eurecom

MONTHLY BULLETIN OF EUROPEAN UNION ECONOMIC AND FINANCIAL NEWS

VOLUME 10, NUMBER 1 JANUARY 1998

LUXEMBOURG SETS STAGE FOR EU ENLARGEMENT

At the Luxembourg European Council on December 12-13, EU leaders decided to launch the accession process on **March 30, 1998**, starting with a meeting of the EU's 15 foreign ministers and those of the 10 Central and Eastern European applicant states, plus Cyprus. In addition, the European Council decided to set up a European Conference, bringing together the EU member states and the European countries — including Turkey — that aspire to join the EU and share its values and objectives.

Confirming the Commission's earlier recommendations (see EURECOM, July/August 1997), the EU leaders agreed that bilateral intergovernmental conferences will convene this spring to begin enlargement negotiations with six countries: **Cyprus**, the **Czech Republic, Estonia, Hungary, Poland** and **Slovenia**. At the same time, however, the preparations of negotiations with Bulgaria, Latvia, Lithuania, Romania and Slovakia will be accelerated, and the EU's pre-accession strategy for these countries (including financial support and technical assistance) will be enhanced.

The European Council also welcomed the Commission's **Agenda 2000** as the basis for further negotiations on the evolution of EU policies and its future financial framework. Relatedly, the Commission intends to submit a report on the "own resources" system of financing by autumn 1998.

On **Turkey**, the Luxembourg summit reaffirmed its eligibility to join the EU on the same basis as the other applicant states. And while the political and economic conditions necessary for Turkey's accession are not satisfied at present, the European Council nevertheless considered it important to draft a strategy for its membership, including: intensification of the Customs Union; implementation of financial cooperation; and the approximation of Turkish laws toward the EU's *acquis communitaire* (body of law). Further, it noted the need for more progress in Turkey's political and economic reforms, including alignment of standards for human rights with EU norms, respect for and protection of minorities, establishment of satisfactory and stable relations with Greece and settlement of disputes (like Cyprus) by legal process.

In the interim, Turkey has expressed its dissatisfaction over its omission from the March 30 accession launch, as well as over the conditions attached to eventual inclusion in accession talks. In reaction, Turkey has "frozen" its relations with the EU for the immediate future.

On other matters, the European Council confirmed the central role of the ECOFIN (Economics and Finance) Council in coordinating member states' economic policies, and adopted a Resolution on this and the role of ECOFIN and the European Central Bank. Members of "Euroland" may meet informally among themselves to discuss issues connected to the single currency, but where matters of common interest are concerned, they will be discussed by all the member states. And when it comes to decisions, these will be taken by ECOFIN as set out in the Treaty.

Finally, the EU leaders asked the Council to pursue actively the Single Market Action Plan (see EURECOM, December 1997), and welcomed the recent, successful conclusion of the WTO accord to liberalize trade in global financial services (see EURECOM, November 1997), in which the EU played a vital leading role.

KYOTO CLIMATE CONFERENCE: AN IMPORTANT FIRST STEP

After 10 hard and hectic days of negotiations in Kyoto, Japan early last month to clinch a binding protocol to reduce global "greenhouse" gas emissions, EU Environment Commissioner Ritt Bjerregaard expressed her satisfaction with the result:

"We came here to fight for the climate and we never expected it to be easy...The EU is happy having led the way in a process which will bring real, credible benefits for the environment...against the horrendous consequences of greenhouse gas emissions."

The Kyoto Conference on Climate Change covers six greenhouse gases — carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride — and establishes reduction commitments for the period 2008-2012 based on 1990 levels for all developed countries. These vary from 8% for the EU and most countries in Central and Eastern Europe, to 7% for the US and 6% for Japan and Canada. The conference agreed on stabilization at current levels for New Zealand, Russia and Ukraine, and increases in emissions for Norway (1%), Australia (8%) and Iceland (10%).

Heading into the Kyoto conference, which brought together over 150 nations, negotiating positions were poles apart. The initial offers from key developed nations, like the US (emissions stabilization) and Japan (a reduction of 2.5% for Japan based on 1990 levels by 2008-2012), fell far short of the EU's original proposal of a 15% reduction on 1990 levels, but based on three gases only (see EURECOM, October 1997). The EU's actual 8% reduction commitment based on six gases is roughly estimated to equal a 13% reduction based on three gases (carbon dioxide, methane and nitrous oxide).

On the innovative side, the Protocol will allow developed countries to meet part of their commitments through emissions trading and joint implementation projects to reduce emissions.

As always argued by the EU, developing countries were exempted from emissions reductions. Nonetheless, the Protocol creates a new Clean Development Mechanism, which will channel private sector funds to developing countries for projects that buy emissions reductions credit, a major potential source of finance and technology transfer.

Commissioner Bjerregaard credited trilateral negotiations between the EU, the US and Japan, as well as intensive discussions with G77 (developing countries), for the Kyoto success. "The process was never meant to be finalized in Kyoto, and we certainly would have liked to achieved more," she said, "but it is undeniable that the problems posed by climate change are now firmly established in the mind of politicians and the public at large across the world."

