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WTO PANEL NAMED IN HELMS-BURTON DISPUTE

After postponing the nomination of a dispute panel in its WTO (World Trade Organization) case against the US' Helms-Burton Act by one week in hopes of negotiating a bilateral settlement, the EU asked WTO Director-General Renato Ruggiero to name a three-country panel on February 20 (see EURECOM, February 1997).

The three panelists nominated — former GATT Director-General Arthur Dunkel of Switzerland, Singapore's Ambassador-at-Large Tommy Koh and New Zealand's former chief trade negotiator Edward Woodfield — now have six months to rule on the case.

While recent EU-US negotiations have not achieved an outcome that the EU considers sufficient to suspend its WTO action, EU Trade Commissioner Sir Leon Brittan emphasized the panel's nomination is a purely procedural step that does not prevent bilateral talks from continuing.

"It will remain our aim to achieve a negotiated settlement, and, of course, the panel procedure can be halted or suspended at any time if the parties reach agreement," said Sir Leon.

Reacting to the panel, US Undersecretary of Commerce Stuart Eizenstat said that the US would try to settle its differences with the EU directly, but that it would not cooperate with the WTO panel which "has no competence to proceed because this is a matter of US national security and foreign policy."

For the Commission, the suggestion that US national security requires interference in the legitimate trade of European companies with Cuba is not credible. And no country should be allowed to be judge and jury in its own cause. Commented Sir Leon in a letter published in *The New York Times* on February 24: "We can only undermine the [WTO] if we cast doubt on its capacity to handle this case. Up to now, the US has been the biggest single user of the (WTO) dispute settlement system. But it cannot expect to win every case. Its strong interest in the maintenance of the system should be stressed. That would be more constructive than anticipating negative public reaction if the US loses its case."

Failing a bilateral agreement, the EU will submit its case to the panel in about six weeks, when the US is expected to invoke formally the threatened GATT Article 21 "national security" waiver.

WORLD TELECOM DEAL CLINCHED...

Although it went down to the wire, 69 countries (54 plus the EU 15, which negotiated as one) signed the first global pact to liberalize basic telecommunications markets at the WTO in Geneva on the February 15 deadline. The binding commitments made by the signatories cover well over 93% of world revenues in telecom services (see EURECOM, January 1997).

Termed "an historic agreement" by the European Commission, a prime mover for the deal, the accord not only opens the traditional voice telephone sector to global competition, but also electronic data transmission (voice, sound and images), telex and fax services, covering all means of transmission: cable, fiber optics, radio and satellite. It also unifies the rules of engagement among the parties for companies seeking to invest abroad.

In addition, most of the liberalization "offers" contain commitments on regulatory principles such as interconnection, licensing conditions, universal service and the independence of regulatory authorities. Competition safeguards on cross-subsidies and on misuse of information by major suppliers were also achieved, marking the first time that basic competition principles have been agreed at the multilateral level.

From its starting date — January 1, 1998 — to its use of transitional phases for some countries, the WTO pact largely mirrors the EU's own telecommunications liberalization calendar: 1998 for all member states except for Ireland and Portugal (2000) and Greece (2003). Under the agreement, both the EU and the US will allow 100% foreign ownership of domestic long-distance telecom service providers by at least January 1, 1998. Fellow "Quad" members Japan and Canada retained some restrictions on foreign ownership.

The only "blemish" in the accord was the US' last-minute restrictions on one-way "direct-to-home" audiovisual services, which the EU considers a breach of US commitments made during the Uruguay Round. If the issue comes up in the future, the EU "will vigorously challenge Washington at the appropriate forum," said Peter Guilford, spokesman for EU Trade Commissioner Sir Leon Brittan.

In terms of economic benefit, the Institute for International Economics estimates that the cumulative gains from global telecom liberalization will amount to over $1 trillion in the 1997-2010 period. "This is a pretty powerful cocktail for economic growth — not just for telecoms, but for world trade as a whole," commented Guilford.

...AND ITA ACCORD ADVANCED

On March 5, the Commission approved the terms of the Information Technology Agreement (ITA) that was agreed in principle at the WTO's Singapore Ministerial last December (see EURECOM, January 1997).

To seal the EU's ITA participation, the EU Council of Ministers must approve the package, which now covers more than 90% of world trade in information technology (IT) products — the threshold set in Singapore for the agreement to enter into force. The Council is expected to approve the ITA on March 24.

The ITA provides for IT tariffs to be eliminated in four steps by the year 2000, notwithstanding some extended transition periods for Korea, Taiwan, Indonesia, Thailand, Malaysia and India on some products. In addition, the EU and the US have agreed to remove tariffs on semi-conductors and some other products ahead of the 2000 deadline. This will enable the EU semi-conductor industry to join US and Japanese companies in the so-called World Semi-conductor Council (which will hold its first meeting in April), resolving a long-standing dispute over EU industry participation in this important trade promotion agreement.

