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LONG GESTATION, BUT EASY BIRTH: THE EURO ARRIVES SMOOTHLY

"In the end, it turned out to be almost a formality, different from what many of us expected just a year ago."

So described European Central Bank (ECB) President **Wim Duisenberg** the tranquil yet historic birth of the euro which, at 12:00 AM on January 1, 1999, became the official currency of 11 EU member states, with an irrevocably fixed conversion rate against the participating national currencies (see table).

While the successful launch was largely seamless, it belied the years of intense and thorough preparation – and political commitment – that went behind it. In terms of scale and complexity, EMU has no historical precedent. The 11-country euro zone corresponds to an economic area of 292 million people, 19.4% of world GDP and 18.6% of total world trade. And, over time, it will most certainly expand.

European Commission President **Jacques Santer** hailed the smooth start of the euro on the international financial markets as evidence of its solid status. Founded in an economic culture of stability, the euro will be a strong currency and will help create the right conditions for prosperity and employment, he said.

Based on a proposal from the European Commission (and in consultation with the ECB), the EU Council of Ministers adopted the euro conversion rates on the afternoon of December 31, 1998, exactly as outlined in a May 2, 1998 Joint Communiqué (see EURECOM, May 1998).

Accordingly, the national currency units (NCUs) have ceased to be currencies in their own right: they are now non-decimal denominations of the euro – and the only legal tender for retail cash transactions during a three-year transition period — until they are phased out by July 2002 (at the latest). With regard to conversions between NCUs of the euro, a monetary amount in one NCU must first be converted into euro (via its fixed conversion rate) and then converted to the other NCU (also via its euro rate). This method, know as "triangulation", is the only legally enforceable conversion method (unless others yield the exact same result).

EURO CONVERSION RATES

1 EUR =	Country
40.3399 BEF	Belgium
1.95583 DEM	Germany
166.386 ESP	Spain
6.55957 FRF	France
.787564 IEP	Ireland
1936.27 ITL	Italy
40.3399 LUF	Luxembourg
2.20371 NLG	Netherlands
13.7603 ATS	Austria
200.482 PTE	Portugal
5.94573 FIM	Finland

Although euro notes and coins will not appear until January 1, 2002, the new currency can now be used by consumers, retailers, companies and public administrations in the form of "written (or "book") money", i.e. personal checks, traveler's' checks, bank transfers, credit and debit cards and electronic purses. And from now on, the euro's value against all other currencies, including the US dollar and those of the four non-participating EU countries (the UK, Denmark, Sweden and Greece), will fluctuate according to market conditions. However, the Danish krone and the Greek drachma have joined the ERM II (see EURECOM, December 1998) to limit fluctuations vis-à-vis the euro to ±15% of their central euro rates (which are in line with their previous ecu central rates). Exchange rates between third country currencies and the NCUs are derived from the latest euro exchange rate, similar to the triangulation method referred to above.

In terms of the single monetary policy and the European System of Central Banks (i.e. the ECB and the 11 participating national central banks), the ECB's Governing Council expressed its satisfaction with the changeover to one integrated euro area money market and with the functioning of TARGET, the EU-wide, real-time gross settlement system for euro payments.

To keep abreast of euro matters, check out the ECB's website *(www.ecb.int)*, as well as the Commission's *(europa.eu.int/euro/)*.

US PREPARES SANCTIONS AGAINST EU OVER BANANAS

After the US Administration's publication last month of a list of retaliatory tariff increases aimed at the EU over the banana dispute (see EURECOM, November 1998), European Commission Vice President Sir Leon Brittan made the following statement:

"I very much regret that the US has gone ahead and published this list of sanctions...and hope that even now wiser counsels will prevail and the US will find a way of responding to

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our desire to resolve this issue lawfully and amicably.

We have given the United States every opportunity to get the banana dispute resolved rapidly in the proper place — the World Trade Organization. They could at any time have requested a panel to determine the issue. We had no desire or ability to prevent them. Indeed, when they failed to do so we launched our own request for a panel, so determined were we that this should be an independent, binding ruling.

However, the US has regrettably chosen not to take this multilateral path, but rather to embark on unilateral trade sanctions. These are specifically condemned by WTO rules. Indeed it is difficult to think of a more obvious breach of the multilateral trade system than to take the law into your own hands in defiance of the rules.

This list is arbitrary in what it covers (e.g. certain cheeses, candles, greeting cards, bed linens, cashmere sweater, certain handbags, sweet biscuits, chandeliers) and arbitrary in its value. It threatens European firms and jobs which have no link with the banana dispute whatsoever. Put simply, it is an example of unilateralism at its worst.

This dispute is no longer about bananas — it is about respect for the multilateral trade system. We believe our new banana rules…are entirely WTO-compatible. If US disagrees they have a very clear path open to them — that is to challenge it within the WTO. What is unacceptable is to announce illegal sanctions."

