eurecom

MONTHLY BULLETIN OF EUROPEAN UNION ECONOMIC AND FINANCIAL NEWS

VOLUME 9, NUMBER 7 JULY/AUGUST 1997

AMSTERDAM YIELDS A NEW TREATY...

After long and difficult negotiations, the June 16-17 Amsterdam European Council reached agreement on a draft Treaty of Amsterdam, concluding the Intergovernmental Conference (IGC) launched in March 1996 to revise the EU's Maastricht Treaty and to help prepare the Union for further enlargement. It will be finalized and ready for signature by October 1997, after which the ratification process for the member states will begin.

While for some the draft treaty revisions fell short of expectations, the Amsterdam result opens the way for launching the enlargement process (see piece on page 2).

With an appropriate sense of perspective, Commission President Jacques Santer welcomed the European Council's achievement:

"Nobody can say that we have not launched a new phase in European integration. The pace has been maintained. This was not the moment for grand designs and ambitions. We are advancing step by step. It is not surprising that integration has reached a point where all new progress will touch on the most sensitive dossiers. That is not a reason to resign ourselves; rather, it should encourage us to use all the possibilities for progress in the new treaty."

In terms of **justice and home affairs**, the treaty provides a substantial transfer of responsibilities to the Community framework (as opposed to intergovernmental cooperation), including the free movement of persons, the Schengen Convention and measures relating to external border controls, asylum, immigration and police cooperation. In most cases, however, these areas will remain subject to unanimity, with a Council decision in five years' time (from ratification) on whether to move to qualified majority voting. For constitutional reasons, Denmark received an opt-out from the above provisions, and Ireland and the UK will be allowed to maintain frontier controls.

On **institutional matters**, although most issues were put off until the next enlargement, the EU leaders decided that the number of Commissioners (currently 20, including the President) will remain unchanged. When new member states accede, the larger EU member states will give up one of their two Commissioners (so that each member state will have one) in return for a possible new weighting of Council voting. When the number of member states goes over 20, there will be another complete review of EU institutions.

To improve the effectiveness of the **EU's Common Foreign and Security Policy** (CFSP), the draft treaty establishes a High Representative (a "Mr. CFSP"). This position will be filled by the Secretary General of the EU Council, with support from a new policy-planning and early-warning unit in cooperation with the European Commission. Concerning joint actions, the European Council will decide on the areas where the member states have important common interests. The Council of Ministers will then decide by qualified majority on the means of implementation, with the possibility for a member state to take a position of "constructive abstention" (i.e. it does not participate, but it does not impede an action) or, in the case of a vital national interest, to block a vote.

For the first time, the treaty will include a **chapter on employment**, which provides for more coordination between the member states to fight unemployment (without harmonizing the employment policies of the member states).

Within very narrow and strict limits, member states will have the **flexibility** to move forward on some policy issues — without waiting for all other countries — provided a qualified majority agrees.

And the **Social Protocol of the Maastricht Treaty** setting out workers' rights — from which the UK was exempt — will be integrated into the Amsterdam text (with the UK's blessing and participation).

...AND CLARITY ON EMU

Before the EU leaders could start work on the draft treaty, they first had to address the diminished expectations for Economic and Monetary Union (EMU) following recent political events in France and Germany, so that some important EMU-related decisions could be taken.

To assuage the new (mainly) French government's concerns about unemployment and reservations about the Stability and Growth Pact (for continued budgetary discipline after EMU), the European Council issued a Resolution on Growth and Employment, confirming the commitments of the member states and the Commission to keep employment issues at the top of the EU's political agenda. Further, the Resolution calls on the European Investment Bank to have a greater role in promoting job-creating investment. To keep up the political momentum, a special employment summit will be held in the fall. And, in the end, the European Council agreed to include an employment chapter in the new draft treaty (see previous piece).

With agreement on these points, the EU leaders once again confirmed that EMU would start on time in January 1999, and agreed on the regulations (without amendment) which embody the Stability and Growth Pact. These set out a framework for effective multilateral surveillance and give precision to the excessive deficits procedure.

In addition, the European Council completely agreed on the two regulations constituting the legal framework for the euro, as well as on an important resolution on the principles and main elements of a new Exchange Rate Mechanism (ERM II). It also fully endorsed the choice of design for the euro coins and bank notes which will become legal tender in 2002.

For a copy of the Amsterdam summit's final communiqué, please visit our US website at *http://www.eurunion.org* or the Europa website at *http://europa.eu.int*.

EU ENLARGEMENT AND "AGENDA 2000"

With the IGC wrapped up, the Commission published on July 16 its blueprint for the next enlargement toward Central and Eastern Europe, and for the development and financing of the EU's common policies beyond the turn of the century.

Called "Agenda 2000", this comprehensive strategy also encompasses the Commission's Opinions on the EU membership applications from 10 Central and Eastern European countries.

In presenting the package to the European Parliament, Commission President Jacques Santer described Agenda 2000 as a coherent response to the double challenge of deepening the EU through EMU and reinforcement of internal policies while widening EU membership. President Santer also called for a new IGC as soon as possible after 2000 to deal with the institutional questions raised by larger membership, issues that were not (in the Commission's view) adequately addressed by the draft Treaty of Amsterdam.