EU Trade Commissioner Sir Leon Brittan welcomed the result: "This agreement eliminates trade barriers in one of the most important industries for the 21st century...After the telecommunications package two weeks ago, the WTO now has two massive market-opening successes under its belt...defying its critics and proving its worth as a powerful force for the liberalization in the world economy."

1997 ANNUAL ECONOMIC REPORT RELEASED

Spelling out its views on the EU's economic situation, the Commission has released its 1997 Annual Economic Report. Based largely on the Autumn 1996 forecasts (see EURECOM, November 1996), it focuses on the EU's economic performance (and shortcomings) rather than on new projections in relation to the Maastricht EMU criteria.

Over the 1991-96 period, EU economic growth was anemic, registering average annual growth of only 1.5%. Total EU employment declined by 4.5 million jobs, which was far worse than the US or Japanese experience over the same time span. According to the report, this disappointing output and job performance resulted mainly from macroeconomic obstacles to growth within the EU in the late 1980s/early 1990s: inflationary pressures arising from insufficient expansion of productive capacity, overly lax budgetary policies and inappropriate wage increases. This led to high real interest rates and undermined exchange rate stability, precipitating the 1992-93 recession and contributing to the weak character of the mid-1995 to mid-1996 recovery.

The report argues that EMU will help member states overcome impediments to sustained growth and job creation. Not only will the creation of a single currency eliminate exchange rate instability among participating countries, but it will also establish a stability-oriented economic policy framework which will result in lower real interest rates, stronger investment and enhanced price and wage discipline.

Based on sound monetary and budgetary policies in the member states, a recovery in EU economic growth is underway. GDP growth is expected to strengthen to 2.3% in 1997 and 2.8% in 1998.

While "globalization" and technological improvements have put constant pressure on member states to maintain or improve their competitive position, they have not caused the high level of EU unemployment, as some contend. Rather, insufficient macroeconomic growth, coupled with high wage and non-wage labor costs and, in some cases, rigid employment security rules, have diminished labor's relative attractiveness as a factor of production.

The fastest approach to a more employment-intensive growth pattern would be to emulate the US' "downward widening of the wage cost scale", enabling low-productivity activities to remain and/or become profitable. For social and political reasons, however, the US approach, which has led to a significant drop in real income for low-skilled workers, is neither feasible nor desirable for the EU. Nevertheless, EU labor markets must improve their responsiveness to change through modernizing the organization of work and increased professional mobility. Further, pragmatic measures, such as the lowering of non-wage costs, reduced income tax for the low-skilled and (lower) temporary entry wages for disadvantaged workers, should be pursued.

US SECRETARY ALBRIGHT VISITS BRUSSELS

During her first trip to Europe as US Secretary of State, Madeleine Albright paid a visit to the European Commission, meeting with President Santer and Commissioners Brittan, van den Broek, de Silguy and Bonino.

Mrs. Albright emphasized that President Clinton wants a very strong EU relationship, building on the commonality of interests. In her view, it is necessary to make the **New Transatlantic Agenda** (NTA) more visible — and to broaden and deepen it — because it has been useful vis-a-vis the "common agenda".

Recalling her own European origin, she looked forward to making Europe whole and free again, and will engage herself personally in the cooperation between the EU and the US on this issue. On **EU enlargement,** she said it should be a respectful process, but should not be seen as a consolation prize for not being part of NATO.

Picking up on enlargement, Commissioner van den Broek stressed that EU and NATO enlargement are not conflictual, but parallel processes. EU enlargement has already been politically decided — it is no longer a question of if, but when. As to when, the EU has spelled out conditionality very clearly to the candidate countries.

Sir Leon agreed that the NTA should be highlighted to show what the EU and the US can do together and "what we can do for the world." The EU-US summit in the Hague on May 28 would provide a good opportunity to add visibility. Brittan also raised the Helms-Burton issue, saying that he hoped bilateral discussions would continue even with the nomination of a WTO dispute panel.

Commissioner de Silguy called for increased EU-US consultation on issues related to the euro and on monetary and macroeconomic coordination in general. Secretary Albright agreed that the Hague summit could be used to raise these matters as well.

QUOTES

"All countries will be treated in the same way and the (EMU) admission examination will be based on economic, not geographic criteria." EU Commissioner ***Yves-Thibault de Silguy.***

"Anything that works out well for Europe will work out well for the US." US Deputy Treasury Secretary ***Lawrence Summers,*** *commenting on EMU.*

"We see tremendous business opportunities (in EMU) because we think plastic will be used a lot more as it will be easier during the transition." ***Hans van der Velde,*** *President, Visa Europe.*

"Are people trying to convert the EU into a Christian club? We hope not because we think that Turkey is a part of Europe." ***Abdullah Gul,*** *head of Turkey's Islamist Welfare Party.*

"The most damage the Conservative government has done to our presence in Europe is that it has constantly adopted a negative position,...heckling on the sidelines of the game. I want to get (Britain) in the team." British Labour Party foreign affairs spokesman ***Robin Cook.***

ACTION PLAN FOR SATELLITE COMMUNICATIONS

Seeking to improve Europe's position in the critical satellite communications sector, the Commission has put forward a new Action Plan to promote a "public-private partnership" on the new generation of satellite systems.

