

POSITIVE PICTURE IN EU'S AUTUMN ECONOMIC FORECASTS

The Commission's recently released Autumn 1997 economic forecasts confirm that Europe's economic recovery continues — with gathering pace. In fact, the strength of the recovery has led to an upward revision of the EU's GDP growth estimates in 1997 (2.4% to 2.6%) and 1998 (2.8% to 3.0%) from the Spring forecasts (see EURECOM, May 1997). On the assumption of unchanged economic policies in the member states, growth is expected to accelerate to 3.1% in 1999.

A number of positive factors underpin this favorable outlook: **historically low inflation** (forecast to be 2.1% in 1997 and 2.2% in 1998); **continued strong export performance** aided by the relative strength of the dollar and improved cost competitiveness of EU companies; **robust investment growth** resulting from favorable monetary conditions; **moderate wage trends**, contributing to continued strong profitability of EU firms; and **increased domestic demand** due to improving consumer and industrial confidence.

The strength of the recovery also (finally) brightens the outlook for EU employment. In the 1997-99 period, the Commission forecasts a net creation of 3.8 million jobs, which should lead to a drop in the EU average unemployment rate from the current 10.6% to 9.7% in 1999.

In terms of member states' progress with **economic convergence** for EMU participation, the news is almost all good. On the inflation front, 14 countries are projected to meet the inflation criterion in 1997. Moreover, 13 member states (all except for France and Greece) are expected to have a budget deficit of 3% of GDP or less in 1997, with further improvement anticipated in 1998 (with all except Italy on board). Reductions in the levels of government borrowing have been impressive: the average EU deficit has fallen from 6.4% of GDP in 1993 to 4.3% in 1996, and is forecast to drop to 2.7% in 1997 and 2.2% in 1998. These reductions are also mirrored in lower debt ratios in most member states.

Although the Autumn forecasts provide an indication of direction in economic trends, they will not provide the basis for the decisions on which countries qualify for EMU. Actual figures for 1997, voted budgets for 1998 in the member states and updated economic forecasts will inform the Commission's formal EMU recommendations next March which, together with a report from the European Monetary Institute, will form the basis of decisions by the European Council on **May 2, 1998**.

While stressing that the decision on exercising the opt-out is for the UK, the Commission is of the opinion that the sooner the UK joins, the better. The Commission also welcomes the commitment by the UK government to do everything possible during their Presidency of the Council of Ministers during the

GDP at Constant Prices (annual % change)			
1996	Forecasts 1997	Forecasts 1998	
1.5	2.4	3.0	B
2.7	3.5	3.3	DK
1.4	2.5	3.2	D
2.6	3.3	3.5	EL
2.3	3.3	3.5	E
1.5	2.3	3.1	F
8.6	8.6	8.1	IRL
0.7	1.4	2.5	I
3.0	3.4	3.8	L
3.3	3.1	3.6	NL
1.6	1.9	2.8	A
3.3	3.5	3.7	P
3.3	4.6	4.0	FIN
1.1	2.1	2.9	S
2.3	3.3	2.1	UK
1.8	2.6	3.0	EUR
2.8	3.6	2.6	USA
3.5	1.3	2.3	JAP

COMMISSION'S TAKE ON UK'S EMU ANNOUNCEMENT

After British Chancellor of the Exchequer Gordon Brown announced on October 28 (see "Quotes" section) that the UK would not join the single currency before the next UK election (May 2002 at the latest), European Commission President Jacques Santer and Economic and Financial Affairs Commissioner Yves-Thibault

de Silguy issued the following statement:

"The European Commission has always supported the widest possible participation in the euro from January 1, 1999 of those countries which meet the necessary conditions. This is in the interest of the European Union and all its member states.

The Commission takes note of the UK government's decision not to participate from January 1, 1999. At the same time, the Commission welcomes the overall pos-

itive UK attitude towards the euro, and its determination to prepare intensively for the introduction of the single currency.

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first half of 1998 to ensure a successful launch of the euro.”

MARKET ACCESS STRATEGY TO TARGET SERVICES

Launched in 1996, the Commission's Market Access Strategy (see EURECOM, December 1996) has already delivered concrete results: a constant flow of trade information for businesses, more action via the World Trade Organization (WTO) to tackle trade barriers and increased negotiations on new market-openings with third countries.

This was EU Trade Commissioner Sir Leon Brittan's message at a recent symposium in Brussels reviewing the Market Access Strategy, which was attended by over 1,200 European industry representatives.

While great progress has been achieved in its first year, Sir Leon maintained that the EU “must energetically pursue fresh market-opening commitments from our trading partners around the world. We must also ensure that our partners comply with their international commitments by acting more swiftly, more firmly and more consistently against trade barriers. And we must give the services sector the place it deserves in our trade priorities, and help European services operators gain better access to markets abroad.”

At the conference, the Commission unveiled a new database — “Access to World Markets for Services” — which provides comprehensive on-line information for businesses about access to world services markets. Its elder sister, the main Market Access database, to which the new site is linked, was introduced last year. As well as providing an interactive information service about third-country markets for European firms, it gives companies the option to inform the Commission on-line of any problems they encounter in accessing those markets (<http://europa.eu.int>).