TELECOMS AND CABLE TV BETTER OFF SEPARATE

The Commission believes that telecommunications and multimedia can be vitally important to employment and growth in Europe, especially in light of the recent, complete liberalization of telecommunications on January 1, 1998. There is concern, however, that former telecom monopolies could mutate into "super monopolies", enjoying not only a strong position in the cable television sector, but also preventing other providers from accessing the telecom network to offer cable TV services.

In fact, based on two recent studies it had requested, the Commission intends — after it consults with all affected parties — to propose a directive that would force cable operators to separate legally from telecom ventures.

From the studies, the Commission reached the following conclusions: **1)** that the joint provision of telecommunications and cable TV networks by former national monopolies can restrict competition and stifle the development of new telecom and multimedia applications; **2)** that restrictions on the provision of cable TV capacity via telecom networks can create an asymmetric EU regulatory framework; and **3)** that the accounting separation already present (see EURECOM, November 1995) in the case of joint provision of competing networks by dominant telecom operators has proved insufficient to foster pro-competitive development in multimedia sector.

In addition to the planned directive, the Commission could (and will, if warranted) also use EU antitrust laws (i.e. through merger cases or antitrust complaints) to force telecom companies to sell off their cable TV activities.

EU NO BIT PLAYER IN INFORMATION SOCIETY

Speaking of telecommunications, huge increases in international transactions in computer and information services show that the EU is playing a key role in the world's burgeoning information society, according to a new Eurostat report.

In fact, in the ten-year period to 1995, total EU international transactions in communication and computer and information services rose by 158% to 25.7 billion ecu (1 ecu=$1.08). Computer and information services was the main factor behind this surge, growing 352% to 13.2 billion ecu. Further, given that prices have fallen dramatically — between 1993 and 1995 the average cost of an international telephone call for an EU resident fell by 30% alone — these increases are most likely greater than suggested by transactions in current prices.

"The technological boom in telecommunications — fixed lines and mobile — and the development of computer equipment have increased the accessibility of international networks, thus creating greater opportunities for international trade in computer and information services," says the report.

Intra-EU trade represents 48% of the member states' total international transactions in communications and 54% in computer and information services. **The US**, the EU's largest single partner in these sectors, accounts for 21% of EU trade in communications and 27% in computer and information services. The EU is a net importer of computer and information services from the US, but it is a net exporter to all other countries. On the other hand, in communication services, the EU is a net exporter to the US and the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), but a net importer from Asia, ACP (African, Caribbean and Pacific), Mediterranean and other European countries.

Germany and **the UK** dominated total EU international transactions in communications in 1995 with a combined 52% share. Together with **Austria**, they also took a 47% slice of total computer and information services transactions. According to Eurostat, the high level of communications transactions in Germany and the UK indicates their residents have greater access to foreign networks than other EU citizens.

In 1995, international telecommunications in Western Europe consisted of fixed voice services (69%), data (16%), mobile (12%) and cable TV (3%). On-line data services represented over 80% of European turnover in electronic information services, which was dominated by the UK with a 65% share, respectively.

BETTER PROTECTION PROPOSED FOR TECHNICAL INVENTIONS

To enhance industrial property protection in the EU, especially for small and medium-sized enterprises (SMEs), the Commission has proposed a directive to approximate member states' protection of inventions by utility model.

A utility model is a registered industrial property right which confers exclusive protection for a technical invention, but is more flexible and less costly than a patent, making it well suited to SMEs active in areas of innovation.

At present, inventions in the EU are protected by utility model only at the national level, and the arrangements in the member states that offer such protection (the UK, Luxembourg and Sweden currently do not) differ widely, making it very difficult to enforce this property right across borders.

Under the directive, harmonization of member states' laws would be confined to the underlying principles common to most national protection systems. It would encompass both products and processes, but it would not extend to biological material (the subject of a separate proposal), chemical or pharmaceutical substances or processes, or computer programs. Member states without utility model protection would have to introduce it into their domestic law.

To qualify for protection — a maximum period of 10 years — an invention would have to be new, involve an inventive step and have a potential industrial application.

The Commission's proposal follows over two years of consultation with industry, member states and other EU institutions which revealed, in the end, that there is a clear economic need for utility model protection in the EU, and that a directive approximating national laws was the best course to take.

