

EU-US TRANSATLANTIC SUMMIT IN THE HAGUE

US President Bill Clinton, Dutch Prime Minister (and current EU Council President) Wim Kok and European Commission President Jacques Santer met on May 28 in the Hague for the biannual EU-US Transatlantic Summit and to celebrate the 50th anniversary of the Marshall Plan.

"Today we are not only commemorating the past; we are witnessing the birth of a new Europe," said Prime Minister Kok. "It is a continent that is undivided, where democracy reigns and where people live in peace and prosperity. It is also a Europe that is open to the rest of the world, that accepts its global responsibility and that is united with North America in a strong and equal partnership. With the Cold War now relegated to history, we have a great opportunity to continue the progress that George Marshall and true Europeans like Jean Monnet initiated 50 years ago."

The largely harmonious meeting covered a wide range of topics, including political cooperation in the Middle East, Iran, China, Congo-Zaire and the former Yugoslavia, and made significant progress in the areas of trade liberalization (see next piece), combatting international crime and terrorism and "bridge-building" between business, academic and civic organizations across the Atlantic. The (for now) defused issue of Helms-Burton (see EURECOM, May 1997) was also discussed, where the EU recalled the need for the US Administration to deliver on commitments to seek changes in Title IV of the legislation with the US Congress.

The summit also witnessed the formal signing of an **EU-US Customs Cooperation and Mutual Administrative Assistance Agreement (CMAA)** and a **Chemical Precursors Agreement**, which were both negotiated in the context of the New Transatlantic Agenda (see EURECOM, December 1995).

Termed as the first formal EU-US anti-drug initiative, the chemical precursors accord will allow easier identification of suspicious shipments of regulated chemicals, primarily through information exchanges. In addition, the agreement places restrictions on the transport of certain chemicals, requiring special authorization from the importing country.

The CMAA aims to improve transatlantic efforts to combat customs fraud — and to facilitate legal trading opportunities — by establishing mutual assistance programs, simplifying customs procedures and exchanging information related to customs enforcement. It is the first customs agreement negotiated between the US and an economic union.

In terms of "bridges", the leaders announced a new joint EU-US awards program totaling \$1 million over the next two years to promote civil society and democracy across the continent of Europe. EU and US officials are developing criteria and parameters for the program's implementation. Award recipients will be chosen by a panel made up of Americans and Europeans.

EU, US NEAR ACCORD ON MRA AGREEMENTS

Building on momentum generated from the Hague summit, EU Trade Commissioner Sir Leon Brittan and US Trade Representative Charlene Barshefsky reached a provisional accord on **mutual recognition agreements (MRAs)** between the EU and the US, which would cut costs in product sectors that total more than \$40 billion a year in transatlantic trade.

"This is the first down-payment on plans to create a new transatlantic market

place," said US Undersecretary of Commerce Stuart Eizenstat.

A key plank of the Transatlantic Business Dialogue (see EURECOM, December 1996), the MRAs would provide for mutual recognition of inspection, testing and certification of information technology products, telecommunications equipment, pharmaceuticals, medical devices and recreational boats between the EU and the US.

The toughest obstacle to the agreement has been US Food and Drug Administration's (FDA) status as an independent agency and its limitations on devolving au-

thority for testing and inspection to European pharmaceutical industry regulators. To clear this hurdle, the EU has accepted that the FDA is an independent agency that "cannot be over-ridden or over-ruled", but both parties have agreed to set up a joint program for training European and US inspectors on standards and certification. For the US' part, not just federal, but also state and local authorities must be bound by MRA principles.

As EURECOM went to print, however, Commissioner Brittan's spokesman Peter Guilford said that there were "signs of backsliding" on the US side, particularly

from the FDA. Further, the Commission negotiators also must consult with the member states before a deal with the US can be initiated.

BT-MCI MERGER APPROVED (WITH CONDITIONS)

The European Commission has cleared the \$20 billion merger between British Telecommunications (BT) and MCI, the US long distance carrier (see EURECOM, February 1997), albeit with some conditions. If the deal meets the approval of US antitrust authorities (whose decision is expected by autumn), it would create the world's second largest telecoms group (based on market capitalization).

BT and MCI already operate a joint venture known as Concert, which supplies value-added telecom services to multinational companies.

After its investigation, the Commission concluded that the proposed merger, as originally "notified", would have created a dominant position in the markets for international voice telephone services on the US-UK route, and for audioconferencing services in the UK.

To address these competition concerns, the parties have offered a number of undertakings which the Commission has accepted and will monitor. These include fair access to BT/MCI's transatlantic submarine cable capacity for rival operators, and the divestiture of MCI's audioconferencing business in the UK.

In the case of transatlantic voice telephone services, the Commission found that satellite does not (yet) provide a suitable substitute for cable (where BT/MCI already have a dominant position), especially at the required quality and performance standards. As regards audioconferencing, even though it takes relatively low investment to establish such a business, BT/MCI together account for 80% of the UK market (with growing market share), which might discourage new rivals from large scale market entry.

