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STEPS TO MONETARY UNION OUTLINED

A three-stage plan for European monetary union, including the creation of an EC system similar to the US Federal Reserve and possibly a single currency, was unveiled last month by a committee chaired by EC Commission President Jacques Delors.

The committee, composed of the heads of EC central banks, as well as independent monetary experts, has been working since last summer on a blueprint that would take member states beyond their present limited degree of cooperation in exchange rate management within the 10-year-old European Monetary System (EMS).

The plan outlines a first stage, beginning no later than July of next year, which would require all member states to join the EMS (the current exceptions are the UK, Greece and newest EC members Spain and Portugal). It envisages greater economic convergence and a bigger role for the central banks in the legislative process.

A second stage would boost collective decision-making, introduce more centralized control over national budgetary policy, and see the creation of a European System of Central Banks (ESCB). This would be the forerunner of a Federal Reserve-type system to which the national central banks would become subsidiary in the third stage. Some reserves would be pooled in this phase.

Under the third stage, exchange rates between the member states' currencies would be irrevocably fixed and preparations would begin for the transition to a single currency. The formulation and implementation of monetary policy both within the Community and in its international intervention measures would pass to the ESCB, which would also manage all official reserves.

In the economic field, the Council of Ministers, the Community's highest legislative authority, would be empowered to impose binding constraints on national budgetary policy, and the EC would assume its full role in the process of international policy cooperation.

No deadlines are suggested for the move towards the second and third stages which, like stage one, will need the political agreement of the 12 member states, as well as changes in the Treaty of Rome which binds them. The 40-page report is to have its first official airing at next month's EC summit in Madrid.

Initial reactions from the member states were generally favorable, with the exception of the UK, where Chancellor of the Exchequer Nigel Lawson declared : "We cannot accept the transfer of sovereignty implied in the report."

EC SPELLS OUT RECIPROCITY

The EC Commission has clarified a controversial clause in its proposed directive on a harmonized banking system which relates to the treatment of non-EC banks.

Fears had been expressed in the United States and other countries that the so-called reciprocity clause could cause problems for any of their banks which wanted to establish themselves in the Community after 1992.

The directive is designed to create a single EC banking market by 1992. Banks which obtain a license in one country, subject to EC criteria, will be able to set up branches throughout the Community using the same license. This facility will apply to non-EC banks which are already established in at least one member state, but new applicants may face difficulties if their home country applies restrictions to EC banks.

Under its original proposal, an application from a non-EC bank would be automatically suspended while the Commission examined it, particularly with reference to its home country's treatment of EC banks. This is no longer being proposed on a case-by-case basis. Instead, the Commission would carry out a general examination, in advance of the directive coming into force, of how third countries treat EC credit institutions. This monitoring would be ongoing.

Where the Commission found that a third country was not granting market access and competitive opportunities comparable to those granted by the Community, it could negotiate with the country in question. If it were not satisfied that EC banks were being accorded national treatment, it could suspend the granting of a license.

Sir Leon Brittan, the Commissioner responsible for financial institutions, said : "The proposed changes send a clear message to our trading partners that we welcome the establishment of their banks in the Community. We will only seek to hit back if there is in effect national discrimination against us.

"Where our partners have banking laws which are effectively non-discriminatory but less liberal, these will be a matter for negotiation. And we are fully entitled to argue that our most liberal market is an example that the rest of the second world should follow."

Sir Leon pointed out that when the directive, which is seen as a model for other financial services legislation, is adopted, the EC's banking market will be more unified than that of either the US or Japan.

The revised proposal, which had been broadly welcomed in its original form by a majority of member states, but which had caused concern in some because of the drafting of the reciprocity clause, had a favorable reception when it was discussed by the Council of Ministers last month. There is a strong possibility that they will reach political agreement before the summer.

The same ministerial meeting reached agreement on another banking directive which sets out the rules to be used in determining the level of resources of banks. The so-called "own funds" directive will be complemented by a second measure on solvency ratios which is currently before the Council of Ministers. Both are essential to the creation of a common market in banking.

NEW IDEAS ON EC MERGER CONTROL

Controversy among the member states over the EC Commission's proposal for a common policy on mergers has prompted the responsible Commissioner, Sir Leon Brittan, to float some new ideas in an effort to reach a consensus.

The continuing wave of mergers with an EC dimension has sharpened the perceived need within European industry for clear rules. An EC merger policy is also a key component of the 1992 program, one of whose aims is to help create large European firms which can compete internationally.

