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COMMISSION RECOMMENDS 11 MEMBER STATES FOR EMU

Confirming what had become widely anticipated in financial and political circles, the European Commission recommended on March 25 that 11 countries — **Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal** and **Spain** — meet the necessary conditions to adopt the single currency, the euro, on January 1, 1999. This would create a euro-zone — a.k.a. "Euroland" — of nearly 300 million inhabitants accounting for 19.4% of world GDP and 18.6% of world trade (US: 19.6% of world GDP, 16.6% of world trade).

These recommendations, together with a convergence report from the European Monetary Institute (also published on March 25), will form the basis of the European Council's final decisions on EMU participants on May 2, 1998 (see EURECOM, March 1998).

According to the Commission, the 11 recommended member states have reached "a high degree of sustainable economic convergence" on the basis of the agreed convergence criteria from the Maastricht treaty, i.e. inflation, long-term interest rates, government deficit and debt, exchange rate stability and central bank independence. Further, EMU is happening against the backdrop of sound economic recovery in Europe and strong economic fundamentals: low inflation, favorable monetary conditions, high profitability of investment and sustained external demand. Member states' impressive efforts to prepare their economies for the euro are bearing fruit.

In fact, 14 EU countries (all except Greece) had average **inflation rates** — as well as average **long-term interest rates** — over the last year of less than the Maastricht reference values of 2.7% and 7.8%, respectively (as calculated according to Treaty rules). And in January 1998, average annual EU inflation fell to 1.3%, an all-time record low!

Fourteen member states had **government deficits** of 3% of GDP or less in 1997 (once again, all save Greece). This remarkable outcome is the result of national governments' determined efforts to tackle excessive deficits, combined with the effects of lower interest rates and stronger European economic growth. Concerning "one-off" budgetary actions in some member states to improve 1997 figures, the Commission thoroughly analyzed these measures — as well as the member states' projected budgets for 1998 — concluding that most of the deficit shrinkage is structural (and sustainable) in nature.

In 1997, four member states — France, Luxembourg, Finland and the UK — had **government debt** below the reference value of 60% of GDP. According to the Treaty, countries may exceed this value as long as the debt ratio is "sufficiently diminishing and approaching the reference value at a satisfactory pace", which was the case in almost all member states with ratios above 60% in 1997. Only in Germany, where the ratio is just above 60% of GDP (and where the exceptional costs of unification continue to bear heavily), was there a small rise in 1997. For 1998, the Commission expects all countries above 60% to experience further decreases in their debt levels, putting conditions in place for a sustained decline in debt ratios in future years.

In terms of **exchange rate stability**, the Commission's list of 11 countries has enjoyed a long period of exchange rate stability within the Exchange Rate Mechanism (ERM) of the European Monetary System, with most currencies trading very close to their central rates for the last two years. Only the Irish pound has deviated from a reference range of ±2.25% (but not from the ERM's current ±15% range) during the review period, yet it remained above its central rate. Further, on **March 16, 1998**, the same day that the **Greek drachma entered the ERM** for the first time, the **Irish pound's central rate was revalued by 3%** against all ERM currencies, bringing it "completely in line with the performance of the Irish economy and the situation in the markets". The Swedish krona and the UK pound sterling are the only two EU currencies that remain outside the ERM.

As for the EMU non-participants, **Denmark** and **the UK** have exercised their right under the Treaty not to participate in EMU with other member states from January 1, 1999 (see EURECOM, November 1997). As regards **Greece** and **Sweden**, the Commission does not consider that the necessary conditions for EMU have been met. Greece misses, albeit quite narrowly in some cases, on the criteria, while Sweden is not a member of the ERM, nor does it have legislation in place to assure central bank independence in line with the Treaty.

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BRITTAN IN BOSTON: THE CASE FOR THE NTM

In a recent speech to the Kennedy School of Government at Harvard University, EU Commission Vice President Sir Leon Brittan put forth the case for a **New Transatlantic Marketplace** (NTM) — a wide-ranging plan to remove the remaining barriers to EU-US trade (see EURECOM, March 1998) — and urged US support.

The Commission's NTM proposal would provide for action in four key areas: **1)** the widespread removal of technical barriers to trade through increased mutual product recognition and/or harmonization; **2)** a political commitment to eliminate all industrial tariffs by 2010 (provided a critical mass of other trading partners also agree to do so); **3)** the creation of a free trade area in services; and **4)** further liberalization of investment, public procurement and intellectual property.

"This is a major initiative, and deliberately so," opened Sir Leon. "It is designed to tackle the most serious impediments to transatlantic trade, by far the biggest economic relationship in the world, and to bring major economic benefits to business and consumers in the EU and the US. Benefits as big as those from the Uruguay Round itself."