As a result of the US action, the EU will accelerate its moves in the WTO for consultations leading to a panel against US unilateral measures under Section 301 of the US Trade Act (see EURECOM, December 1998).

At the time of writing, the US had just formally announced it would seek WTO authority to impose retaliatory sanctions on the list of targeted EU products at a January 25 meeting of the WTO's Disputes Settlement Body, despite the WTO dispute panel already established (by the US' co-complainant Ecuador) to examine whether the EU's banana policy modifications comply with the WTO ruling.

EU SPURNS US' "3G" STANDARDS CLAIM

In response to a December 19 letter signed by US Secretary of State Madeleine Albright, US Trade Representative Charlene Barshefsky, US Secretary of Commerce William Daley and Federal Communications Commissioner William Kennard, EU Telecommunications Commissioner **Martin Bangemann** firmly rejected US allegations that the EU is raising barriers to US firms in the third generation (3G) mobile communications market. EU policy, answered Commissioner Bangemann, is to have market demand met by a broad competitive offering of mobile multimedia services, fully in line with the EU regulatory framework and its WTO obligations.

3G mobile communications will offer, in addition to mobile telephony and messaging services, a new dimension of wireless communications, including access to improved mobile Internet access and fast data transmissions for multimedia services.

Bangemann underlined that the EU fully supports global harmonization of 3G technology standards via the International Telecommunications Union (ITU), but that the decisions on this must be an industry-led process of technical and commercial considerations. The ITU, a United Nations body, is scheduled to select a global standard for 3G mobile phones by March 31 this year.

A recent EU decision on a Universal Mobile Telecommunications System (UMTS) does not define any technological content nor does it establish UMTS as an exclusive standard. It does foresee the issuance of at least one UMTS license per member state (as of January 1, 2000) to ensure an interoperable service across the EU and to facilitate pan-European "roaming" for consumers. Still, the UTMS concept and its eventual standards will be decided by industry – with non-European participation – and will not limit other 3G technologies in the European market.

Commissioner Bangemann expressed surprise that the US government seems to be asking for regulatory intervention in an industry-led process. Further, he said that "we would not deem it appropriate to impose backwards compatibility between second and third generation systems, like the US seems to want, nor to impose convergence of 3G standards towards a single standard, let alone a particular 3G standard, be it at the EU or global level."

SWITZERLAND, EU STRIKE TRADE DEAL

After over four years of tough talks, the EU and Switzerland have reached a preliminary trade accord covering bilateral agreements in seven sectors, providing an important basis for the EU to deepen relations with an important partner in the center of Europe.

Ever since Swiss voters rejected the European Economic Area (EEA) in a December 1992 referendum (see EURECOM, December 1992), relations with the EU have been more or less stagnant, while the rest of the continent — either through EU membership, membership candidacy or association agreement – has drawn closer to the Union. With the new agreement, this deadlock has been overcome, opening new possibilities for strengthened EU-Swiss bilateral cooperation.

EU Commissioner **Hans van den Broek**, who negotiated on the EU's behalf, termed the accord a "balanced" yet interim step, adding that "it was up to the Swiss to decide what it is a step towards," especially as regards possible EU membership.

The accord augments a longstanding EU-Switzerland free trade agreement, and covers the following (mainly) non-tariff barrier dossiers: the free movement of people, road transport, air transport, mutual recognition of product standards, public procurement, joint scientific research projects and agriculture. However, like the failed EEA treaty just over six years ago, the EU-Switzerland trade pact must go in front of Swiss voters in a referendum — always a formidable stumbling block.

"Geographically no neighbor can be closer to us than Switzerland. (This) deal brings the contractual and economic relationship between us somewhat more into line with this fact," remarked van den Broek.

COMMISSION SURVIVES EP CENSURE VOTE

Although not big news on this side of the Atlantic, the Commission has been embroiled in a serious dispute with the European Parliament (EP) over the Commission's financial management of the EU budget and, in some cases, budgetary fraud. In addition, there were calls from MEPs for the resignation of two Commissioners, Edith Cresson and Manuel Marin, who were responsible for the services where fraud was involved.

Ultimately, this growing conflict led to an EP vote to censure the Commission on January 14 which, had it passed, would have forced the entire 20-member Commission to resign. However, based on an eight-point plan to strengthen financial and personnel management put forward by Commission President **Jacques Santer** – with a "zero tolerance" for fraud – the EP spared the Commission, rejecting the censure motion by a vote of 293 to 232 (27 abstentions). EP resolutions for the individual resignations were also defeated.

President Santer promised proposals to modernize and restructure the administration of the Commission by the end of January, and to keep MEPs informed of their progress. According to Santer, the vote showed that the EU institutions function in a democratic manner.

Under the present Treaty, the Commission is a single "college", and individual Commissioners cannot be targeted for maladministration – it's either all or none. This, however, MEPs are determined to change. Said former Commissioner and current MEP Willy de Clerq: "The individual responsibility of commissioners has been put on the agenda. We will not take it off again."

