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EU TAKES ACTION AGAINST US HELMS-BURTON, D'AMATO ACTS

Dispelling the notion that the EU would wait until after the November US elections to take action against the extraterritorial provisions of the US' anti-Cuba **Helms-Burton Act,** EU foreign ministers agreed on October 1 to challenge the US legislation formally at the World Trade Organization (WTO). This follows months of bilateral EU-US consultations on the matter (see EURECOM, May 1996), which have failed to address EU concerns.

As a result, the European Commission will request that a WTO Dispute Settlement Panel be established in Geneva on October 16. Canada has also indicated its intention to join the action as "an interested third party".

On a related front, the EU member states also called for the rapid conclusion of a Commission proposal for an anti-boycott regulation (see EURECOM, September 1996), which would neutralize not only the impact of Helms-Burton on EU companies, but also the extraterritorial reach of the **D'Amato Bill** on sanctions against Iran and Libya. Because the D'Amato Bill has, in some respects, a different legal character than Helms-Burton, the regulation's text must be adapted accordingly before the Council of Ministers can give its final (unanimous) approval.

In addition, the Commission has now officially set up a watchlist of US companies or individuals that bring law suits against EU firms because of their Cuban connections.

Commenting on the WTO decision, British Foreign Secretary Malcolm Rifkind captured the EU member states' mood: "I don't think that the question of elections in the United States...should determine EU policy."

"What has happened today has shown the whole world that the EU has the capacity to defend itself and the political will to do so," said EU Trade Commissioner Sir Leon Brittan. "Respect grows when people think that you can stand up for your interests," he added.

Not surprisingly, US State Department spokesman Nicholas Burns expressed disappointment with the EU's decision. "We would have vastly preferred a bilateral solution to this...We believe that Helms-Burton should continue to be discussed between friends and that unilateral action should not be taken," he said.

Last month, the US Under Secretary of Commerce and President Clinton's special representative on Cuba Stuart Eizenstat visited the Commission in Brussels to foster "enhanced cooperation" to bring democracy back to Cuba. Eizenstat met with, among others, Sir Leon, who said that the EU shares the desire to bring democracy back to Cuba and has been active at different levels to achieve that goal. While he took note of the US proposals for increased cooperation, Brittan said that this would be harder to achieve as a result of Helms-Burton. He also reiterated the EU's determination to defend its interests and those of European firms.

BIG BOOST FOR EMU AT DUBLIN ECOFIN COUNCIL

Increasingly, the credibility of the EU's EMU (economic and monetary union) process is tied to what will happen after EMU begins. At the "informal" ECOFIN Council meeting in Dublin on September 20-21, EU finance ministers gave a major lift to EMU's credibility by reaching agreements in principle on a future exchange rate mechanism (ERM) between currencies inside and outside EMU ("ERM II"), on a "stability pact" to enforce budgetary discipline among EMU members and on the legal framework for the euro.

Regarding **ERM II,** the finance ministers agreed that the euro will be at the center of a "hub and spokes" exchange rate mechanism after January 1, 1999, which will retain the current ERM's relatively wide bands of fluctuation (see EURECOM, May 1996). Non- EMU member states' currencies will be permitted to fluctuate within a band of up to plus or minus 15% of a central rate with the euro, although countries could negotiate a narrower band. Membership in ERM II would be voluntary.

Under the new ERM, the European Central Bank (ECB) will support member currencies under speculative attack, but it has the right to suspend support under certain circumstances, particularly if a member state ignores previously agreed macroeconomic targets.

The member states also gave a strong political commitment to a **stability pact** to prevent excessive deficits in EMU countries from undermining the stability of the euro, albeit without decisions on technical details. Under the agreement, EMU countries will face sanctions — most likely interest-free deposits with the ECB — if they run up a deficit higher than 3% of GDP, unless they take immediate correc-

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tive action or face "exceptional or temporary" circumstances. However, details such as the size of fines and how (and how long) "exceptional" will be defined were left for the EU's monetary committee (a group of national treasury officials and central bank officials) to thrash out between now and the Dublin summit in December.

Last, the finance ministers welcomed the Commission's work on a regulation to guarantee banks and businesses **legal certainty and continuity** after 1999 in terms of financial obligations drawn up in national currencies. The Commission will formally present its proposal later this month.

EU, US CLEAR PATH FOR ITA DEAL

EU and US trade officials removed the final obstacle to launching negotiations on an Information Technology Agreement (ITA) between the "Quad" — the EU, the US, Japan and Canada — at the recent Quadrilateral Trade Ministers' meeting in Seattle, Washington.

An ITA would eliminate tariffs on a host of electronic products, including telecom equipment, computers, software and computer chips, by 2000 among the Quad members.

