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ACTION PLAN FOR TRANSATLANTIC ECONOMIC PARTNERSHIP

Based on a joint statement made at the EU-US summit last May (see EURECOM, June 1998), the European Commission has proposed a draft Action Plan for a new transatlantic trade initiative – the **Transatlantic Economic Partnership** (TEP) – between the EU and the US, each other's largest investment and trading partner.

"These proposals will stimulate growth and benefit businesses and consumers on both sides of the Atlantic," declared EU Trade Commissioner **Sir Leon Brittan**. "They will enhance the EU-US relationship as a pole of stability in a turbulent world economy and as a driving force for multilateral trade liberalization. Bilaterally, we want to remove barriers, avoid costly disputes and promote high environmental and consumer protection standards."

The TEP includes both multilateral and bilateral elements. On the **bilateral** side, the action plan aims to remove regulatory barriers to trade in both goods and services – now the main obstacle to transatlantic business – through closer cooperation between regulators, including more effective mutual recognition. For example, in services, spearhead projects include mutual recognition of professional qualifications for architects and engineers. Further, liberalization has been proposed in government procurement and intellectual property. And the plan also covers measures in the fields of consumer and plant health, biotechnology and the environment, along with an "early warning system" to minimize disputes in areas such as food safety and genetically-modified crops.

By joining forces on international trade issues, the EU and the US can stimulate further **multilateral** liberalization. Accordingly, the Commission proposes regular dialogue with the US to reach a closer understanding on the key issues arising in new multilateral trade negotiations, including (but not limited to) implementation of World Trade Organization (WTO) agreements, dispute settlement, agriculture, services, intellectual property, WTO accessions, as well as the new "innovative" areas of labor and environmental standards and electronic commerce. This consultation is not meant to be exclusive – multilateral negotiations cannot be conducted by EU-US edict – yet a deeper understanding of each other's concerns and priorities is essential if WTO talks are to start the year after next (see related piece on page 2).

The Commission's proposal is now with the Council of Ministers, which must give its assent before the Commission can open negotiations with the US on behalf of the EU (a European version of "fast-track" negotiating authority, as it were). While a mandate from the Council is expected, it is by no means assured: earlier this year, a similar Commission trade initiative (The Transatlantic Marketplace) failed to win Council support (see EURECOM, June and April 1998). It is hoped that a joint EU-US plan for the TEP will be endorsed at the December EU-US summit in Washington.

EURO-MED FTA BY 2010?

When you are on a roll, why stop?

Adding to the TEP Action Plan and the recently proposed inter-region association agreement with Mercosur (see EURECOM, September 1998), the Commission has just published a Communication on the creation of a free trade area between the EU and its Mediterranean partners by 2010.

Building on the Euro-Mediterranean Partnership launched in Barcelona in November 1995 (see EURECOM, December 1995), the Communication sets out a series of measures that would extend the EU's single market to the Mediterranean basin states, gradually liberalizing trade and opening up their economies. These cover seven areas: customs and taxation; free movement of goods; public procurement; intellectual property rights; financial services; data protection; and accounting and auditing. Naturally, these proposed initiatives have to be discussed and agreed on by both the EU and the Mediterranean countries.

"The proposal is designed to offer our partners a higher degree of economic cooperation and concerted action with the aim of building an area of shared prosperity," commented EU Internal Market Commissioner **Mario Monti**. According to Monti, the Commission is ready to play its part and to share the experience it has acquired setting up the EU's single market and working with the Central and Eastern European countries on similar lines (see EURECOM, May 1995).

This process aims not only to make the partner countries' economies more competitive, but also to expand regional trade and cooperation between the Mediterranean countries themselves.

SIR LEON STUMPS FOR NEW WTO ROUND

Going from the regional to the multinational, European Commission Vice President Sir Leon Brittan was recently in Washington, where he spoke to the Coalition of Service Industries on the need for a new, comprehensive Round of WTO trade talks no later than the year 2000.

"It is only through a new, comprehensive Round that the kind of achievements we have collected in the Uruguay Round and its aftermath can be repeated, to the mutual benefit of the EU and US industries," opened Sir Leon.

According to the Vice President, the EU believes that those negotiations should take place in all service sectors, with no prior exclusions. As a starting point, improvements should be made in existing offers: market access restrictions should be further removed, and full national treatment ensured. In addition, the so-called new services that received less attention during the Uruguay Round — e.g. business and courier services, environmental services and education and health services— deserve full consideration.

The next round (GATS 2000) of liberalization should also lead to improved market access offers, both in terms of quality and quantity. In negotiating specific commitments, Sir Leon suggested that WTO members pay attention to regulatory systems and ensure that licensing requirements are transparent and reasonable. But it will not be possible to solve everything through market access negotiations: more detailed rules will be essential to make sure regulatory requirements are no more burdensome than necessary.