QUOTES

"Most US multinationals have more reason to worry about the smooth introduction of the euro than about another round of competitive devaluations in Asia." ***Joseph P. Quinlan****, senior international economist, Morgan Stanley, Dean Witter.*

"Our preference would be for the UK to join (EMU). It's one of the factors we would consider when deciding on new investments." ***Peter Hellman****, president and chief operating officer of TRW, a US-based defence and car parts company.*

"The euro will come, and I think it shows a good response at this very moment to this crisis in Asia because it's built up on sound economic fundamentals." European Commission President ***Jacques Santer*** *on a recent visit to Tokyo.*

"The EU is uncomfortable terrain for Washington's foreign policy experts . . . However often the US says it supports a strong EU foreign policy, doubts remain. Americans are uncomfortable dealing with the EU's blend of sovereign state and international organization." ***G. Jonathan Greenwald****, former minister counsellor at the US Mission to the EU.*

"The US has towards large firms a much more Darwinian attitude, so long as they don't overtly break the rules and create consumer welfare losses. The Europeans are more protective of endangered species." ***Edward Graham****, senior fellow at the Institute for International Economics, commenting on the difference between US and EU antitrust perspectives.*

"This agreement is like taking back the neighborhood. We need a policeman on the block. We can't have governments behaving in thuggish ways." ***Gordon Cloney****, president of the US-based International Insurance Council, welcoming the WTO accord to liberalize trade in global financial services.*

EU, US HOLD WTO TALKS ON FSC EXPORT SUBSIDIES

On December 17, 1997, the European Commission and the US held consultations at the World Trade Organization (WTO) in Geneva with regard to US export subsidies via so-called Foreign Sales Corporations (FSCs). The Commission requested WTO consultations with the US in order to end the US policy of granting tax exemptions for exports carried out by FSCs (see EURECOM, December 1997).

Export subsidies — which favor exports compared with the treatment of like products when sold for domestic consumption — are prohibited under the WTO Agreement on Subsidies and Countervailing Measures.

In 1992 (the most recent data available), FSCs generated $152 billion in total sales and gross profits of $9.6 billion, which were exempt from regular US income tax. These tax subsidies of US exports of goods and services cost the US taxpayer up to $2 billion a year according to some estimates, and have been continuously extended during the last decade. And in September 1997, FSC benefits were extended to the US software industry, which will save it around $600 million in taxes over the next five years.

The increasing scope of FSCs is a major concern for the EU. "It is particularly worrying that the FSC scheme subsidizes US exports across the board, covering the entire manufacturing industry, computer software and even agricultural products," commented EU Trade Commissioner Sir Leon Brittan. "As a result, it leads to significant distortion of international trade and inflicts considerable cost on European companies," he added.

FSCs are usually subsidiaries of US corporations located in tax havens such as the Virgin Islands. These subsidies are only available if a large part of the exported item has been manufactured in the US. They are, therefore, a clear violation of WTO subsidy rules in the EU's view. The Commission's request for consultations is the first step in the WTO dispute settlement procedure which, if both sides cannot find a mutually satisfactory solution, could lead to a WTO panel.

...IN BRIEF

...Related to **Agenda 2000** and future financing of the EU after 1999, the Commission has put forth revised guidelines for a more transparent and effective system of EU regional aid. Four main principles underpin the Commission's proposed new approach: that regional aid be concentrated on the poorest regions; that the overall volume of regional aid be reduced; that the real effect on jobs be taken into account when assessing aid plans; and that there be consistency between regional aid "maps" and those used for other structural funds (e.g. the European Social Fund). In general, the EU's outermost regions would be the primary beneficiaries, followed by, on a graduated scale, regions where GDP is less than 60% of the EU average and regions where GDP is between 60% and 75% of the EU average.

...Government spending in the EU averaged 9,089 ecu per person in 1995, compared with 3,083 ecu in 1980 and 6,852 ecu in 1990. It ranged from 3,268 ecu per capita in **Portugal** to 15,377 ecu in **Luxembourg**. Over the last 25 years, government provision of transfers, services and infrastructure in the EU has increased from 35.6% of GDP (1970) to 48.5% of GDP (1995), with social benefits, the single largest category of government expenditure, up the most (from 38% of total government spending in 1970 to 45% in 1995). In terms of total government spending as a percentage of GDP, **Sweden** (65.1%) stands alone at the top, followed by fellow Nordics **Denmark** (58.2%) and **Finland** (56.8%). At 40.9%, **Ireland** had the lowest government spending ratio in the EU.

...The EU now seems light years away from the negotiations that led to the Maastricht Treaty, particularly as the Treaty of Amsterdam now inches toward ratification. Nevertheless, Maastricht was a watershed in its own right, and a new book, ***France and Germany at Maastricht: Politics and Negotiations to Create the European Union***, by Dr. Colette Mazzucelli of the Black Sea University Foundation, analyzes the Maastricht negotiations through the prism of two principal players in the drama. For more information, or to order the book, please call Garland Publishing at (800) 627-6273 .

...Fordham University Law School will hold its **Sixth Annual Conference on International Intellectual Property Law and Policy** on April 16 and 17, 1998 in New York City (140 W. 62nd St.). The two-day conference will analyze international developments in copyright, patent and trademark law in the EU, Asia, the US, the World Intellectual Property Organization (WIPO), the WTO and the Information Society. It will feature speakers from the European Commission, the US and other governments, WIPO, academia and the US and other bars. For more information, please contact T. Scott Lilly at: tel (212) 636-6777, 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.

Printed on Recycled Paper.

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

eurecom