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A "TOTAL" EU-US ROW ON THE HORIZON

After an uneasy EU-US peace on the extraterritorial front (see EURECOM, September 1997), possible application of the US' Iran-Libya Sanctions Act (ILSA) against the French energy group Total for signing a contract to develop an Iranian gas field has ratchetted up transatlantic trade tensions.

In response to the ILSA (a.k.a. the D'Amato Act) threat, EU Trade Commissioner Sir Leon Brittan emphasized that Total's decision to develop a gas field in Iran is a commercial decision for Total alone. He also repeated the EU's now very familiar opposition to US legislation with extraterritorial effect — like the Helms-Burton and D'Amato acts — which contravenes international law.

According to Sir Leon, such laws are also counter-productive in political terms because they create tension between Europe and the US, making it harder to work together to achieve shared political objectives in Iran. And it plays into the hands of the hardliners in Tehran. For its part, the EU continues to believe that a negotiated settlement on the lines set out in last April's EU-US Understanding remains the right route to pursue.

"I therefore hope the US Administration will reflect long and hard about the wisdom of taking any action against Total under the D'Amato Act," said Sir Leon.

He also pointed out — without prejudice to the EU's fundamental opposition in principle to ILSA — that the EU has demonstrated to the US Administration that the policies of the EU member states toward Iran and Libya meet the terms for a waiver set out in the Act. Denying a waiver would risk "setting in motion a chain of events which could seriously damage the wider relationship which is of such huge importance to us both," warned Sir Leon.

In an interesting aside, the **European-American Business Council** has released a study, *Is the Price Too High? The Cost of US Sanctions Policies*, which found that 80% of the US- and European-owned companies they surveyed had been harmed by US sanctions. The most common negative effects of these sanctions are lost joint venture opportunities (especially for US firms), decreased US employment (through reduced levels of European investment) and lost supply relationships. Among existing US federal, state and local measures, ILSA and Helms-Burton have harmed the greatest number of companies.

EU SLIPS ON BANANA POLICY APPEAL

Having lost its final appeal on a WTO ruling against its banana import policy — a complicated regime of tariff-quotas and marketing regulations designed to give trade preference to certain ACP (African, Caribbean and Pacific) country banana producers — the EU will indicate later this month how it will comply with the Dispute Settlement Body's (DSB) report.

Initiated by complaints from US fruit-marketing companies, the US government's WTO case against the EU (see EURECOM, October 1995) was supported by the large-scale "dollar" banana-producing countries of Ecuador, Honduras, Guatemala and Mexico. The US itself does not export bananas to the EU.

Once the EU declares its intentions vis-a-vis the DSB report, the WTO rules foresee "a reasonable amount of time" for compliance. At present, the EU is carefully assessing the report (which contains some apparent contradictions), because finding a solution that not only respects its WTO obligations, but also does not sell ACP banana producers "down the river" (and can achieve agreement in the Council of Ministers), is no mean task.

Meeting its Lomé Convention obligations to the affected ACP countries is a chief EU concern at this juncture.

PRACTICAL ASPECTS OF THE EURO'S INTRODUCTION

With less than 450 days left before it happens, the Commission has just published a report on the practical aspects of the euro's introduction. It provides an overview of ongoing preparations by EU institutions, national authorities and the private sector, and identifies the issues where decisions are still needed.

The report's main message is that early decisions on outstanding practical questions are required to facilitate preparations by the private sector, and to smooth the transition to the euro in line with the timetable agreed at the December 1995 Madrid European Council (see EURECOM, January 1996).

On the legislative front, the legal framework for the euro's introduction has been agreed (see EURECOM, July/August), but in terms of practical preparations, it is essential that: 1) member states' public administrations present

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transition plans before the end of 1997 (especially for accounting and tax declarations); **2)** public debt issuers announce their intention on redenomination of existing debt and on conventions applicable to new debt before the end of 1997; **3)** member states determine the design of the national faces of euro coins before the end of 1997; **4)** member states launch their national communications campaigns without further delay; **5)** competent authorities inform about the tax treatment of costs of investments linked to the euro's introduction; **6)** the Council decides the date of the introduction of euro-denominated bank notes and coins by the end of the year; and **7)** other issues, like dual display of prices in euro and national currencies, be further studied to ascertain whether a common approach is necessary in all countries of the euro zone, or if EU (or national) legislation is required.

BRITTAN: ASIANS NEEDED FOR FINANCIAL SERVICES DEAL

Fresh from his trip to Tokyo, where he pressed the case for a WTO financial services deal with the Asia-Europe (ASEM) economics ministers, EU Trade Commissioner Sir Leon Brittan warned in a speech to the Association of British Insurers on October 3 that this global liberalization package is too important to fail.

Given that the Uruguay Round started 11 years ago, and with only two months to go to the current negotiation's December deadline, Sir Leon said it was high time this piece of Uruguay Round "unfinished business" was completed.

