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EC REACHES ACCORD ON VAT, EXCISE RATES

Wrapping up one of the most contentious areas of the 1992 single market program, EC finance ministers have formally (and, as required under EC law, unanimously) agreed to a package of "approximated" value added tax (VAT) rates and excise duties.

Commented EC Tax Commissioner Christiane Scrivener: "We have now won the final battle for the abolition of fiscal frontiers."

Chief among the package's nine measures was an agreement on a minimum, EC-wide standard VAT rate of 15%, which, unlike an earlier agreement on a minimum VAT rate (see EURECOM, July/August 1991), will be legally binding as of January 1, 1993. EC member states will still have the option of a reduced VAT rate — subject to a minimum of 5% — and will be free to choose what goods receive the reduced rate from a common list of eligible goods or services. As a transitional measure, where zero or super-reduced VAT rates currently exist (most notably in the UK), they can be maintained until at least 1997. And most important for consumers, the special high VAT rates charged in some member states on certain goods (e.g. cars, luxury items and stereo equipment) will be eliminated as of January 1.

The ministers also formally adopted minimum excise duties on oil products, spirituous beverages and tobacco products.

Hard on the heels of this success, the Commission has proposed a directive to simplify the EC's transitional VAT regime for companies (see EURECOM, December 1991) in the post-1992 market. Designed to facilitate "triangular" transactions — those where a firm buys a product in one EC country for delivery to another — the rules would permit the firm to designate the client in the second country as responsible for VAT without having to register in that country itself.

EC COMPROMISE ON TOXIC WASTE

Following a recent "agreement in principle" by EC environmental ministers, member states will have the right to impose a non-discriminatory ban on imports of toxic waste both from within the Community and from third countries. In addition, the regulation prohibits EC waste exports to African, Caribbean and Pacific (ACP) countries, and limits imports and exports to and from signatories of the Basel Convention, which governs international trade in hazardous waste. As a result of the accord, the Community will finally ratify the Convention after a two-year delay.

Slated for effect in September 1994, the regulation reinforces the principle that waste should be treated as close as possible to its source. While national self-sufficiency in waste disposal is the goal, the legislation establishes the concept of supranational waste disposal regions to accommodate smaller EC countries (e.g. Luxembourg and Ireland), which produce insufficient quantities of waste to dispose of economically at home.

To achieve agreement, the Commission made the rare move of changing the legal basis of the regula-

tion from the single market provisions in the EC treaty to the environment section, giving priority to the environment over the free circulation of goods in the Community. EC Environment Commissioner Karel Van Miert confirmed that environmental concerns prevailed over single market aims in this "unique case", but he stressed that no precedents had been set for other policy areas.

MATERNITY LEAVE DIRECTIVE ADOPTED

Just hours before it was due to lapse, the Council formally adopted a directive that sets minimum conditions for maternity leave in the EC, a significant plank of the EC's action program to implement the Social Charter (see EURECOM, February 1990).

The directive guarantees pregnant and breastfeeding women a minimum of 14 weeks maternity leave at statutory sick pay across the EC. To meet the European Parliament's concern that maternity should not be equated with sickness, the Council emphasized that "sick pay" was only a "point of reference" for mater-





nity pay, and that no analogy between the two was intended.

Under the legislation, employers cannot terminate a woman's employment only because she is pregnant. In addition, pregnant women are entitled to switch from night work, to be exempt from any work detrimental to their health and to take paid leave for pre-natal check-ups. To qualify for the maternity benefits, women must work for at least one year for the same employer.

Viewed by the Commission as a minimum "first step" in maternity benefits, the directive allows the member states to adopt higher standards, but prohibits a lowering of benefits where higher standards already exist. In general, the legislation means big improvements only to women in the UK, Ireland and Portugal, primarily because the other member states already offer extensive maternity benefits.

COMMISSION LAUNCHES PHONE SERVICES REVIEW

EC Commissioners Sir Leon Brittan (Competition) and Filippo Pandolfi (Telecommunications) recently introduced a Commission discussion paper on EC phone services, starting a dialogue with industry, operators and governments which aims for improvements in the telecom sector. It assesses the current state of the EC telecommunications, and sets out potential options for future EC proposals.

"Our aim is to produce the best service at the best price for the consumer," said Sir Leon.

The Commission found that despite progress made since the Green Paper on Telecommunications was published in 1987, a number of bottlenecks remain; namely, the excessively high prices telephone users pay for intra-Community services — the "frontier effect" — which impede the development of the single market (see EURECOM, February, 1992). In one estimate, EC cross-border calls range from three to six times as expensive as calls of the same distance within the US.