QUOTES

*"It should have happened a lot earlier." Former German Chancellor and an acknowledged "godfather" of EMU **Helmut Schmidt**, commenting on the euro.*

*"Prices are going to fall (due to EMU). That will increase demand and put more money in consumers' hands. That's going to have a positive effect on the European economy, and that will be good for the United States." US Undersecretary of Commerce for international trade **David L. Aaron**.*

*"I believe the euro is going to be a rival to the dollar. That will impose some discipline on the US economy, which we have not been used to." **Clyde Prestowitz**, president, Economic Strategy Institute.*

*"The dollar and the euro are eyeing each other warily. A promising adversary to the privileged US currency has emerged." Cuban President **Fidel Castro**.*

*"Some have argued that a Europe with a single number in the global directory might ultimately pose a threat to the US. But in a global economy, the US has infinitely less to fear from an open and integrated Europe...than a Europe that turns inward and seeks insulation." US Deputy Treasury Secretary **Lawrence Summers**.*

...IN BRIEF

..."I warmly welcome President Clinton's acceptance of the call for a new Round of global trade negotiations," said **Sir Leon Brittan** in response to US President Clinton's State of the Union address on January 19. After nearly three years of EU campaigning for a Millennium Round, Sir Leon found it heartening "to find our efforts meeting success in such a crucial quarter." With the Transatlantic Economic Partnership (TEP) in train (see EURECOM, November 1998), the EU and US have a ready means for discussing what subjects should be in the Round (and how). Sir Leon cautioned, however, that efforts to convince the rest of the world of a new Round's benefits, particularly in some developing countries, will need redoubling. "But our ability to do this will also depend on the proof we give of our commitment to a fair, rules-based multilateral system," remarked Sir Leon. "I renew my appeal to the US and President Clinton to draw back from present threats of unilateral sanctions against its main trading partners and supporters of the new Round – the EU, Japan and Canada."

...For all those EU consumers thirsting away for excellent US (mainly California) wines, there is good news: the EU has agreed to extend until December 31, 2003 a derogation permitting US wine imports which may "have undergone oenological practices not allowed by Community rules". EU wine legislation, the world's most developed, defined and strict, often presents difficulties to third-country imports that are subject to less exacting vinification rules and practices. Nevertheless, the EU is the world's foremost importer of wine, and its citizens quaff almost 60% of global wine consumption. (It is the largest exporter as well).

This extension enables negotiations on an EU-US agreement on trade in wine to continue (the previous deadline for agreement was December 31, 1998). At issue in the talks are import conditions, oenological practices of each party and the protection of appellation as to origin, a particularly important area for the *terroir*-oriented Europeans. Both parties have indicated that a "satisfactory" agreement can be expected within the given timeframe.

...The number of insurance companies in the EU fell by 3.4% between 1996 and 1997, according to a new Eurostat report. In 1997, the EU had 2,995 such enterprises, down from 3,099 in 1996 (all figures exclude the UK). The report holds that the decrease was likely due to companies merging as a result of growing competition in the EU's single market. The euro's introduction will eliminate a further barrier to competition, it says.

...The prestigious **Salzburg Seminar** is convening a new session, *The Transat-*

lantic Agenda at the Turn of the Century, at the Schloss Leopoldskron in Salzburg, Austria from March 20-27, 1998. This session will examine transatlantic relations against the changing backdrop of the post-Cold War order, and identify the underlying values and goals of the relationship as Europe and the US approach the next century. Areas of focus will include, *inter alia:* the continuing evolution of the EU and NATO; burden-sharing in response to global challenges; economic security and competitiveness; multilateral trade relations; and the transatlantic business agenda. Salzburg Seminar Fellows are generally mid-career professionals who possess significant experience in fields relevant to the theme of the session and represent a cross-section of the private and public sectors. Proficiency in English is also necessary. Places are limited. For more information, please contact Shanta Rau at (43) 662-839-83-147 or *srau@salsem.ac.at.*

...**Germany** took over the EU Council presidency on January 1, and will guide the work of the Council for the first six months of 1999. Its agenda will focus on creating jobs for a Europe that faces worldwide competition; internal consolidation and further development of the Union (i.e. Agenda 2000); and strengthening the EU's profile in its relations with other countries. In addition to the customary European Council summit toward the end of the presidency (which will take place June 3-4, 1998 in Cologne), an extraordinary European Council is slated for March 24-25 in Brussels, with the aim of reaching agreement on Agenda 2000 reforms (see EURECOM, December 1998). The German presidency's website is *www.eu-presidency.de/.*

...Fordham University Law School will hold its Seventh Annual Conference on **International Intellectual Property Law** on April 9 and 10, 1999 in Manhattan (140 W. 62nd St.). The two-day conference will analyze international developments in copyright, patent and trademark law with regard to the EU, Asia, the US, the World Intellectual Property Organization (WIPO) and the Information Society. It will feature speakers from the European Commission, the US government, WIPO, academia, the judiciary 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.*

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