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EU, US ENGAGE IN GAME OF TRADE "CHICKEN"

After failing to reach an accord on poultry and meat inspection standards — i.e. a "veterinary equivalency agreement" (VEA) — by an April 1 deadline, both the EU and the US have set measures into motion that will disrupt transatlantic trade in animal products and potentially contaminate other facets of the EU-US relationship.

Clearly a tough egg to hatch, the objective of a EU-US veterinary accord is to agree on the equivalence of respective inspection standards — even if they differ — to facilitate trade in all animal products for human consumption (e.g. meat, poultry, eggs, dairy products, etc.), live animals and animal by-products (e.g. hides).

From the EU's roost, the obstacles to an overall EU-US agreement are few, and are chiefly linked to the issues of decontamination of poultry carcasses, the chilling of poultry and some red meat matters. However, especially in light of the "mad cow" BSE crisis in Europe, the EU maintains that the veterinary discussions are about public health and its protection. While veterinary measures have trade implications, this should not be the main concern. Hence, putting the discussion purely in a trade context is misplaced, and trade retaliation only makes the negotiations more difficult.

Without an agreement, the EU, as it indicated earlier, has now applied its harmonized import conditions (as of April 1) on poultry meat, egg products, dairy products and pet food, which correspond to standards enforced within the EU for several years and which require that all exporters meet the European inspection standards (failing a VEA). In response, the US will no longer provide export certificates for US shipments of such products, in effect halting some $100 million worth of US exports to the EU. Moreover, in retaliation, the US announced that EU meat exports would have to meet US standards by April 15, which would virtually ban around $300 million worth of products — mostly Danish pork products and Italian ham — from the US market.

Despite the ruffled feathers, however, EU and US negotiators are back at the table (as EURECOM goes to print), hoping to clinch a VEA before the cock crows on April 15, limiting further damage.

"I think the situation is substantially different than it has been in the past, because we are facing and are already suffering from trade disruptions on both sides," said Paul Drazek, senior trade advisor to US Agriculture Secretary Dan Glickman, going into the revived talks.

EMU BUDGET PACT SEALED IN NOORDWIJK

Dispelling market speculation that the launch of the euro might be postponed, EU finance ministers resolved outstanding differences on the **Stability and Growth Pact** for budget discipline after EMU (see EURECOM, January 1997), and reached decisions on other important aspects of EMU at an informal meeting in Noordwijk, Netherlands, April 4-6.

Under the Noordwijk agreement, EMU countries that allow their annual budget deficits to exceed 3% of GDP will face financial sanctions (i.e. non-interest-bearing deposits), and later fines (up to a maximum of 0.5% of GDP per year) if no corrective action is taken.

In the first year, the punitive deposit would include a fixed component — 0.2% of GDP — and a variable element — an additional 0.1 of GDP for every percentage point above the 3% threshold. Thereafter, the amount of any subsequent deposit would be equal to 0.1% of the difference between the country's deficit as a percentage of GDP and the 3% of GDP reference value. Failing corrective action, after two years, each deposit would be converted into a fine.

On other matters, the EU finance ministers confirmed that the new Exchange Rate Mechanism (**"ERM II"**) between the euro zone and the "pre-ins" (i.e. non-participating EU member state currencies) will have (the now) standard 15% fluctuation bands, with narrower bands possible on a case-by-case basis. The narrowness of the fluctuation bands for particular countries would depend on how closely their economies have converged with those in the euro zone.

Finally, the EU will take its decision on which countries qualify for the euro at the end of April or the beginning of May next year. According to EU Monetary Affairs Commissioner Yves-Thibault de Silguy, the European Commission and the European Monetary Institute recommendations on participants in EMU's first wave tion rate at 6.5%. Annual inflation in the European Economic Area (EEA) was also 2%, representing a record low as well. Although not strictly comparable with the EICP, the US and Japanese rates came in at 3.0% and 0.1%, respectively.

...On April 15-16 in Malta, the second ministerial meeting of the Euro-Mediterranean Partnership, launched in Barcelona, Spain in 1995 between the EU 15 and 12 Mediterranean basin states (see EURECOM, December 1995), will take place. Although the current troubles in the Middle East have cast a shadow on the meeting, both Israel and the Palestinian Authority will attend, along with Turkey, Morocco, Algeria, Tunisia, Egypt, Jordan, Lebanon, Syria, Malta and Cyprus.

The Barcelona Declaration called for, inter alia, a Mediterranean free trade area in industrial goods by 2010, along with progressive liberalization in agricultural goods and trade in services.

...In reaction to Renault's much publicized (and vilified) closure of its Vilvoorde, Belgium plant, which put 3,100 people out of work and sparked EU-wide protests, EU social affairs ministers have called for a clear code of conduct concerning business closures. After an informal meeting, the ministers issued the following statement: "Restructuring is naturally a continuous process, but the manner in which it is carried out is of great importance. Information and consultation are essential conditions for social acceptance of restructuring. The involvement of workers is most important in such far-reaching changes."

...Caring for Europe's ageing population continues to take the lion's share of social protection spending in the EU as a percentage of total benefits (44.2%), but unemployment benefits are on the rise, reaching 9.2% of total benefits in 1994 (1980: 6.4%). In terms of social spending as a percentage of GDP, **Finland** tops the EU chart at 34.8% (based on 1994 figures), followed closely by **Denmark** (33.7%) and the **Netherlands** (32.3%), compared with an **EU average of 28.6%.** At the other end of the scale are Greece (16%) and Portugal (19.5%). Across the EU, contributions by employees and employers are the main source of finance (58%) for social protection, but this varies widely by member state. For example, Denmark finances its social protection system largely (75%) through taxes.

...As EURECOM went to print, the EU and the US had reached a provisional accord on the **Helms-Burton** dispute, which would enable the EU to suspend its WTO case against the controversial US legislation (see EURECOM, March 1997). More on this in the next issue.

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