Based on its evaluation of each candidate county's political and economic readiness for EU membership, the Commission has recommended that accession negotiations should start with **Cyprus** (as previously agreed) and five Central and Eastern European countries: **Poland, Hungary, the Czech Republic, Estonia** and **Slovenia**. These five countries come closest to meeting the membership eligibility criteria of having secure democratic government, a well-functioning market economy and the ability to take on the obligations of EU membership. The EU will assist the remaining five (Bulgaria, Latvia, Lithuania, Romania and Slovakia) to meet these requirements so that they can open accession talks as soon as possible. At the end of 1998, the Commission will start submitting annual progress reports to the European Council on the candidate countries' applications. These Commission recommendations are not, however, the last word: the member states will have their say at the Luxembourg European Council in December.

Agenda 2000 also reviews the situation in **Turkey**, an EU applicant since 1987, with a view toward deepening relations between Turkey and the EU on the basis of the customs union that went into effect December 31, 1995 (see EURECOM, January 1996).

Regarding future EU policies, enlargement will have its greatest impact on the **Common Agricultural Policy** (CAP), which remains the largest item in the EU budget. Agenda 2000 recommends continuing agricultural reforms — like the major market-oriented reforms of 1992 — by reducing institutional prices for farm products, bringing farm prices more in line with world prices. The resulting downward pressure on EU farm prices and the upward price pressure in Central and Eastern Europe would ease their accession to the CAP.

Further, Agenda 2000 stresses the importance of simplifying the **EU's Structural Funds**, which play an important role in reducing disparities among EU member states and regions.The Commission expects to commit 275 billion ecu (in 1997 prices) for this purpose in 2000-2006 (1 ecu=$1.10).

According to the Commission, all of these challenges can be met within the EU's budget ceiling of 1.27% of the EU GNP, which will be reached in 1999.

Online summaries of the Commission's Opinions or other Agenda 2000 texts are available on EU websites (see previous piece).

EU, US CLINCH MRA ACCORD

After almost three years of negotiations, the European Commission and the US Administration have initialled a Mutual Recognition Agreement (MRA) which will cut red tape, reduce costs and shorten delays in the marketing of products across the Atlantic in some of the most important sectors for the future: telecommunications equipment, medical devices, pharmaceuticals and recreational craft (e.g. speed boats) as well as electromagnetic compatibility and electrical safety (see EURECOM, June 1997).

EU Trade Commissioner Sir Leon Brittan hailed the MRA as "one of the crowning achievements of the new Transatlantic relationship so far," which was identified by the business community on both sides of the Atlantic "as the biggest single step to stimulate trade, now that tariff barriers have been so substantially lowered."

According to Sir Leon, the identification of the MRA as a top business priority through the Transatlantic Business Dialogue was crucial in persuading the EU and the US to overcome bureaucratic objections and reach this "hard-won agreement".

Through the agreement, the US will allow European companies to sell products straight into the US market after they have been tested and certified to US health, safety and quality standards in Europe, foregoing the right to carry out a second set of tests in the US. The same applies vice-versa.

The EU-US accord takes the form of an international treaty. Its framework text lays down the general rights and obligations of both parties and sets up a permanent joint committee to oversee its application. This framework will permit future extensions of the agreement to additional industrial sectors.

A separate but similar MRA has also been reached with Canada, covering the same sectors as with the US.

QUOTES

*"I do not think this augurs well for enlargement." Commission President **Jacques Santer**, commenting on the Amsterdam Treaty in front of the European Parliament.*

*"The economy of Cyprus demonstrates clearly that Cyprus is ready for (EU) membership. I think (it) has a unique economic opportunity to become the Singapore of the Mediterranean. When I say 'Cyprus', I mean both communities." US presidential envoy for Cyprus **Richard Holbrooke**.*

*"It's very noticeable that both the Americans and the Japanese have gotten much more interested in EMU in the last few months than they ever were because they see it coming and obviously it's going to have an impact." EU Commissioner **Sir Leon Brittan**.*

*"As Europe moves toward a single currency in monetary union, it will become a fully equal partner of the United states in all economic terms." **Fred Bergsten**, Director, Institute for International Economics.*

THE EURO'S IMPACT ON CAPITAL MARKETS

To assist technical preparations for the euro, the Commission has released a study on the impact of its introduction on financial markets.

Prepared by a group of EU financial sector experts (under the chairmanship of Alberto Giovanni of the UK Long-Term Capital Management group), the report focuses on technical issues related to EMU for the financial markets, highlighting the necessary preparations to ensure that euro-denominated markets are as broad, liquid, deep and transparent as possible. The study supports the Commission's firm belief that market harmonization is a matter for the private sector.

Concerning *bond markets*, although **redenomination of existing debt** does not appear essential for the transition to the euro, it would enhance liquidity and the credibility of the process. In fact, many member states have announced their intention to redenominate existing stocks of government debt into euros as of January 1, 1999. In terms of redenomination technique, the report recommends a "bottom-up" approach: converting the overall value of individual bond holdings from the national currency directly into euros using the fixed conversion rates rounded to two decimal places (i.e. to the nearest cent). A similar approach is encouraged for non-government bonds.

