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## TIME IS NOW FOR STRUCTURAL ECONOMIC REFORMS IN EU

Today's broadly favorable global economic climate offers Europe a golden opportunity to raise its overall competitiveness, which would enhance durable economic growth and employment. This is the main message, along with recommendations for market reforms, in the Commission's **second annual report on EU product and capital markets**.

"Economic reform requires reinforcement of the Internal Market as the cornerstone for the EU's microeconomic policies," commented EU Internal Market Commissioner **Frits Bolkestein** at the report's unveiling. "Despite significant improvements in the last few years, European markets remain too fragmented, especially in the services sector. We must build a dynamic business environment where entrepreneurship can turn technological and investment opportunities into new jobs."

According to the report, EU markets are continuing to integrate. Some highlights follow:

- Cross-border direct investment and mergers and acquisitions are the strongest catalysts for structural change in today's single market – and the trend is quickening. Trade also continues to be a dynamo for market integration: since 1993, growth in intra-EU manufacturing trade has outpaced GDP growth.
- Capital market integration is accelerating, though much remains to be achieved. Elimination of exchange risk in the euro zone is encouraging institutional investors to consider increasingly pan-European investment strategies. The proliferation of financial products heralds the emergence of highly liquid and modern securities markets at the service of EU companies.

- Retail price convergence continues, albeit more slowly than in the early 1990s, and not always toward lower price levels.

Based on quantitative assessments of the performance of European product and capital markets, the report identifies areas where regulatory and structural reforms are most urgent, and recommends some specific policy prescriptions to reduce market fragmentation. Among these are:

- that member states make additional efforts to simplify and improve the quality of their regulatory frameworks;
- that more be done at both the national and EU level to reduce economic and regulatory costs involved in creating new businesses;
- that EU regulatory frameworks for the utility sectors (electricity, gas, telecommunications and postal services) and Information Society services (e.g. e-commerce) be adopted and fully implemented;
- that a lighter administrative approach to removing technical barriers to trade be adopted based on wider application of the mutual recognition principle in non-harmonized areas (i.e. the New Approach); and
- that state aid, especially the award of sector-specific aid, be further reduced. The 15 member states spent an average of more than 95 billion euro (\$1=.9849 EUR) a year on such aid between 1995-97 – approximately 1.2% of EU GDP.

For the full text of the report, please check out the following website: <http://europa.eu.int/comm/dg15> (and click on "Update on the Single Market").

### COMMISSION TO INVESTIGATE MICROSOFT'S WINDOWS 2000

Based on information received from end-users, small businesses active in the IT (information technology) sector and Microsoft's competitors, the Commission's Competition Directorate General has formally requested Microsoft to provide information about the new technical features of *Windows 2000* in the context of

EU competition law.

According to complaints received by the Commission, Microsoft, by virtue of *Windows 2000*, has bundled its PC operating system with its own server software and other Microsoft software products (i.e. "middleware" that enhances performance of server/client operating systems) in such a way that only Microsoft's products are fully interoperable. Hence, Microsoft's competitors (which do not

have access to the interfaces) are allegedly at a significant competitive disadvantage, which ultimately will enable Microsoft to extend its dominance in PC operating systems into the closely related markets for server software and "middleware". Further, to ensure full exploitation of functionalities embedded in *Windows 2000* for PCs, customers are allegedly de facto obliged to purchase *Windows 2000* for servers.

ECIS: 2



The Commission will now examine whether the above allegations about the design of *Windows 2000* are well founded, and if so, whether they violate EU competition law. While Microsoft is also involved in antitrust proceedings with the US government, the Commission has stressed that the allegations brought to its attention are different than those in the US case. In addition, there are other pending EU investigations involving Microsoft that are unrelated to the new *Windows 2000* inquiry.

### **A VICTORY (AND GUIDE) FOR "PRECAUTIONARY PRINCIPLE"**

On January 30, international negotiators from 140 countries agreed on a **Biosafety Protocol** in Montreal, Canada, which sets out the rights and obligations for countries to take decisions about the import of live genetically modified organisms (GMOs), based on the *precautionary principle*.

"This is a historical moment and a breakthrough for international agreements on trade and the environment," declared EU Environment Commissioner **Margot Wallström** at the successful conclusion of the talks. She went on to say that this new international framework, in which the EU played a leading role, will ease public concern and create predictability for industry. It also shows that the international community takes the concerns of its citizens seriously.

Just a few days thereafter, the Commission published a timely **Communication on the use of the precautionary principle** in analyzing risk in environmental and health issues.