COOLING-OFF PERIOD FOR HELMS-BURTON, D'AMATO ROWS

EU and US negotiators failed to resolve their long-simmering differences over the US' extraterritorial Helms-Burton and

D'Amato Acts by the appointed October 15 deadline, but they agreed that talks should continue within the current negotiations on a Multilateral Agreement on Investment (MAI) in Paris (under the auspices of the OECD).

Even though discussions will continue, the EU, through the Council of Ministers' Committee of Permanent Representatives (Coreper), expressed its disappointment that despite some limited progress, the consultations could not be finalized on the basis of the April “Understanding” (see EURECOM, May 1997).

“In these circumstances, a period of reflection is necessary in the expectation, in particular, of a more flexible approach by the United States,” said a Coreper statement. The EU still retains the option of re-activating its WTO complaint against Helms-Burton if no solution is achieved.

In the MAI talks, both the EU and Canada are pressing the US to accept strict limits on extraterritorial measures (like secondary boycotts) which affect third country investments. Not surprisingly, this has become one of the key sticking points to an overall MAI agreement.

TWO TELECOM ALLIANCES APPROVED

Against the backdrop of a fully liberalized EU telecommunications market on January 1, 1998, the Commission recently approved — with conditions — the creation of two telecom alliances, Unisource and Uniworld.

Unisource is composed of Telia of Sweden, PTT Telecom of the Netherlands and Swiss Telecom, while Uniworld is a joint venture between Unisource and the US carrier AT&T.

The Commission has granted the two alliances exemptions from EU competition rules until June 30, 2001, subject to changes to the agreements and conditions imposed on the parties, including provisions to secure fair and non-discriminatory behavior by the parent companies.

Specific conditions attached to Unisource include undertakings to prevent discrimination by the parent companies with respect to leased lines and

interconnection, to prevent misuse of confidential information, to prevent cross-subsidies between Unisource and its parent companies and to prevent the bundling of services. Similar conditions were accepted by the parties to Uniworld. In addition, AT&T has notified the Commission that for traffic sent as part of the bilateral correspondent regime, it will offer European telecom operators cost-based accounting rates that would be no higher than the lowest rate established between AT&T and any Unisource partner.

Spanish operator Telefonica, an original member of the Unisource alliance, has withdrawn from the venture, and is therefore not affected by these conditions.

Unisource has activities in carrier services, mobile telephony and calling cards, satellite services and corporate telecommunications (both data and voice), which are carried out through operating subsidiaries. Approval of the exclusive distribution arrangements of all the activities of Unisource Business Networks, Unisource Voice Services and Unisource Satellite Services is covered by the Commission's decision.

EU, US CONNECT (AGAIN) ON MICROSOFT PROBE

Like their US counterparts, EU competition authorities are examining US software giant Microsoft's practices related to its Internet browser to determine if they infringe antitrust rules.

The EU's investigation, ordered by EU Competition Commissioner Karel Van Miert, stems from close cooperation between US and Commission (DG IV) authorities on a number of Microsoft's Internet market practices, rather than from a direct complaint from European customers.

The US Justice Department has accused Microsoft of using its dominant position in operating systems (via “Windows”) to force computer makers to include its “Internet Explorer” browser in pre-loaded software, placing competitors like Netscape Communications Corp. at a competitive disadvantage.

In Europe, the probe differs from the



US' in that it concentrates on a series of contracts between Microsoft and Internet service providers, rather than on contracts with computer manufacturers. In particular, the Commission is checking whether Microsoft's 1994 undertaking on licensing practices that came out of a previous EU-US joint inquiry has been violated (see EURECOM, July/August 1994).

"Certainly there is no difference in analyses, but we have different procedures (than the US)," said Commission Van Miert.

WORKING FOR MORE SECURITY ON THE INTERNET

The Commission has just published a Communication — "Ensuring Security and Trust in Electronic Communication" — outlining its proposals for a harmonized European approach to cryptography, which is essential for the continued growth and security of electronic commerce and information via the Internet.

In its Communication, the Commission aims to develop a policy framework to ensure that the EU's single market for cryptography products functions properly, to establish a European framework for digital signatures and to stimulate a European industry for cryptographic services. The Commission intends to propose legislation on the basis of the report in the first half of 1998.

Open networks like the Internet allow rapid and efficient world-wide information exchanges at low cost. Realizing that they remain vulnerable to manipulation, several member states have announced their intentions to introduce specific cryptography legislation (and some have already done so). Yet divergent legal and technical approaches would constitute a serious threat to the single market, hindering the development of electronic commerce.

By the end of this year, the Commission will create a European Internet Forum as a means to inform and exchange information. It also intends to organize a hearing about digital signature and encryption in early 1998 in order to consult governments, industry and consumers on which measures they believe the EU should take into consideration.

QUOTES

"It is not in this country's interest to join in the first wave of EMU starting on 1st January 1999 and...making a decision this parliament to join is not realistic. But...it is essential the government and business prepare intensively during this parliament so that Britain will be in a position to join a single currency, should we wish to, early in the next parliament." British Chancellor of the Exchequer **Gordon Brown**.