For that to happen, Sir Leon stressed that the Southeast Asian countries will have to make a significant contribution. "It is a myth to believe that turmoil in the Asian markets means liberalization should cease. Indeed, the reverse is the case," he remarked.

Sir Leon pointed out that foreign financial services providers bring new products, expertise and know-how. They also increase competition, encourage savings by providing attractive new products, help in the training of local personnel and lead to better allocation of capital and greater liquidity for capital markets. Moreover, liberalization contributes to greater financial market stability by providing more depth in domestic capital markets, leading to less reliance on foreign borrowing.

"There is no reason why liberalization should not be accompanied by enhanced prudential supervision. That is the right way forward for the countries of Southeast Asia...I hope this will help us pursue a deal which will benefit both themselves and the rest of the world," concluded Brittan.

CURBING HARMFUL TAX COMPETITION

The Commission has issued a Communication on harmful tax competition in the EU, which explores the EU level measures it believes are necessary to reduce distortions in the single market and to prevent serious tax revenue losses in the member states.

"We are realizing for the first time the full extent of the damage resulting from the delay in coordinating national tax policies in the face of market integration," said EU Taxation Commissioner Mario Monti. "If no progress is made in this matter...we would sow the seeds of political conflict that would damage integration...The (EU) finance ministers share our view and recognize the need for progress."

Striking a balance between the various interests of the member states — with due homage to the principle of subsidiarity — the Commission has come up with the following measures: a code of conduct on business taxation; removal of distortions in the taxation of capital income; abolition of withholding taxes on cross-border interest and royalty payments between companies; and other measures to combat blatant distortions in the field of indirect taxation.

The draft **code of conduct** would constitute a voluntary political commitment by the member states to refrain from adopting any harmful tax measures with significant impact on the location of businesses in the EU. Some criteria for identifying potentially harmful measures are: an effective level of taxation that is significantly lower than the general level of taxation in a country; tax benefits reserved for non-residents; granting of tax advantages even in the absence of any real economic activity; and lack of transparency.

In line with its Action Plan for the Single Market (see EURECOM, June 1997), the Commission wants to eliminate **withholding taxes on interest and royalty payments** between companies, because they create obstacles to cross-border economic activity and lead to double taxation. Previous failures in this area notwithstanding (see EURECOM, November 1994), the Commission is ready to submit another proposal.

On the vexing subject of **taxation of capital income**, the Commission suggests that an EU-wide system should cover only interest paid to natural persons resident in another member state. Each member state could introduce either a minimum withholding tax, or provide information on savings income to the other member states. The minimum rate for an EU-wide withholding tax would be fixed "at a satisfactory level".

Even if the EU finance ministers apparently agree with most of the Communication, adoption of the above measures will still prove very difficult: tax measures still require unanimity in the Council.

COMBATTING CLIMATE CHANGE: THE EU'S KYOTO APPROACH

As the UN-sponsored Kyoto Conference on Climate Change in December draws near, the Commission has issued a Communication on the EU's Kyoto approach, calling on industrialized countries to take the lead in reducing "greenhouse" gases and man-made climate change.

"The potential future damage and cost resulting from (man-made) climate change makes it imperative to urgently reduce greenhouse gas emissions," says the paper.

The goal of the Kyoto conference is a legally binding international treaty limiting greenhouse emissions in order to avoid catastrophic climate change.

The EU holds (and illustrates) that if all industrialized countries act together, its negotiating target — a global 15% reduction of three greenhouse gases (carbon dioxide, methane and nitrous oxide) by 2010 relative to 1990 levels — would be both technically feasible and economically manageable. The EU has made it clear, however, that it will not take unilateral action and that all industrialized countries must make comparable reduction efforts.

For the EU alone, the Commission estimates the direct compliance cost in 2010 to be between 15 and 35 billion ecu (1 ecu=$1.11), roughly 0.2 to 0.4% of GDP. The overall macroeconomic impact on GDP could range from a positive impact of 1% to a negative impact of 1.5%, depending on the measures chosen to implement the reductions.

The EU's position has been widely debated, both inside the EU and at the international level (particularly among other industrialized countries). Reactions have varied widely — from positive recognition of an ambitious policy, to skeptical questioning (even outright opposition) of the economic, technical or political feasibility of the targets. In fact, host-country Japan recently criticized the EU's strategy as "unfair and unrealistic".

EU Environment Commissioner Ritt Bjerregaard has challenged the US to come forward with "a constructive and ambitious position on emission reductions", and has called on Japan "to establish its leadership in order to ensure the success of the Kyoto conference."