In order to break the deadlock over the size of mergers that should be handled subject to exclusive EC rather than national competition (anti-trust) laws, Sir Leon has suggested that the combined aggregate worldwide turnover of the firms which would subject the merger to EC clearance control should be raised to 2 billion ecu, double the original proposal made last year. (1 ecu = $ 1.15). This threshold would be 5 billion ecu until the end of 1992.

In a case where a merger might fall outside the EC regulation if a certain proportion of the emerging companies' turnover is made in one member state, the Commission has suggested that the limit, which had been set at three-quarters in the original proposal, could be reduced to two-thirds. This suggestion is designed to meet the concerns of some member states that the Commission might seek to involve itself in mergers which were primarily of national dimension.

The Commission, in order to make a clear distinction between national and EC jurisdiction, has emphasized that the proposed regulation would only apply to mergers above the threshold, while only national law would apply below it.

The Commission's latest ideas met with a mixed reception at a meeting of the Council of Ministers last month, with some member states pressing for a higher threshold than contained in the new proposal.

PROGRESS ON TV WITHOUT FRONTIERS

EC member states have reached political agreement on the ground rules for trans-frontier and satellite TV broadcasting throughout their territories. Agreement from the European Parliament would clear the way for an EC-wide TV area subject to common codes of conduct.

Parallel to this agreement, the 22-nation Council of Europe, which includes the EC countries, agreed on a Convention establishing similar rules. This will be signed by the EC countries once they have completed their own legislation.

The main provisions of the legislation cover the percentage of advertising, the level of EC-sourced programming, copyright and moral standards.

The Council agreed that advertising breaks in the case of full-length films must be limited to one every 45 minutes. At the same time, advertising cannot account for more than 15 % of daily transmission time, with a maximum of 12 minutes per hour. Newscasts, documentaries, children's programmes and features can have breaks every half hour.

Demands for a minimum quota for EC productions were not agreed. Instead, the Council agreed that, wherever feasible, TV stations should reserve the majority of their broadcasting time, excluding the time devoted to news, sporting events, games, advertising or teletext services, for EC productions. Wherever feasible, stations must reserve at least 10 % of their broadcasting time for the output of independent producers.

Rules regarding copyright have yet to be worked out in detail. On the subject of moral standards, the legislation contains a chapter on the protection of minors and provides in certain circumstances for any member state suspending provisionally the re-transmission of broadcasts which could be of harm to minors.

EC-WIDE "BLEEP" SYSTEM PLANNED

The EC Commission has come up with a plan to introduce a single radio paging system throughout most of Western Europe. At present, each country operates its own national system and there is very little cross-border "bleeping".

The Commission last month proposed legislation that would see a common technical standard being adopted gradually by 1992. It is reckoned that 80 % of

EC territory could be covered by 1995.

In addition, the neighboring EFTA countries could be included. However, their move to a common standard would be voluntary, whereas it would be obligatory for EC member states.

The "bleep" hook-up would be achieved through a system known as ERMES (European Radio Messaging Service), which is being developed in conjunction with industry through the European Post and Telegraph Conference, which groups the national PTT authorities.

The move heralds a massive expansion of the paging market in the Community where, because of the absence of a common standard, less than 1 % of the population uses "bleeps", compared to 6.5 % in the US. It is reckoned the market could be worth $ 450 million by 1995, almost four times its present size.

It is also estimated that the creation of a common market in pagers, which would result in economies of scale for manufacturers, would mean more competitive pricing. This could see prices slashed by two-thirds from their present levels.

EC-EFTA DISCUSS CLOSER TIES

The European Community and the European Free Trade Association, which together form a free-trade area similar to that envisaged under the US-Canada pact, held ministerial-level discussions in Brussels recently to examine the possibility of closer ties.

The EFTA countries (Austria, Finland, Iceland, Norway, Sweden and Switzerland) are anxious to forge tighter links with the Community as 1992 draws near. Austria has already announced its intention of applying for EC membership, and others may follow suit.

Prior to the Brussels meeting, EFTA leaders meeting in Oslo, the Norwegian capital, issued a declaration pledging themselves to strengthen their "decision-making process and collective negotiating capacity." This was seen as a response to a suggestion by EC Commission President Jacques Delors that EFTA countries should coordinate their approach to the Community.

Following the informal meeting in Brussels, preparations are being made for a full-scale ministerial conference between the two sides. No date has yet been fixed.