"The more the single currency helps Europe develop a robust and healthy economy open to world markets, the more welcome the project will be on this side of the Atlantic. Put it another way: if EMU works for Europe, it will work for us." US Deputy Secretary of the Treasury **Lawrence Summers**.

"China will not move to convert US dollars into the euro until the euro has

matured enough to be a hard and stable currency after years of running...Noticeable economic disparities among EU member countries will affect the value of the euro...and the risks from the disparities will remain unpredictable." **Tao Liming**, director, International Financial Research Center, Bank of China.

"The main cloud on the horizon is the tendency of the US Congress to legislate for the rest of the world." EU Ambassador to the US **Hugo Paemen** commenting on the EU-US relationship.

"The American in me is very pleased with our economic performance. The European in me understands (the) ambivalence about some of the choices that have been necessary to return to economic health." US Ambassador to France **Felix Rohatyn**.

WTO ACCORD BEST CURE FOR FINANCIAL TURBULENCE

"Attracting foreign capital through improved market access is essential to tackling financial turbulence in emerging market countries," said EU Financial Services Commissioner Mario Monti on the eve of crucial negotiations for a WTO agreement liberalizing global financial services. "And the best way to improve access is by ensuring the WTO negotiations succeed," he added.

With the December 12 deadline for the talks fast approaching, Monti called for all countries to match the EU's offer (see EURECOM, July/August 1997). Moreover, he reiterated the need for binding commitments for effective market access, underpinned by a rules-based system, non-discriminatory treatment of foreign companies and the right of financial services providers not only to establish new operations, but also to retain their current shareholdings in existing overseas operations.

At present, the EU is cautiously optimistic on the chances of success. Over 20 offers have come forward in Geneva, some of which are very good. The EU is, howev-

er, deeply concerned that no offers have yet come from many of the larger emerging market countries. "If the high expectations of the EU are not met, the EU will not repeat its 'white knight' role of 1995 (see EURECOM, September 1995) and save an agreement that is not satisfactory to all WTO members," warned Monti.

A successful agreement would economically benefit both developed and emerging market countries. In fact, recent World Bank studies provide new evidence that competition and liberalization in the financial sector give rise to increased growth and financial stability. Regulatory transparency also boosts growth, because countries with open markets attract long-term capital that can be used to finance new infrastructure and business lending.

The European experience with the single market has shown that local industry has thrived on increased competition, which has been good for consumers too. Nevertheless, if local industry needs time to adjust — a source of anxiety among many developing nations — the EU will consider allowing some countries to phase in WTO commitments over a limited number of years.



...IN BRIEF

...Rapid expansion in foreign trade in the **Czech Republic** and **Hungary** has been chiefly in the EU's direction according to a new report from Eurostat. In 1996, the EU accounted for over 58% of both total imports and exports in the Czech Republic (1993: 43% and 42%, respectively), while in Hungary, the EU's shares were 60% of imports and 63% of exports (1990: 31% and 32%). Around half of all their EU trade is with **Germany**.

...The European Commission has nominated **Mr. Percy Barnevik**, Chairman of the Board of Asea Brown Boveri, Ltd. and one of Europe's most prominent businessmen, to be a member of the **ASEM (Asia-Europe) Vision Group**.

The brainchild of Korean President Kim Young Sam and endorsed by the ASEM foreign ministers, the Vision Group will be composed of outstanding personalities from Asia and Europe, with the task of developing a medium to long-term blueprint for the Asia-Europe relationship. It is expected that the Vision Group will be formally established at the London ASEM Summit in 1998. Korea has already nominated former Prime Minister Hong-Koo Lee as its representative.

...The European-American Chamber of Commerce is holding a breakfast meeting with EU Commissioner **Erkki Liikanen** on

December 12, 1997, at 8:30 am, 40 W. 57th St., 31st Floor. Responsible for the EU's finances, Commissioner Liikanen will address the challenges — both financial and political — of bringing in new EU members via Agenda 2000. To register, please call (212) 315-2196.

...On Friday, December 12, 1997, former Secretary General of the European Commission **David Williamson** will give a lecture — "The European Union: New Money, New Treaty, New Members" — at the **European Union Studies Center** at the Graduate Center of CUNY. It will be held at 33 W. 42nd St., Room 1800, from 12:15 pm - 2:00 pm.

In addition, the Center will also have **H.E. Alphonse Berns**, Luxembourg's Am-

bassador to the US, Canada and Mexico, for the biannual "State of the (European) Union" address on Tuesday, December 16, 1997, from 5:30 pm to 7:00 pm. To reserve a space at one or both events, please call (212) 642-2977.

...EURECOM and *Europe Magazine* announce their first open essay competition for US graduate students in journalism. Entries can cover one of the following three topics: Agenda 2000 and EU enlargement; EMU and the introduction of the euro; and present and future transatlantic relations. The grand prize is \$5,000 and includes a trip to New York to receive the award. For more details on the competition, please call Chris Matthews at (212) 371-3804.



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