Work is already underway in Geneva, and the debate thus far has confirmed the growing importance of trade in services in general and the need to remove further obstacles to this trade, especially on establishment conditions and movement of skilled service suppliers. Political and public support for trade liberalization will, of course, require greater understanding of trade liberalization's benefits. And increased private sector advice and involvement in this process will be key.

COMMISSION'S VIEW ON "VERTICAL RESTRAINTS"

After a long consultative process that began with a 1997 Green Paper (see EURECOM, February 1997), the Commission has produced a Communication on changes in the treatment of "vertical restraints" – agreements between producers and distributors — under EU competition rules.

Vertical restraints apply primarily in the distribution of goods and services, whereby a manufacturer grants exclusive rights to a distributor within a defined territory. Such arrangements often facilitate competition and market entry, but they can also be used to restrict competition. Hence, the EU has applied the relevant Treaty Article 85(1) – which prohibits cartels – to these agreements relatively strictly. However, given the many changes in distribution methods, the (almost) complete single market and the expiration of current rules at the end of 1999, an overhaul of EU vertical restraints is due.

The Commission's main conclusion is to introduce one very wide "block exemption" from vertical restraints for companies below a certain threshold (i.e. market share), as opposed to the various rules for specific sectors (or forms of restraints) that exist at present. Below the threshold – 20% has been suggested — companies would not have to assess whether their agreements comply with EU competition rules. As a result, a company's distribution decision would be based on commercial merit rather than on clauses in distribution contracts, preventing unjustified discrimination by sector (or form).

In addition, the Commission intends to issue guidelines to help those companies above the market threshold to examine their agreements' compatibility with EU law. There would be no presumption of illegality: the threshold would only serve to distinguish those agreements that are presumed legal and those that may require individual examination.

To implement the new approach, the Commission must first obtain new legislative powers vis-à-vis block exemptions from the Council. Subject to this procedural step, the Commission will then formally propose a new block exemption regulation for effect in January 2000.

A complete text of the Communication is available at the following website: *http://europa.eu.int/en/comm/dg04/index_en.htm*.

EU CITIZENS WARM UP TO THE EURO

It appears the single currency is catching on with its future users.

With the euro's January 1, 1999 arrival imminent, its approval rate among EU citizens has reached its highest level ever at 60%, representing an increase of almost 10% over an autumn 1997 poll. Further, opposition to the euro fell below 30% for the first time as well.

Among residents of the eleven "Euroland" countries, 66% support the single currency. Conversely, and not surprisingly, only 39% are "for" the euro in the four "pre-in" countries (Denmark, Greece, Sweden and the UK) – at least when taken together. Greece, however, has strong pro-euro sentiments (67%).

EU-wide polling on EMU, which is carried out by *Eurobarometer*, the Commission's survey unit, started in 1993. The results described here are in the Eurobarometer #49 (September 1998). The regular sample in these surveys is 1,000 people per EU country except in Luxembourg (500), the UK (1,000 in Great Britain, 300 in Northern Ireland) and Germany (2,000 total, 1000 in both former East and West).

Although overall support for the euro has increased dramatically, approval levels vary considerably among the member states. Italy is most enthusiastic (83% for, only 8% against), followed closely by Luxembourg (79% in favor). At the other extreme, only 34% are for the euro in Denmark and the UK. Denmark also sports the largest opposition (57%), while the UK has a relatively high (and growing) "don't know" segment (17%) and a large (49%), but rapidly decreasing "against" category. In Austria (56%), Finland (53%) and, surprisingly, Germany (51%), support levels are above the 50% mark for the first time.

Demographically, the data show that men (65%) are more supportive than women (56%), although the gap is closing. Approval levels have increased among all age groups, but especially with the least supportive grouping — "people aged 55 and over" (now 56% in favor, compared with 46% last fall). Self-employed people (69%) and managers (68%) are most receptive to the euro, manual workers (54%) the least. Support for the euro also strongly depends on education level: those with the most of education are most "pro euro" (70%).

There is, however, plenty left to do: only one in four citizens feel they have been adequately informed about the euro.

QUOTES

"We can take some pride in stating that, on the markets, there is already a notable stock of confidence in the European Central Bank." Deutsche Bundesbank President ***Dr. Hans Tietmeyer****.*

"The euro will be a stable world currency, and will be a reflection of the EU's economic weight...There should be no illusion that the rest of the world will expect the Community to play a role in keeping with its economic importance." EU Commissioner ***Yves-Thibault de Silguy****.*

"It is necessary to set trading bands within which the most important global currencies can fluctuate against each other. The aim is not to neutralize markets, but to set parameters to ensure that the real economy is the foundation." German SPD Chairman (and potential finance minister in the new German government) ***Oskar Lafontaine****.*

"I have understanding for Russia's misgivings about using military force (in Kosovo). But this can never be an excuse for allowing a humanitarian disaster to happen. If there are more refugees and homeless people, they are not going to go Moscow. It's the neighboring countries, the western countries that will bear the brunt." EU Commissioner ***Hans van den Broek****.*

EU CAR INDUSTRY "VOLUNTEERS" CO2 CUTS

Concrete measures to reduce EU "greenhouse" gases in line with the Kyoto Protocol on Climate Change (see EURECOM, July/August and May 1998) are adding up. The latest comes from the European auto industry, represented by the Association of European Automobile Manufacturers (ACEA), in the form of a voluntary commitment to reduce carbon dioxide (CO_2) emissions from cars 25% by 2008.