In 1990 the Commission convinced the member states to liberalize the EC market for value-added telecom services, but it decided to wait until this year to determine whether monopoly control over voice telephony is necessary for the national PTTs to maintain and modernize their networks.

The paper lists four options: maintain the status quo; improve prices and services through more extensive regulation; totally liberalize all EC voice telephony, i.e. international (inside and outside the EC) and national calls; or liberalize voice telephony only between EC member states.

According to the Commission, the first option would keep the EC behind the dynamic US and Japanese markets, and therefore appears unacceptable. The second option — more regulation — could help on the price side, but it carries the downside risk of excessive bureaucracy and corresponding losses in efficiency. Options three and four both represent substantial improvements for the EC market, but their implications require careful study and consultation.

Initially, the Commission favors the partial liberalization offered by the fourth option, which would open up voice telephony between the member states to competition. It believes that full liberalization would result in too many practical problems (e.g. tariff rebalancing and access charges) too soon, and would need to be phased in gradually to succeed. Before determining definitive EC action, however, the Commission will wait for industry's input.

EC-US TRADE TALKS FAIL IN CHICAGO

Recent EC-US efforts to solve the five-year dispute over EC oilseed subsidies — the linchpin in the deadlocked GATT talks on agricultural trade which, in turn, have held up the entire Uruguay Round — narrowly failed in Chicago on the day of US elections.

Two days thereafter, the US carried out a longstanding threat of retaliatory

action by announcing punitive 200% tariffs on about \$300 million of EC agricultural exports (chiefly still white wine), which will go into effect on December 5 if no agreement on oilseeds is reached.

In reaction to US Trade Representative Carla Hills' announcement, EC External Affairs Commissioner Frans Andriessen stated his profound disappointment with the US government's decision, adding that it only complicates efforts to resume the negotiations which, according to US and EC negotiators alike, should be pursued. Andriessen also noted that if the US carries out its threat of sanctions, the EC would have to consider retaliation.

On November 9, EC foreign ministers urged the Commission to continue discussions with the US and to work for the earliest possible resolution on oilseeds and on the Uruguay Round, noting that differences between the two sides had narrowed. The Council expressed, however, its "severe disappointment" with the threat of US unilateral action on 30 days' notice, and warned that such action could only lead to a retaliatory spiral, damaging both sides through a slump in business confidence and lost jobs. The foreign ministers also underscored the vital importance of early action from both sides to obviate this scenario.

As EURECOM was going to press, GATT chief Arthur Dunkel, armed with a mandate from the GATT Trade Negotiations Committee, had begun shuttle diplomacy between the EC and the US to revive the talks. Further, after the aforementioned Council and a subsequent Commission meeting, new EC-US negotiations on oilseeds have been set for November 18 and 19 in Washington, DC.

VAN MIERT CALLS FOR EC ROLE IN AIR TRANSPORT DEALS

On EC Transport Commissioner Karel Van Miert's initiative, the Commission has proposed EC-level negotiations for key third country air transport accords (e.g. with countries like Japan and the

US). The Commission's rationale: Such agreements would strengthen Community airlines' prospects in the world market.

According to Van Miert, the Commission does not want EC responsibility for each and every bilateral accord (around 600) between the EC member states and third countries. However, when individual member states negotiate with major economic powers, the concessions are generally unbalanced and in favor of the non-EC partner. For example, US airlines have 19 fifth-freedom rights in Europe — the equivalent of intra-Community cabotage — while EC airlines have no such rights in the US. Further, US companies operate 139 routes between the US and the EC, but EC firms fly only 97 between the US and the Community.

Under the draft, the Commission would receive all proposals for negotiations and would decide whether the accords should be negotiated bilaterally (albeit according to EC criteria) or at the EC-level. Where the Commission felt it should negotiate with particular countries, it would ask for a mandate from the Council, which would then produce a guiding brief.

Van Miert said the recent "open skies" accord reached by the Netherlands and the US clearly demonstrates the need for an EC policy: By negotiating with individual member states — in effect "dividing and conquering" — the US could secure a toehold in the soon-to-be liberalized EC air transport market (see EURECOM, July/August 1992) without offering reciprocal rights to EC carriers in the US market.

IMPROVING THE POST-1992 SINGLE MARKET

EC industry ministers have agreed on guidelines to ensure that the single market operates effectively after the January 1 deadline passes.

Sponsored by the current British EC presidency, the resolution calls for increased cooperation between member states' officials responsible for enforcing single market legislation, particularly

QUOTES

"Government-imposed protectionism is not the only threat to market integration. Business practices may also have the same restrictive effects and can impede the creation of a true common market." EC Commissioner **Sir Leon Brittan**.