Although the EU's enthusiasm for an ITA has always been "second to none", EU concerns about the discriminatory aspects of the bilateral US-Japan semiconductor accord (which was renewed in July) had presented a formidable obstacle to starting negotiations on an ITA. To break this logjam, acting US Trade Representative Charlene Barshefsky agreed to a compromise proposed by EU Trade Commissioner Sir Leon Brittan, whereby the meeting of a US-Japan semiconductor industry council will be postponed until March 1997, allowing time for the Quad partners to achieve a wider liberalization of technology products. If an ITA is not achieved by March, then the US-Japan Council can proceed without the EU's participation.

"This (ITA) is a market access agreement worth tens of billions of dollars to the Quad countries alone," said Barshefsky.

It is hoped that the ITA and a global telecommunications liberalization accord (see EURECOM, May 1996) will come out of the WTO's Singapore Ministerial Meeting in December, serving as a benchmark for eliminating trade barriers in other sectors.

ENSURING AFFORDABLE PHONE ACCESS POST-1998

Attempting to put the last important piece of the post-1998 telecommunications regulatory framework in place, the Commission has proposed a directive updating existing legislation (95/62/EC) applying Open Network Provision to fixed network voice telephony (see EURECOM, December 1995).

The proposal, which requires approval both from the Council and the European Parliament under the co-decision procedure, should be in place before the European telecommunications market is completely opened up to competition on January 1, 1998.

Most important, the directive defines "universal service" obligations for the sector. These should include, "at affordable prices", a normal telephone line, directories, directory inquiry services, public paytelephones and, where appropriate, special services for disabled users. Further, providers of fixed network, publicly available phone services will also have to provide itemized billing, tone dialling (used for services like home banking) and selective call barring (which allows customers to block outgoing calls to certain numbers) by December 31, 1998 at the latest.

Member states must ensure that these services are available to all users at "affordable prices", but they can also determine what "affordable" means, taking account of specific national conditions.

By January 1, 1998, all newly installed fixed network connections must be capable of data transmission of at least 14,400 bit/s, ensuring that customers have access to advanced information services like the Internet.

Where an operator can demonstrate that universal service obligations result in a net cost burden, that cost can be shared by other market players under a national universal service fund. This fund could be financed either by charging fees to telephone companies that do not offer basic services, or by introducing an interconnection levy.

Telephone companies with "significant market share" (more than 25%) would have to offer additional features, such as caller identification. These obligations would disappear once markets become truly competitive.

After extensive debate, the Commission decided against including mobile phone sector in its proposal, believing that it could discourage investment in a sector that just now taking off in some member states.

EU FILES WTO CASE AGAINST INDONESIAN CAR POLICY

Dismayed by the blatant discrimination against European and other foreign vehicles in favor of "national" vehicles in Indonesia, the EU has decided to launch a formal WTO complaint against Indonesia's car import policy.

As one of the world's largest car exporters, the EU is concerned at the significant number of barriers that hinder market access in leading developing countries in this sector. Automotive markets in ASEAN and Mercosur offer promising prospects, but also considerable obstacles to EU exporters. As part of the EU's new Market Access Strategy (see EURECOM, March 1996), the Commission is focusing on these problems.

The EU's decision to bring the WTO case follows the recent duty-free importation into Indonesia of 40,000 automobiles from Korea ("national" cars are either assembled in Indonesia or in Korea). European and other foreign makes already face import tariffs as high as 125%, as well as discrimination against imported parts and components by way of local content requirements and more favorable tax treatment for certain domestic products. The European car industry is already suffering: most EU producers have frozen their investment plans in Indonesia because consumers have been delaying their purchases, anticipating that the "national" car will be substantially cheaper than imports when it hits the market.

Despite the fact that Indonesia is a developing country, the Commission believes its arguments are sound. And it is not alone: both the US and Japan have joined the EU's complaint, presenting a fine example of the "triad" working together to open major markets in Asia.

"The EU initiative shows our determination to ensure that the commitments entered into during the Uruguay round are honored and that the resulting liberalizing trend is not reversed," said EU Trade Commissioner Sir Leon Brittan.

In a similar case, the EU has joined WTO consultations requested by Japan and the US on Brazil's inward investment policies in the automotive sector.

QUOTES

"We must not ask Europe, or the European Union, to perform the impossible and then judge it severely when it fails...In an age of multiple allegiances, the Union will never be more than just one of the entities to which Europe's citizens will feel allegiance." Irish Prime Minister and current EU Council President ***John Bruton.***

"Britain has an alternative vision of Europe...It is a vision based on choosing carefully the stepping-stones toward closer cooperation; not jumping blindly toward ever greater integration, flailing for footholds that may prove precarious or illusory." British Foreign Secretary ***Malcolm Rifkind*** *at the University of Zurich, Switzerland, commemorating the 50th anniversary of Churchill's famous "United States of Europe" speech.*

"Jobs will be the bottom line by which we judge whether Britain will join any single currency." British Labour Party foreign affairs spokesman ***Robin Cook*** *at the Labour Party conference at Blackpool, England.*