The ACEA's undertaking meets the EU's goals (set in July) on CO_2 emissions from cars and, if achieved, would account for around 15% of the overall CO_2 reduction the EU committed to in Kyoto, Japan last December.

Backed by EU environment ministers, the agreement does not impose a target on the individual manufacturers, but rather an overall average target (140 g CO_2/km by 2008, compared with 180 CO_2/km at present) for ACEA members. Individual ACEA members will be free to apply more (as well as less) stringent levels of CO_2 emissions, provided that the average goal is met. EU member states and the Commission will jointly monitor the ACEA's compliance with its pledge. If efforts fall short of the target, the Commission will consider introducing binding EU legislation.

The Commission's view is that the commitment complies with EU competition rules. Under the accord, car manufacturers will develop and introduce new CO_2-efficient technologies independently and in competition with each other.

NEW POLICY MODELS FOR GLOBAL COMMUNICATIONS

At the OECD Ministerial recently held in Ottawa, Canada, EU Telecommunications Commissioner **Martin Bangemann** reiterated the need to develop new models of policy making in the area of global communications, especially as regards the Internet and electronic commerce (e-commerce).

Bangemann emphasized that the global, borderless nature of transactions in the electronic marketplace raises issues that can only be addressed on the basis of a global cooperative effort between the private and public sectors. And to ensure a larger acceptance of e-commerce among the population, more attention to consumer issues and concerns will be required.

Two issues are of particular importance: **encryption** and **industry self-regulation**. According to Bangemann, it is an illusion to think that the free availability and use of encryption technology can be stopped. Consequently, it will be necessary to reinforce international cooperation in the areas of justice and home affairs.

Concerning self-regulation in the e-commerce arena, although this notion has gained wide acceptance, it is not at all clear how this will function in practice, particularly in a multi-jurisdictional environment. Industry leadership is now required to provide clear proposals that both government and consumers find acceptable.

Commissioner Bangemann congratulated the worldwide private sector leadership in establishing the Global Business Dialogue (GBD) on Global Communications, and called for business and government leaders to give it their full support.

...IN BRIEF

...**EU average annual unemployment** remained unchanged at **10%** in August. In August 1997 it was 10.6%. In the euro zone

(EU11), the rate also stayed put – albeit higher than in the EU15 — at 11.1%, the same as in July and June. Once again, **Luxembourg** had the lowest unemployment rate (2.2%), followed by **the Netherlands** (3.8%) and **Austria** (4.5%). **Spain's 18.7%** was still by far the EU's highest, but it was two percentage points lower than the August 1997 mark.

... Average real GDP per capita in the candidate countries (CCs) for EU membership (excluding Cyprus) in 1997 was 40% of the EU average, rising from 38% in 1995.The Eurostat study found that **Slovenia** had the highest per capita GDP figure of the CCs at **68%** of the EU average, just slightly lower than EU cellar-dweller **Greece** (69%). Next in line came the **Czech Republic** (63%), followed (rather distantly) by **Hungary** and **Slovakia** (both at 47%). Bulgaria (23%) displaced Latvia (27%) as the lowest CC GDP per person country. Total CC GDP amounted to 11% of the EU total last year, of which Poland alone accounted for 37%. Annual GDP growth in the CCs last year once again outstripped the EU's (3.6% vs. 2.6%, respectively), but the gap has narrowed.

...**Fordham** University's Graduate School of Business is holding a one-day conference on the impacts of the euro on Monday, October 26, 1998. In addition to practitioner panels on a host of key business issues, it will feature keynote speeches by European Central Bank Executive Board Member **Sirkka Hämäläinen** and the Federal Reserve Bank of New York President **William McDonough.** For more information or to register, please contact Alfred C. Holden at (212) 636-6162.

...Also on October 26, 1998, from 2:00 – 4:00 pm, the European Union Studies Center of the CUNY Graduate Center (part of the New York Consortium of European Studies – see EURECOM, July/August 1998), will have on hand Mr. **Dieter Dettke**, executive director of the Friedrich Ebert Foundation, to discuss domestic and foreign policy issues in Germany's new political environment.

Two days later, on **October 28, 1998**, the EUSC will hold an **"EMU Day"** seminar from 10:00 am to 4:00 pm (including lunch), to cover issues arising from the transition to the euro. Featured will be Chase Manhattan's Chief Economist and Managing Director **John Lipsky**, Princeton Economics Professor **Peter Kenen**, Fordham Law Professor **Roger Goebel** and **Sven Oehme**, executive director of the European-American Chamber of Commerce. To reserve a seat, please call (212) 642-2977.

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

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