"I hope the US will join us in this vision," said Brittan, as he welcomed Washington's initial, positive response to the NTM. "We both have much to gain through even closer cooperation, removing the sort of regulatory barriers which are now increasingly important. The protectionist alternative is a total fallacy. If Europe and the US seek to protect themselves from each other, we will both be political and economic losers. And so will the rest of the world."

Sir Leon stressed that the proposal has been carefully designed for compatibility with all multilateral commitments. But beyond that, it aims actually to promote further multilateral liberalization in future negotiations. For example, the proposal for tariff liberalization is explicitly multilateral. And the proposal for bilateral free trade in services intends to set an example for others to follow — and to create a strong inducement for doing so.

"By working together in such a bilateral negotiation, the EU and the US will be able to lay much of the ground for a further multilateral negotiation, and so to kick start the process," said Brittan.

Outlining the benefits of multilateralism for both the EU and the US, Sir Leon added that "we all benefit from the orderly and predictable international environment this creates, together with the independent system of dispute settlement. This system brings greater economic and political stability, which is good for growth and job creation. It will also help us to work together to tackle the burning issues of the coming years, such as environmental degradation."

In conclusion, Sir Leon said he believed the EU and the US should work together to give joint leadership in responding to the challenges of economic change, a process that would bring benefits to others as well. "Europe has equipped itself to give that leadership. The United States has long had the power to do so. We now both need to show that we have the will."

EUROPE AND ASIA: FORGING CLOSER TIES

Leaders, foreign ministers and top businessmen from 10 Asian and the 15 EU member states gathered in London on April 3-4 for the second Asia-Europe (ASEM) Meeting, where the Asian financial crisis was the dominant theme.

The ASEM forum, launched two years ago at the first ASEM summit in Bangkok (see EURECOM, February 1996), seeks to balance and to promote interregional political, economic and cultural links across the Atlantic and Pacific. On the Asian side, Brunei, China, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam participated in London.

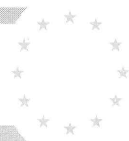
At the opening ceremony, EU Commission President Jacques Santer said that Europe would make every effort to help Asia in encouraging and supporting reforms in the wake of the financial crisis.

"Since we met in Bangkok, many countries in Asia have entered into difficult times. We know that the impact of this economic and financial crisis on the global economy is significant, though we can be sure that it is manageable...With the combination of sound fundamentals and sound policies, this crisis will be mastered, and Asia can again play the dynamic role in the world economy to which we have all become accustomed . . . Europe and Asia must continue to play their parts in encouraging and supporting reform efforts, in keeping their markets open and in resisting protectionist pressures," commented Santer.

On the EU's part, Commission Vice President Sir Leon Brittan announced two major new initiatives at the summit to help the Asian partners to restructure: first, a 30 million ecu (1 ecu=$1.08) **ASEM Trust Fund** to be set up at the World Bank to finance technical assistance on financial sector restructuring and to address the social aspects of the crisis; and second, (led by the UK) the establishment of a **network of European financial experts** to assist the Asian countries in areas such as banking supervision and financial restructuring, acting as a coordination "clearing house" between Asian assistance requests and European resources.

Beyond the financial crisis, ASEM leaders also adopted two specific initiatives that were launched before the turmoil's onset, and which will further facilitate trade and investment flows between Europe and Asia: the **Investment Promotion Action Plan**, aimed at removing regulatory barriers to investment (all the more timely in light of the current capital shortage resulting from the crisis); and the **Trade Facilitation Action Plan**, which seeks to reduce non-tariff barriers and transaction costs in a wide variety of areas like customs procedures, standards, procurement, intellectual property rights and distribution.

For more information on the ASEM2 proceedings, please consult the following website: *http://asem2.fco.gov.uk/asem2/texts.*



COMMISSION CLEARS COMPAQ/DIGITAL MERGER

The European Commission has authorized the US-based Compaq Computer Corporation's acquisition of Digital Equipment Corporation (also a US computer company), under the EU's Merger Regulation.

Compaq and Digital are both active in the design, development, manufacture and marketing of computer products. Digital also offers information technology (IT) services.

Under EU rules, mergers and acquisitions have to be cleared by the Commission if undertakings have a combined turnover in excess of 5 billion ecu, and each of them has an EU-wide turnover in excess of 250 million ecu. In the present case, Compaq and Digital have a worldwide aggregate turnover of more than 30 billion ecu and a Europe-wide turnover of around 10 billion ecu.

The Commission's investigation has largely confirmed information provided by the parties and their competitors, i.e. that the respective businesses of Compaq and Digital are to a large extent complementary. Their activities overlap mainly in PCs, low-end servers, workstations and disk storage systems, all of which areas characterized by rapid technological development and intense competition. In these sectors, the parties' combined market shares (less than 20%) do not raise competitive concerns, because a large number of important competitors, such as Hewlett-Packard and IBM, will remain.

For these reasons, the Commission has concluded that the new entity will not result in the creation or strengthening of a dominant position.