LANDMARK RULING ON AIR FARES

The European Court in Luxembourg has issued a judgement in a case involving cut-price air fares which has significant implications for air services both within the EC and between the EC and third countries, including the US.

The court ruled that it is illegal to fix tariffs either bilaterally or multilaterally on flights within an EC member country or between a member country and a non-EC country if such an agreement is in conflict with EC competition laws.

The EC Commission, which implements competition policy, can already prevent such concerted practices on flights between EC member states under Article 85 of the Treaty of Rome. The court also ruled that Article 86, which deals with abuse of a dominant position, can be applied to air tariffs.

The judgement will also mean restrictions on the role of national governments in determining the level of tariffs, which many of them are in the habit of doing for non-commercial "national interest" reasons. This could have significance for other areas of government intervention in the pricing structure, such as telecommunications.

In 1987, the Commission won the agreement of the Council of Ministers for a limited degree of air fare liberalization on routes linking member states. But this did not apply to flights within member states or between the Community and third countries.

Sir Leon Brittan, Commissioner responsible for competition policy, declared the court's findings "a landmark judgement with far-reaching implications for consumers and airlines alike. Ittis also an important judgement for competition policy in general."

"QUOTES"

"The French are against a Fortress Europe for a very simple reason. It would be suicide." Former French Prime Minister ***Raymond Barre****, in New York.*

"This castle (Fortress Europe) in the air is full of skeletons which are the products of fevered imaginations rather than rational analysis." EC Commissioner ***Frans Andriessen****.*

"An economically stronger, more competitive, and technologically innovative Europe is in our strategic and economic interests. A single European market open to the world provides the best basis for growth in global business and multilateral trade cooperation." US Secretary of Commerce ***Robert Mosbacher****.*

"Europe is no longer an absentee from world affairs. Not only is it very much there, but the general feeling, both within and without the Community, is that it will make a success of its 1992 program." EC Commissioner ***Martin Bangemann****.*

"A genuine (EC) monetary union is the only way of ensuring the success of the single market, and represents an essential stage on the road to European political union." ***Francois-Xavier Ortoli****, chairman of French oil company Total.*

"For the tourist, the traveller, the industrialist or the businessman, the diversity of currencies and variations in exchange rates (in the EC) are disturbances which do not add anything to their private or professional activities. In a geographical area as small as ours... it is absurd that we insist on keeping obstacles which at best only act as false protectionism." Spanish Prime Minister ***Felipe Gonzalez****.*

"For Europe, 1992 is a trend, not a magic date." ***Carlo de Benedetti****, chairman of Olivetti.*

...IN BRIEF

... The EC needs a better transport infrastructure, says Fiat chairman Umberto Agnelli, and he wants the EC to play a bigger role in coordinating the policies of national governments. In his role as chairman of the European Business Roundtable's transport working group, Mr. Agnelli also sees a bigger role for private enterprise. He noted that between 1975 and 1985 traffic had increased by 25 % but infrastructure investment had fallen by 50 %.

... After years of discussion, EC Transport Ministers have finally agreed the bones of a common road transport policy. It fixes maximum weights for heavy vehicles like trucks and buses, and defines the qualifications needed to enter the trucking business.

... The 30th Eurobarometer survey carried out twice a year shows public support for the EC at a historical high : 7 out of 10 see membership of their country as a good thing, and only 8 % are opposed to uniting Europe.

... Mr. Thomas Niles, a career diplomat, has been named as next US representative to the EC to succeed Mr. Alfred Kingon. Mr. Niles has been ambassador to Canada since 1985 and was closely involved in the negotiation of the US-Canada free trade agreement.

... A Bank of Boston survey indicates that the US information technology sector will benefit most from the 1992 program. Strong European sales enabled several US computer companies to report higher earnings last year.

... German Chancellor Helmut Kohl has suggested an FBI-type European police force to ensure security when EC border controls are abolished in 1992. He plans to raise the issue at the Madrid summit of EC leaders next month.

... More than 60 % of a 103-company sample of Fortune 500 companies have no strategic plan for dealing with 1992, according to consultants Booz & Allen.

... The New York Times will publish its second semi-annual supplement on 1992 on June 5.

... The American Bar Association is organizing a conference on International Securities Transactions, which includes a 1992 segment, on June 15-16 in New York ; The Southwestern Legal Foundation is organizing a symposium on "Private Investments Abroad", which includes a session on 1992, in Dallas on June 20-22.

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