"Europe and Japan can learn from each other, can help each other, can achieve more in partnership than separately. We have come a long way from ten or only five years ago, but we need to go further." Commission President ***Jacques Santer*** *wrapping up his recent five-day official visit to Japan.*

"One of the reasons why the Japanese economy is not so open is because they do not have a competition authority like we (the EU) and the United States have. Countries that have a competition policy or authority are ipso facto opening their markets." Commissioner ***Karel Van Miert.***

"Closer political cooperation in the European Union, and its coming enlargement, will contribute to the security and prosperity of the New Atlantic Community and strengthen the partnership between Europe and the United States." US Secretary of State ***Warren Christopher.***

EU STATE SECTOR ALIVE AND WELL

Present and future budgetary austerity in the EU notwithstanding, Europe's public sector is holding its own: taxes and social contributions in 13 of 15 EU member states (data from Portugal were unavailable) stayed at 41.7% of EU GDP in 1995 according to a recent report from Eurostat.

Around this average, however, considerable variation exists among the member states. At the top, Sweden collected the most taxes and social contributions at 51.5% of GDP, slightly edging last's year "champion", Denmark (51.3%). At 34.8%, Spain narrowly took the lowest ratio honors from the UK, which still only gathered 34.9% of GDP. Once again, Spain, the UK and Ireland (36.3%) were the only EU countries under the 40% mark.

Breaking down the categories, Denmark easily remained the EU's taxation champ at 49.7% of GDP (EU average: 26.7%), but this is because its social welfare system is almost entirely financed by taxes. Hence, Denmark also had by far the EU's lowest percentage of social contributions by employers and employees (1.6%). Spain collected the least total tax in terms of GDP (22.5%) followed, surprisingly, by Germany at 24.3%. In terms of social contributions, however, Germany came in predictably high at 18.3% — just behind France (19.3%) and the Netherlands (19.2%) — compared with an EU average of 15%. Meanwhile, although it has the highest percentage of social contributions, France has the lowest ratio of taxes on income and wealth at 9.5% (EU average: 12.9%).

...IN BRIEF

...European investment in the US directly supports 3 million US jobs, and US exports to Europe support another 1.1 million jobs according to *"The US and Europe: Jobs, Trade and Investment"*, a recently released report by the European-American Chamber of Commerce (EACC). "If you also consider the jobs created indirectly, Europe-related employment figures almost double," commented EACC President Willard Berry.

Broken down on an aggregate US and state-by-state basis (using US government figures), the study finds that Europe is the top investor in 41 states, and ranks second in the remaining nine states. Europe is also either the #1 or #2 export market for 42 states. "We too often hear that the global economy threatens US workers because multinational companies prefer to invest in low- wage countries," said Berry. "In reality, however, most international companies must invest in developed markets if they wish to remain competitive there."

...Average **EU unemployment** was 10.7% in June and July, 1996, down from 10.8% in the previous two months. After reaching 10.9% in March, EU joblessness has dipped to the same level as in July last year. Eurostat reports that unemployment has been falling steadily for two or three years in several member states: **Denmark** (from 10.6% in June 1993 to 6.3% this July), **Spain** (24.5% in May 1994 to 21.3%), the **UK** (10.7% in January 1993 to 8.3%) and **Finland** (19.6% in March 1994 to 16.3%). It has also been dropping in recent months in **Belgium,** the **Netherlands** and **Portugal.** On the other hand, rates are noticeably higher than a year ago in **Germany** (8.9% this July compared with 8.1% in May 1995) and **France** (11.7% compared with 11.2% last July). **Luxembourg** continues to have the lowest unemployment rate at 3.1%, while **Spain** still has the highest at 21.3%. Compared with the EU, the **US** and **Japan** had unemployment rates of 5.4% and 3.4%, respectively, in July 1996.

...**The European Union Studies Center** at the Graduate Center of CUNY is sponsoring some informative events in the near future. First, former French Consul General in New York **André Baeyens** will give a lecture on European defense and security issues on November 12, 1996 from 12:15 pm - 2:00 pm. Second, **Peter Fisher,** Executive VP of the **Federal Reserve Bank of New York,** will give a seminar on the implications of EMU on capital markets on December 3, 1996 from 12:30 pm - 2:00 pm. To reserve seats or for more information, please call (212) 642-2977.

...The Commission's New York office bids a fond farewell to Barbara Noel, who until recently had been Director of Press and Public Affairs (and publisher of EURECOM) since 1991. She has returned to the Commission's Brussels headquarters after completing her New York assignment. She has been succeeded by Wouter Wilton, who was most recently acting Head of the Commission's Delegation in Finland.

A Dutch citizen who speaks eight languages, Wilton has worked for the Commission since 1975, serving as an investigator in the anti-trust department, a liaison to the European Parliament, head of the Single European Market Awareness Campaign in the regions of England (1987-1993) and Deputy Head of the Delegation in Finland (coinciding with Finland's EU accession).

Good luck to you both!

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