QUOTES

*"On the question of how we run our education and health systems, welfare state, personal taxation, matters affecting our culture and identity, I say: 'Be proud of our diversity and let subsidiarity rule'." British Prime Minister **Tony Blair**.*

*"No country in Asia — perhaps no country in the world — is more important for the future of the global economy than China...Achieving her successful integration into the world economic system is a huge strategic challenge for Europe, Asia and our international trading partners." European Commission Vice President **Sir Leon Brittan**, speaking at the ASEM2 summit in London on April 3.*

*"The euro is not a revolution, it is an evolution. We are launching the euro after setting up the common market, after setting up the single market, we have liberalized capital movements, we have achieved economic convergence. It is the next stage...a stage in the process of European construction." EU Commissioner **Yves- Thibault de Silguy**.*

*"The unspoken reality about EMU is that in every country, in every sector, in every community there will be winners and losers. [But] we all believe that in the long run the winners will far outnumber the losers." **Niall FitzGerald**, chairman of Unilever.*

EUROPE READY FOR DIGITAL ECONOMY

In the new digital age, Europe is often perceived as lagging behind the US. While that may have been true in the past, European Commission Ambassador to the US Hugo Paemen recently told a conference of information technology (IT) executives in Washington why he believes that will not be true in the future. For example:

- Internet use is already higher in some member states (Finland, the Netherlands and Sweden) than in the US.
- In the Netherlands, 38% of households have a PC, and 22% of PC users have Internet access. Thirty-three per cent of those use the Internet to buy online, compared with 22% in the US.
- At present, three times as many Europeans are registering domain names than in the US.
- And while the use of paper checks is still commonplace (and on the increase) in the US, Europeans are embracing e-money. In Germany, 20 million multipurpose e-money cards are already in use. These cards work exactly like cash, and do not involve shifting funds between bank accounts.

According to Paemen, the European Commission is backing the development of electronic commerce ("e-commerce") to its fullest potential, with two guiding principles: industry must lead; and no regulation for regulation's sake. What Europe is aiming for is a predictable framework — some simple traffic rules to use on the new information superhighways. And the backbone of the EU's approach is its Single Market, whose basic operating principles — mutual recognition and home- country control — could have been invented for e-commerce.

"I am convinced that mutual recognition and home-country control is the only way forward for the Internet. You cannot have a situation where every jurisdiction seeks to enforce its rules in cyberspace — it would be ineffective, lead to chaos and confusion, and would effectively handcuff electronic commerce," said Ambassador Paemen.

This belief informs the EU's recent, formal response to the US Administration's Green Paper on the future organization of the Internet (see EURECOM, March 1998), which recommends that the US limit its direct regulatory intervention in the Internet only to those relationships which fall under existing contracts between US Agencies and their contractors. It advocates an international approach to the various issues, like Domain Name Systems and trademark rights, possibly through an International Communications Charter (also see EURECOM, March 1998).

"This is not a tango between the EU and the US — it is a line dance...We cannot let the truly global potential of the Internet disappear," concluded Paemen.

A full text of Ambassador Paemen's speech is available on the Commission's US website at *http://www.eurunion.org.*

...IN BRIEF

...**EU average annual unemployment** dipped to 10.3% in February, the lowest mark since March 1993, when it was 10.4%. In February 1997 the rate was 10.7%. Ten member states came in under the EU average, led by **Luxembourg** (3.4%) and **Austria** (4.4%). **Spain** still had the EU's highest rate at 20%, followed by **Finland** (12.5%) and **France** (12.1%).

...In France and Spain, price is the most important factor when people choose a food store; in the UK, Germany and the Netherlands, it is the range of food available; Italians consider proximity as the key attraction; and shopping "ambience" is highly valued by the Dutch and the Germans. These are just a few of the facts found in a major new Eurostat report on shopping in the European Economic Area (EEA: the EU 15 plus Norway, Iceland and Liechtenstein). Despite the continued trend toward hyper- and supermarkets in the EEA — which is most pronounced in Finland and Sweden — the percentage of specialized food shops is still particularly high in Spain, Portugal, Italy, Belgium and Denmark. On the other hand, Germany and the UK lead in mail-order sales. Aided by demographics (growing numbers of smaller households) and higher incomes, European retailing — especially in northern European countries — is moving toward better consumer services rather than lower prices.

...**Hamburg** retains its commanding lead as the EU's richest region with a GDP per capita (1995 data in purchasing power standards) at 195% of the EU average (100%), followed by Darmstadt (174), Brussels (172) and Ile de France (165). Eight EU regions are 150% or more over the EU average. However, almost one in four European regions is below 75% of the EU average, the cutoff point for Objective 1 funding from the EU's Structural Funds for regions whose development is lagging behind. Only two regions — Ipeiros in Greece and the French overseas departments (taken as a whole) are under 50% of the EU average.

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