 million or 22%). The Portuguese take second place with 0.9 million (16%) living outside Portugal but in the EU (chiefly France). At 28.1%, Luxembourg has the highest proportion of other EU citizens in its population. Around 13% of the Irish population live in another member state, most of them not very far away in the UK, which is the biggest proportion of one EU nationality living in another member state.

...Competition Commissioner Karel Van Miert recently warned Visa International that he could not accept its plan to ban its European bank members from offering other credit cards. American Express, Diners Club and Dean Witter Discover have all registered complaints with the Commission about Visa's stated plans to extend to Europe its US policy of prohibiting its US members from issuing non-Visa credit cards.

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