The principle comes into play when preliminary scientific evidence is inconclusive on health risks, but preliminary scientific evaluation indicates reasonable grounds for concern about potentially dangerous effects on the environment, human, animal or plant health that may be inconsistent with the high level of protection chosen by the EU. Implementation of such an approach should start with a scientific evaluation, as complete as possible, identi-

fying at each stage the degree of scientific uncertainty. Where action is deemed necessary, measures based on the precautionary principle should be:

- *proportionate* to the chosen level of protection;
- *non-discriminatory* in their application;
- *consistent* with similar measures already taken;
- based on an *examination of the potential benefits and costs* of action (or lack of it);
- *subject to review* in light of new scientific data, and;
- capable of *assigning the burden of proof* for producing a more comprehensive risk assessment.

These guidelines are intended to guard against unwarranted recourse to the precautionary principle as a disguised form of protectionism. Further, reliance on the precautionary principle differs from the search for zero-risk, which in reality is rarely found.

While it is not related to GMOs, it is on the basis of the precautionary principle that the EU has maintained its (non-discriminatory) ban on hormone-treated beef, even though the WTO has ruled against the EU's policy (see EURECOM, June and July/August, 1999).

### **AN INTERNET ADDRESS FOR EUROPE?**

In light of the Internet's rapid development in Europe, the Commission has launched a public consultation on the creation of a new Internet Top Level Domain (TLD): *eu*.

The Internet Domain Name System (DNS) is the way in which individuals and businesses identify each other on the World Wide Web. Organizations and individuals on the Internet are allocated a domain name according to specific categories, such as *.com* (commerce) and *.org* (non-profit organization). Having a *.eu* TLD would strengthen the image and the infrastructure of the Internet in Europe, and would allow the identification of companies and institutions as European. And

in the longer term, especially as the *.com* TLD gets more congested – at least in the English language – the *.eu* domain would offer plenty of scope for the foreseeable future for second and/or third level domain registrations in a wide range of alternative languages for the purposes of cross-border and international trade. Hence, it would bolster the single market and stimulate e-commerce, an area of opportunity that Europe cannot afford to ignore.

Part of the *eEurope* initiative (see EURECOM, December 1999), the Commission's working document on a *.eu* TLD raises a number of issues for consultation with the Internet community, including:

- the nature of the future registry organization (currently ICANN – the Internet Corporation for Assigned Names and Numbers);
- how its registration policies should be prepared and implemented;
- and dispute resolution policy, with particular reference to trademarks.

The aim is to conduct an on-line discussion by inviting all interested parties to address their comments and suggestions through the following website – <http://europa.eu.int/comm/dg13/index.htm> – and to this e-mail address: [INFISO-Dot-EU-Consult@cec.eu.int](mailto:INFISO-Dot-EU-Consult@cec.eu.int).

### **DR. BURGHARDT GOES TO WASHINGTON**

On February 3, the European Commission's new Head of Delegation to the US, **Dr. Günter Burghardt**, presented his credentials to US President Bill Clinton and Secretary of State Madeline Albright at the White House.

Until recently the head of the Commission's External Relations department, Ambassador Burghardt replaces the recently retired **Hugo Paemen**, who served the EU with distinction in the US capital.

At his accreditation ceremony, Dr. Burghardt made the following remarks:

*"At the outset of this new century and millennium, I am particularly pleased and honored to be taking up my duties as Ambassador and Head of Delegation to the United States. For me, this is not*



*simply another appointment in my academic and professional life, which has been devoted to the historic and unique post World War process of European unification.*

*European unification has always had a transatlantic dimension. Just as Europeans have helped in shaping the New World, the United States of America have thrown their weight many times into the European balance, supporting democracy and fighting dictatorship and totalitarianism of all sorts. Only recently have the dramatic events in Yugoslavia demonstrated the need for the US to remain engaged on the European continent...*

*...I am sure that if the European Union successfully accomplishes its ambitious agenda over the next 10 years, this will generate a reciprocal desire to agree on an even more substantial set of US-EU commitments [beyond the 1995 Transatlantic Agenda] to reflect the growing role of the EU in an ever closer partnership of equals. Globally, the United States and Europe are the most natural strategic partners to combine forces and share international and multilateral responsibilities."*

Dr. Burghardt has had a long and distinguished career in the Commission, which he joined in 1970 as a member of the Legal Service. From 1972 through 1980, he was desk officer for relations with the US, Canada and Australia, and assistant to Director General Sir Roy Denman, who later became Head of Delegation in Washington. Thereafter he served as Deputy Head of Cabinet both to Commissioner Karl-Heinz Narjes (1981-1984) and President Delors (1985-1988) before becoming Political Director in the Secretariat General of the Commission, a position he held until 1993. After the Maastricht Treaty's ratification in 1993, Dr. Burghardt became the first Director General for the (then) newly created (now former) DG IA (External Political Relations), which covered Europe and the New Independent States, the Common Foreign and Security Policy and the External Service under Commissioner Hans van den Broek. His last position before his ap-