Subject to the parties' full compliance with the above conditions, the Commission has declared the merger compatible

with the EU's single market and with the functioning of the European Economic Area (EEA).

FLYNN ADDRESSES EU-US EMPLOYMENT CONFERENCE

At the first-ever *EU-US Conference on Employment and Employability* that took place in Washington on May 22, EU Social Affairs Commissioner Pdraig Flynn told participants that employment policies for the next century must strike a balance between flexibility and security.

Jointly sponsored by the European Commission and the US Department of Labor, and attended by prominent officials, academics and business and labor leaders from both sides of the Atlantic, the meeting marks the beginning of an active transatlantic dialogue on labor issues, as envisaged by the New Transatlantic Dialogue. According to Flynn, the conference was "about managing change, and about learning from each other how best to modernize our social and economic systems."

In his address, Commissioner Flynn emphasized that social policy is a productive factor in creating strong economic performance, which is certainly borne out by the EU's experience. Producing a fifth of the world's output with 6% of the world's population, the EU's economic success has been built on deep social foundations, leading to better living standards while avoiding the extremes of poverty within the EU member states.

On the other hand, the EU has very severe unemployment in some member states (see "...IN BRIEF" section on page 4), and nearly 20 million unemployed people in the Union as a whole. Further, Europe's governments, institutions and businesses have badly underestimated the pace of change and technological development. Even with the vast labor reserve, many European companies cannot find the skilled workers they need. This, coupled with the 20-25% of young Europeans leaving the education system each year without any recognized (much less marketable) qualification, poses a huge danger to Europe's long-term competitive-

ness. Less than 10% of those currently unemployed in Europe are receiving any training at all for the new, more demanding labor market.

"The present form of safety net inherent in the European social model plainly is not functioning in the interests either of the state or the individual," commented Flynn. "What we offer now — too often in Europe — is a one-way ticket out of employment. That is why we are looking hard at ways...unemployment insurance can be transformed into employability insurance," he said.

To achieve that, "we must move beyond the old, sterile debate of regulation versus deregulation. The new debate must focus on finding a balance between flexibility and security," because even in the new, more fluid labor market, "the need for security will not diminish," said Flynn.

For a full text of Commissioner Flynn's remarks, please visit the Commission's US website at <http://www.eurunion.org>.

PROGRESS REPORT ON EU TELECOM LEGISLATION

With full liberalization of the EU's 200 billion ecu (1 ecu=\$1.12) telecoms market set for January 1, 1998, the Commission wants to assure that member states are up-to-date in their obligations under EU law and under the WTO agreement on basic telecommunications services (see EURECOM, March 1997). Accordingly, the Commission has just published a report on the state of implementation of the EU's telecommunications legislation.

Since some of the deadlines in the EU's regulatory package have not yet passed, this process will continue until the end of 1997 (and beyond for member states with longer implementation periods). Thereafter, the next step will be to ensure that the "transposed" measures are correctly applied, implying a shift of focus to the market and the way it operates. To get a true indication of progress toward a fully liberalized market, the Commission will watch a number of regulatory issues that are not a part of the EU's liberalization package, such as carrier selection,

number portability and unbundled access to the local loop.

Overall, the report shows that there has been positive progress in transposing the complex telecom legislation into national law. Nevertheless, a considerable further effort lies ahead to ensure the resulting national laws are effective in the market place. In this respect, the Commission will monitor the situation proactively, guaranteeing access to markets while safeguarding the quality and availability of services to the consumer.

At a press conference, Telecom Commissioner Martin Bangemann divided the member states into four categories: Denmark, Finland, Sweden and the UK have already complied with the relevant legislation; France, Germany and the Netherlands are on course to comply by the end of this year; Austria, Ireland, Italy and Luxembourg have made important progress, but must make great efforts to meet the January 1, 1998 deadline; and Belgium, Greece, Portugal and Spain are lagging behind.

COMMISSION LAUNCHES SINGLE MARKET ACTION PLAN

In preparation for the Amsterdam European Council (June 16-17), the Commission has released its **Single Market Action Plan**, which is geared toward a political commitment from the member states to complete decisively the single market by January 1, 1999 (see EURECOM, May 1997), in parallel with the introduction of the euro.

"We will ask the European Council not only to endorse the ambition of moving towards the completion of the single market, but also to approve the specific work program necessary to achieve this objective," said Commission President Jacques Santer. "An efficient single market means more jobs."

The Action Plan defines four strategic targets: making the rules more effective; dealing with key market distortions; removing obstacles to market integration; and delivering a single market beneficial to all citizens. Specific actions will be implemented under a three-phase timetable.

QUOTES

"Together, America and this new Europe must complete the noble journey that Marshall's generation began — this time with no one left behind." US President Bill Clinton at the EU-US Transatlantic Summit in the Hague.