"If it [Maastricht] were undermined, we would need two, three or four years to get a result that would probably have less dynamism and attraction... We need a solid house in order to bring in new guests, or new members. If the house is not solid, it will be blown away by enlargement." EC Commission President **Jacques Delors**.

"We have not laid the foundation stone with Maastricht for a European superstate which reduces everything to the same level and blurs the differences. Rather, we have committed ourselves to a Europe constructed on the principle of 'unity in diversity'." German Chancellor **Helmut Kohl**.

"I do not believe there will be the required convergence of European economies for far longer than is set out in the [Economic and Monetary] timetable (of the Maastricht treaty)." British Prime Minister **John Major**.

"The EC will never adopt a common currency if it waits until the gap between national economies is completely closed. If we had waited for 100% convergence to get the EMS (European Monetary System), then that wouldn't exist today either." EC Commissioner **Henning Christophersen**.

"The Thatcherite dream of Britain miraculously evolving as a kind of North European Switzerland convinces nobody beyond our shores. They would see us wrapping ourselves in the Union Jack, in preparation for burial at sea." Former British Foreign Minister **Sir Geoffrey Howe**.

border controls. It also calls on the Commission to prepare annual reports on the operation of the single market, periodic reports on national implementation and a complete analysis of the program's economic effects — much like the Commission's 1988 Cecchini report on the benefits of a single market — in 1996.

By design, the guidelines are complementary to the recent Sutherland Committee report, which suggested improvements in EC consumer rights, consolidation and simplification of EC law and the use of national courts to resolve disputes over EC rules to make the single market more "user-friendly".

Peter Sutherland, the former EC Commissioner and current chairman of Allied Irish Banks who oversaw the report committee, warned that the single market could be undermined if member states use the pretext of subsidiarity as an excuse to promote their national interests over those of the Community.

...IN BRIEF

...The Commission has lowered its 1992 and 1993 economic growth forecasts for the EC (see EURECOM, December 1991). Compared with earlier forecasts of 2.5% aggregate EC GDP growth for both years, the new projections foresee growth of 1.1% and 1.4%, respectively, for 1992 and 1993.

...Belgium has cleared its last major hurdle to ratifying the Maastricht treaty as its Senate (upper house) voted 115 to 26 in favor of ratification. (The lower house approved the treaty this past summer.) The Belgian vote followed closely on the heels of the Italy's ratification, in which the Italian lower house voted overwhelmingly for the treaty (403 in favor, 46 opposed, with 18 abstentions). In addition to Italy, France, Greece, Ireland and Luxembourg have also successfully ratified the treaty. All Belgium lacks for ratification is an endorsement from the small regional parliament for its



German community, which will take place later this month.

...The recently released Autumn 1992 Eurobarometer indicates a decline in general support for the Community compared with previous polls. Carried out in September and involving some 13,000 citizens in all 12 EC countries, the survey said that just under half of the respondents believe their country benefits from EC membership while 34% disagree and the rest do not know. This compares with 53% in the Spring 1992 Eurobarometer (versus 29% that disagree) that believed their country has benefitted from Community membership.

Asked how they would vote in a referendum on the Maastricht treaty, 43% said they would vote "yes", 27% "no" and 30% "undecided". More disquieting, however, is that eight of ten EC citizens admit they either know very little or nothing at all about the Maastricht blueprint for political and economic and monetary union. Not surprisingly, Denmark and the UK are the only two countries in the survey where there is a majority against the treaty, although there has been an increase in general support for the EC in Denmark since the last poll.

The UK and the former German Democratic Republic registered the largest

drops in support for the EC and the process of European union.

...As it has already done with Austria and Sweden, the Commission has recommended negotiations for Finland's accession to EC membership in its formal opinion on the Finnish application. Apart from a few specific problem areas, such as regional policy, agriculture and some state monopolies (e.g. alcoholic beverages), the Commission found no "insuperable obstacles" to Finnish EC membership. The Commission did not set a date for opening talks, however, emphasizing once again that negotiations with the priority group of EFTA (European Free Trade Association)

applicants (see EURECOM, July/August 1992) could only begin once Maastricht is ratified and agreement on the Delors II budget package is reached.

...The EC and Slovenia have initialled a trade and cooperation agreement, the first such agreement between the EC and one of the successor states to former Yugoslavia. It takes over the body of a 1980 accord the EC had with Yugoslavia, which became void when the country disintegrated. Also in the pipeline are accords on transit for EC goods, textiles trade and improvements in Slovenia's road and rail networks. At present, two-thirds of Slovenia's trade is with the EC.

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