## QUOTES

*"One way for European governments to create greater unity is to have a common adversary. With the Soviet Union gone, I worry that Europe will come to see the US in this role – as a politically convenient opponent that can be used to advance the agenda of political and economic unification despite the tensions that it creates among the countries of Europe." Harvard University Economics Professor **Martin Feldstein**.*

*"You obviously have to be careful that you don't boost the popularity of populist candidates by making their xenophobia look as though its respectable and justified...So what we have said, and I think it's the baseline for the EU as a whole, is that we have to watch and see what the Austrian government does in the coming weeks and months." EU Commissioner **Chris Patten** commenting on the controversial new Austrian government.*

*"As Europe and Japan put the 1990s behind them, the right aspiration for (economic) policy is much higher." US Treasury Secretary **Lawrence Summers**.*

*"It is unfortunate that the attention paid to short-term developments in the euro exchange rate has tended to overshadow many more important achievements in the first year of EMU." EU Monetary Affairs Commissioner **Pedro Solbes**.*

*"The WTO has been painted as the black box where multinationals do their dirty tricks in getting rid of barriers that protect nice people...My prescription is going out loudly on the idea that we need more trade liberalization with rules that benefit everybody." EU Trade Commissioner **Pascal Lamy**.*

*"We do not intend to duplicate the work of NATO. We do not need to, and we cannot afford to. European leaders have made clear that the objective of the Union is to develop the capacity to conduct EU-led military operations in response to international crises, when NATO as a whole is not engaged." Secretary-General/High Representative of the EU Council of Ministers **Javier Solana** in a speech to the Foreign Policy Association in New York on January 25, 2000.*

pointment to Washington was as Director General of External Relations under Commissioner Chris Patten as of October 1999.

Dr. Burghardt speaks German (mother tongue), French, English, Dutch and some Italian. He is married to Rita Byl, and has three children.

### ...IN BRIEF

...On February 15, negotiations with six new applicant countries – **Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia** – will be formally launched (see EURECOM, January 2000). Each applicant will be considered on its own merits in the talks, and those that have just started the process can join the others (Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia) within a reasonable time, provided they have made sufficient

progress with their preparations. Progress in the negotiations must go hand in hand with progress in incorporating the *acquis* (body of existing EU law) into their legislation – and implementing it in practice.

...The Commission has set out the strategic objectives that will guide its work over the next five years. The four major objectives outlined by Commission President **Romano Prodi** on February 9 are: promoting new forms of European governance, including adapting EU institutions to enlargement and internal reform within the Commission itself; creating a stronger European voice in the world, particularly by building an effective foreign policy and advancing the enlargement process; creating a new economic and social agenda by generating sustainable growth and aiming for full employment; and improving the



quality of life, in areas like the environment, food safety, consumer rights, justice and security and transport. You know, just a few modest items...

...Social protection expenditure in the EU – e.g. total spending on unemployment benefits, social security, healthcare and disability, etc. – fell from 28.7% of GDP in 1996 to 28.2% in 1997. While "old age" is still the main item of expenditure, accounting for 45.2% of total benefits, the overall structure of spending has changed with time. To wit: unemployment benefits declined from 9.5% of total EU benefits in 1993 to 7.5% in 1997. Among the member states, social protection expenditure ranged from 17.5% of GDP in **Ireland** to 33.7% in **Sweden**.

...For the second year in a row, **Inner London** is by far the highest per capita GDP region of 211 defined regions within the EU, at 229% of the EU average. **Hamburg** (199), a chart-topper in the past, placed a rather distant second, followed by **Luxembourg** (the entire country, which is not subdivided into regions) and **Brussels**. The Eurostat data indicates that 50 regions (representing around 25% of the total EU population) fall below 75% of the EU average, which is the cut off point for Objective

### GDP Per Head in PPS, 1997

EU Average = 100

#### Top Regions

Inner London	233
Hamburg	197
Luxembourg	174
Brussels	169
Darmstadt	165
Oberbayern	165
Vienna	164
Ile de France	153
Bremen	145
Antwerp	139

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#### Bottom Regions

Ipeiros (Greece)	43
Acores (Portugal)	51
Voreio Aigaio (GR)	51
Extremadura (Spain)	55
Madeira (Portugal)	56

I funding for regional development from the EU's Structural Funds. Only one regions falls below 50% of the EU average: **Ipeiros** in Greece (43).

The data (1997) are compared in PPS (Purchasing Power Standards), an artificial currency that reflects real purchasing power in each country. One caveat: GDP per head is not the same as disposable income, so these figures do not necessarily mean that people in one region are more prosperous than in another. Moreover, commuters can boost the GDP of the region where they travel to work – thus reducing it where they live – which is a significant factor in the "top ten" regions listed.



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