The group also concluded that **harmonized market rules and conventions** would be desirable to ensure greater transparency and to minimize the potential for errors. In particular, the report discusses "day counts" for calculating interest accrued on bonds, harmonization of business days to allow same-day cross-border financial transfers throughout the euro zone and coupon frequency and settlement periods.

On the **issuance of government bonds**, the study recommends a degree of informal coordination between issuers of sovereign debt. Prior announcement of timetables for bond issues could help, but flexibility for non-announced issues should be maintained.

In the absence of a single, federal issuer, markets will decide which is the **benchmark** issue on the basis of quality, liquidity and the range of derivative products.

In terms of *equity markets*, the impact of the euro appears less strong and immediate than on other segments of the financial markets. Coordination and harmonization of market rules looks to be less important than for bond markets.

Stock exchanges will trade and quote in euros from January 1, 1999. Conversions into national currencies during the transition period will occur where necessary, at the level of the financial institution which acts in the market on behalf of clients.

The timing of **redenomination of nominal share values** from national currencies into euros is a decision for each individual company. Logically, this could take place when the firm starts using the euro for internal accounting purposes.

EU DEPOSITS IMPROVED WTO FINANCIAL SERVICES OFFER

As part of its drive to secure a new, permanent WTO financial services liberalization deal before the end of the year, the EU has submitted a new offer that increases the scope of its previous market-opening commitments.

It involves eliminating 12 residual restrictions and reducing nine others in, for example, the Austrian banking sector, the Amsterdam stock exchange and Portuguese investment funds. These come on top of the EU's existing liberalization commitments, currently among the most ambitious of those submitted to the WTO.

EU Financial Services Commissioner Mario Monti has called on the EU's trading partners to match its WTO offer: "It is in the interests of the world trading system...that all WTO countries match the EU's new offer and reach a global deal liberalizing trade in financial services by 12 December this year."

"Financial services — banking, insurance and securities — are the lifeblood of any economy," added Monti, and the WTO financial services negotiations "are the most important item on the world trade agenda this year."

The EU welcomed the US' latest offer as a "major and welcome step", but warned that some key Asian countries' offers appear to be restricting foreign investment in the financial services sector, something which could scupper the talks.

The US pulled out of a WTO financial services agreement in 1995 because it considered the offers from emerging economies inadequate (see EURECOM, July/August 1995).

...IN BRIEF

...Eurostat reports that total EU GDP rose 1.6% in 1996, compared with a 2.5% rise in 1995 and a 2.9% increase in 1994. Among the member states, **Ireland** recorded the most dynamic growth (8.4%) for the third year running, albeit somewhat lower than in 1995 (10.7%!). Next were Luxembourg (3.6%) and Finland (3.3%). **Italy** registered the lowest rise (0.7%), well down from 2.9% in 1995. The EU's four largest economies — Germany, France, Italy and the UK — accounted for 73% of total EU GDP.

In terms of GDP per head (in purchasing power standards, EU 15=100), **Luxembourg** (171.4%) once again topped the EU list, the only member state to exceed the **US** (148.5) and **Japan** (120.4). Second place **Denmark** came in at 116.2, followed by Belgium (111.7) Austria (110.8) and Germany (110.2).

...To help this side of the Atlantic prepare for the euro's coming, the European Finance Convention is holding a special two-day event on November 10-11, 1997 in Manhattan entitled **"The Impact of a Single European Currency on US Financial Markets: Preparation and Profitability"**. Invited speakers represent an EMU all-star list of central bankers, EU officials and private sector practitioners. For more information, please call their London office at 011-44 171 381 9292.

...The Fordham Corporate Law Institute will hold its 24th annual conference on **"International Antitrust Law and Policy"** on October 16-17, 1997 at Fordham Law School in Manhattan (140 E. 62nd St.). The program offers a top-flight roster of EU, US and Japanese antitrust officials, legal practitioners and academics. This year's EU line-up is especially rich, headed up by EU Competition Commissioner **Karel Van Miert**. For more information, please contact T. Scott Lilly at: tel (212) 636-7777, fax (212) 636-6984 or e-mail *slilly@mail.lawnet.fordham.edu*.

eurecom

MONTHLY BULLETIN OF EUROPEAN UNION ECONOMIC AND FINANCIAL NEWS

For additional information on any article in this issue, please write or telephone Christopher Matthews or Kerstin Erickson at (212) 371-3804.
EURECOM is also online at http://www.eurunion.org/news

Please send a regular free copy of EURECOM to:

Name ____________

Position ____________

Organization ____________

Address ____________

Special Interests ____________

EURECOM is published by Wouter Wilton, Director of Press & Public Affairs, the European Commission, 3 Dag Hammarskjold Plaza, 305 East 47th Street, New York, NY 10017. It is edited by Christopher Matthews. The contents of EURECOM do not necessarily reflect the views of the European Union's institutions. Any article may be reproduced without express permission. However, acknowledgement of the source and a copy of any material published would be appreciated.

Printed on Recycled Paper.

eurecom

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