Increasingly, satellite infrastructures must meet key user requirements like personal mobility, access to the high-capacity, broadband evolution of the Internet, fast response times and global connectivity. Hence, a strong and coherent satellite communications industry and service sector is of high economic and political importance for Europe, especially in light of US-led initiatives in the area of Satellite Personal Communications Services (S-PCS). According to the Commission, if Europe does not react in a coordinated manner, there is a high risk of being kept out of the most promising market segments.

Expected revenues in the various market segments (satellite terminals and services) are forecast to reach $400 billion over the next 10 years. Further, new global opportunities will arise from the recent WTO telecom deal (see page one).

The Action Plan calls for the immediate enforcement of relevant EU legislation (e.g. a 1994 directive liberalizing satellite equipment and services, which some member states have not yet implemented), a stronger EU presence at the international level and reinforced cooperation in satellite R&D, combining the efforts of the EU, the European Space Agency, industry and national governments.

EU SEALS PROTECTION PLAN FOR INVESTORS

After more than three years in the pipeline, the Council and the European Parliament have finally adopted (under the co-decision procedure) a directive providing minimum protection for small investors across the EU in the event an investment firm defaults (see EURECOM, June 1995). It does not, however, cover investment losses resulting from market performance/risk associated with all securities investment.

"This long-awaited measure will substantially reinforce the single market for securities trading by serving to increase investors' confidence," said EU Financial Services Commissioner Mario Monti.

Under the legislation, EU member states must ensure that at least 90% of each investor's claims are met by a compensation plan up to a minimum ceiling of 20,000 ecu (1 ecu=$1.13) — or 15,000 ecu until December 31, 1999 in member states where the ceiling is currently below 20,000 ecu. The financing and administration of these plans will be left entirely to the member states.

Reinforcing the "home country control" principle, which is the basis for the single license for investment firms in the EU (i.e. the Investment Services Directive), the supervisory authorities of the investment firm's home country will be responsible for investor compensation arrangements, even in cases where firms are established in several EU countries. Nevertheless, branches of investment firms have the right to join a host-country's plan if it provides a higher level of compensation than their home country's plan (known as the "top-up" clause). On the other hand, at least until the end of 1999, branches cannot offer a higher level of compensation (through the home country) than is on offer from the host country (the "export ban" clause).

Most EU countries already have guarantee funds in place, often administered by national stock exchanges. In a few cases, however, some member states have no legislation at all, while others are only just now implementing plans.

Member states have 18 months after its (imminent) publication in the Official Journal to transpose the directive into national law.

..IN BRIEF

...Measured by Eurostat's new Harmonized Indices of Consumer Prices (HICPs) for the first time, **EU annual inflation** was **2.2%** in January, tying the previous record low under the old system (see EURECOM, February 1996). The EU average figure, calculated from the 15 member states' HICPs, is the European Index of Consumer Prices (EICP). Annual inflation in the entire European Economic Area (EEA) was also 2.2%.

Designed to measure inflation more comparably between the member states, the HICPs will be used by the EU leaders to decide which countries fulfill EMU's price stability criterion.

Finland again had the lowest inflation rate (0.9%), followed by Sweden and Luxembourg (both at 1.3%). Even more impressive, 14 of the 15 EU countries had rates below 3% (Greece: 6.6%), and 12 of 15 qualify at present against the Maastricht inflation threshold.

...Work is as important to women as to men in the European Union according to a Eurobarometer poll, despite a concurrent Commission study that found they earn on average a fifth less than male counterparts. Further, over 70% of jobs held by women are in the services sector, where they occupy the lowest positions. Women also make up 83% of low-security (and low-prospect) part-time workers. However, both men and women find their private lives — especially family life — a greater source of satisfaction than broader social experiences (which include work).

...The **European Investment Bank**, the EU's main financing arm and the world's largest international lending and borrowing agency, provided a record 23.2 billion ecu in loans in 1996 to support EU economic development and its cooperation policies with non-member countries. Of the 20.9 becu invested in the EU, 70% went to projects fostering regional development, while 4.5 becu went toward transport infrastructure (of which 1.2 becu went to priority Trans- European Networks). "All these activities, by their contribution to European economic integration, will help create the conditions necessary for a successful EMU," said EIB President Sir Brian Unwin.

...**The European Union Studies Center** at the Graduate Center of CUNY is sponsoring a lecture by **Georg Rich**, chief economist of the Swiss National Bank, on "European Monetary Integration: the Swiss View", on April 10 at 5:30 pm. To reserve seats or for more information, please call (212) 642-2977.

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