"It is time we stopped looking at Europe through Rip Van Winkle eyes. It is time to agree that there will not be a truly complete transatlantic partnership in security and trade, or a truly 'European' currency or foreign policy, until it encompasses Europe's new market democracies. US Secretary of State Madeleine Albright.

"Too much emphasis should not be put on the question of whether the enlargement negotiations will start with

all the countries at the same time...Differentiation in time would not mean discrimination, and suggestions to that effect could become self-fulfilling." Commissioner Hans van den Broek.

"I want people to realize that if Europe is to have support amongst the people of Europe, then it has to be a Europe that is clearly focussed on the things that matter to them." British Prime Minister Tony Blair.

"Bananas are to us what cars are to Detroit." Jamaican Prime Minister Percival Patterson, commenting on the WTO ruling against the EU's banana regime which favors imports from Lomé Convention countries.

Phase one features actions that can be implemented in the short run because they do not require new EU legislation, relying instead on practical steps at an EU and national level to fulfill previous commitments. These include, inter alia, eliminating all delays in transposing single market directives, and effective implementation of liberalization measures in the telecommunications and electricity sectors.

Phase two covers measures that have already been proposed, but still need approval from the European Parliament and the Council, like the proposed directive on the protection of biotechnological inventions, the European Company Statute and the liberalization of gas supply.

Finally, **Phase three** encompasses areas where work is less advanced or where progress will likely prove most difficult. Examples include a reworking of the value-added tax (VAT) system, phasing out restrictions on investments by pension funds and "distance selling" of financial services.

WTO PANEL REQUESTED ON INDONESIAN CAR POLICY

The EU recently requested the establishment of a WTO dispute panel to rule on

Indonesia's discriminatory "National Car Program" (and other measures concerning trade in automotive products) after two intense rounds of formal WTO consultations failed to resolve the dispute (see EURECOM, October 1996).

Not surprisingly, Indonesia blocked the EU's request — as is its right under WTO rules — but it cannot block a second request, which will be made on June 12 (together with Japan).

Indonesia's policy is a prime example of government-mandated trade distortions, combining extremely high (up to 125%) tariffs to protect the domestic market, discriminatory local content requirements to keep out imported parts and preferential tax treatment for certain domestic investors. Brazil is in WTO consultations as well for similar strictures on inward investment in the automotive sector.

Both policies result in trade discrimination contrary to a number of WTO provisions, most notably the agreement on Trade-Related Investment Measures (TRIMS). The Indonesian and Brazilian measures are particularly worrying because they are the first challenge to the disciplines of the TRIMs agreement. If unchallenged, they would create a precedent for other WTO partners wishing to develop

their local manufacturing base at the expense of European and other's exporting interests. These two countries are especially important since they belong to Asean and Mercosur, respectively, two free trade areas which harbor some of the most promising business prospects for EU automotive manufacturers.

...IN BRIEF

...Average EU seasonally-adjusted unemployment held at 10.9% in March, the same rate as in the previous three months. In March 1996 it was 11.0%. According to Eurostat, unemployment continues to **rise in Sweden** (10.2% last November to 10.9%) and **Germany** (9.3% to 9.7%), while it is **falling in the UK** (from 7.8% in November to 7.3%) and **the Netherlands** (6.2% to 5.7% [Feb]). Elsewhere it is fairly stable. Above the EU average are Spain (21.4%), Finland (15.4%), France (12.5), Italy (12.2% [Jan]) and Ireland (11.7%). Luxembourg's 3.6% and Austria's 4.4% are the lowest. Compared with the EU, the US and Japan came in at 5.2% and 3.3%, respectively.

...The EU has initialled terms of entry into the **Korean Peninsula Energy Development Organization (KEDO)**, the body established two years ago to increase nuclear safety and reduce the threat of nu-

clear proliferation in North Korea. Under the accord, the EU will serve as a full member of the Executive Board, like charter members South Korea, Japan and the US. The EU will also contribute 75 million ecu to KEDO over a five-year period, roughly in line with the US' contribution. "By joining KEDO, Europe is sending a strong signal of the importance it attaches to strengthening political and security ties in Asia," said EU Commissioner Sir Leon Brittan.

...The Commission has endorsed an accord worked out between the "Social Partners" — UNICE (European employers' confederations), the ETUC (European

trade unions) and the CEEP (public enterprises) — on guaranteeing rights to part-time workers under the Social Protocol (SP) of the Maastricht treaty. The agreement now goes to the member states (less the UK, which has an opt-out) to approve (by qualified majority) the seven-clause deal aimed at improving working conditions and removing discrimination and other obstacles facing workers with part-time contracts. The deal does not cover "atypical" types of work, such as seasonal or temporary jobs. If approved, the agreement will be the second piece of legislation passed under the Social Protocol (see EURECOM, May 1996).

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European Commission
3 Dag Hammarskjöld Plaza, 305 East 47th St., New York, NY 10017
Telephone (212) 371-3804