QUOTES

*"One year ago, the question was whether European monetary union would come. This year, the question is what it will mean." Commerzbank chief executive **Martin Kohlhaussen**, at the recent IMF meetings in Hong Kong.*

*"It is high time for a clear (UK) declaration of intent on EMU." **Paddy Ashdown**, leader of the UK's Liberal Democratic Party.*

*...I support the single currency, but I am worried because I think its design is flawed...The common currency may end up destroying the European Union because its deficiencies cannot be corrected." **George Soros**.*

*"Some advocate a common start to the negotiations with all applicants whatever their preparedness for (EU) membership. But little, beyond momentary political satisfaction, would be gained by opening negotiations with countries that are insufficiently prepared. Negotiations would soon become bogged down, leading to disenchantment." EU Commissioner **Hans van den Broek**.*

*"...In an increasingly integrated global economy, the quest for prosperity is the opposite of the zero-sum game. 'Beggar thy neighbor' doesn't work; 'prosper with thy neighbor' does." US Secretary of State **Madeleine Albright**.*

TIGHTER EU RULES FOR GENE-MODIFIED FOOD

Food products derived from genetically modified maize (corn) or soybeans will have to carry special labels as of November 1, 1997 under a new regulation just issued from the Commission (in agreement with the member states).

While European consumer groups are extremely happy with the new rules, some of the EU's trading partners may find them contentious and unwieldy. Over the next few months, the EU will attempt to clarify the wording for labels and whether they should carry symbols.

In essence, the regulation extends the labelling provisions of the Novel Food Regulation (see EURECOM, December 1996) to these specific product categories, as both were approved for sale in the EU before the Novel Food legislation took effect on May 15, 1997. This means that food producers will have to indicate on food labels when contents include genetically modified corn or soybeans. If there is uncertainty about whether ingredients are "modified", then this must also be stated. Further, if "novel" characteristics render a food or food ingredient "no longer equivalent" to an existing product, this must also be spelled out (which is not the case for Ciba Geigy's genetically modified corn; see EURECOM, January 1997).

...IN BRIEF

...Europe is the #1 investor in 42 US states and the #2 investor in the remaining eight states according to the European-American Business Council's (formerly the European-American Chamber of Commerce) annual study *The US and Europe: Jobs, Trade and Investment*. The study found that nearly 3 million US jobs are directly supported by European investment, and that 1.3 million US jobs are supported through exports to Europe (which is the #1 or #2 export market for 44 states). And these figures do not include those jobs that are supported indirectly by European investment, like through supplier and dealer relationships.

...Divorce is on the rise in the EU while, simultaneously, marriage is on the wane. Based on 1995 figures, Eurostat reports that nearly a third of EU marriages could fail, compared with 14% in the early 1970s. In terms of marriages, only 5.1 per 1,000 inhabitants occurred in 1995 in contrast to 7.6 per 1,000 in the 1970-74 period. Marriages are at most risk in Belgium and Sweden, where more than half of couples will divorce, followed closely by Finland (49%). Marriage is most stable in Italy, where less than one in ten calls it quits. In the other Mediterranean member states, the rate is under two in ten. In the US, over half (55%) of all marriages don't work out.

...In the EU, 16% of all employed persons are working part-time according to a

Eurostat report based on the 1996 EU Labor Force Survey. Part-time work varies considerably across the member states, however: from lows in **Greece** (5%), Italy (7%), Luxembourg (8%) and Spain (8%), to highs in Denmark (21%), Sweden (23%), the UK (24%) and, particularly, the **Netherlands** (38%).

In light of the EU's high unemployment (see next item), part-time work is often viewed as a policy measure to increase the number of employed persons by promoting work-sharing. It can also be an efficient tool for firms to respond to peaks in demand for goods and services. Finally, it meets specific conditions for people who like to combine it with education or family care. In fact, 63% of part-timers aged 25 and over say they do not want a full-time job, and 32% of total female employment is part-time compared with 5% for men. Of course, there is also less job security: 19% of EU part-timers have a limited duration contract compared with 10% of full-time employees.

...For the first time since October 1996, the EU's average unemployment rate fell for two consecutive months, from 10.8% in May to 10.7% in June and again to 10.6% in July. In July 1996 it was 10.9%.

The decrease in the EU-wide rate is mainly attributable to falling rates in Finland (from 14.3% in June to 12.5 in July), Spain (20.2% to 19.9%), Sweden, Portugal and the UK. Although Spain still has by far the EU's highest rate, in July it dropped below 20% for the first time since October 1992. This "encouraging overall trend" does not extend to Germany, however, which experienced an increase from 9.6% in May to 9.7% in June/July. Luxembourg (3.8%) and Austria (4.5%) remain at the low end of the EU scale. Compared with the EU, the US and Japan came in at 5.0% and 3.4% (June figures), respectively.

...Now that the Amsterdam Treaty (see EURECOM, July/August 1997) has been signed by the member state governments, attention turns to the formal ratification process which, depending on the EU country, takes the form of either an act of parliament or a referendum. All member states, as well as the European Parliament, must ratify the treaty for it to take effect. Based on the Maastricht experience, May 28, 1998, the announced date for Denmark's referendum, will be the most closely watched point in the process.

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