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COMMISSION ISSUES BLUEPRINT ON PATH TO SINGLE CURRENCY

The Commission has released a Green Paper on the practical aspects of introducing the single currency foreseen in the Maastricht treaty, its first expression on how the transition should unfold. Commission President Jacques Santer and Economic and Financial Affairs Commissioner Yves-Thibault de Silguy will present the Green Paper to the EU heads of government at the Cannes European Council June 26-27.

In addition, the paper details the benefits of a single currency, the potential risks in moving to it, the legal and technical issues raised by its introduction and a communications strategy to promote public awareness and support.

Ruling out a "Big Bang" approach, whereby the replacement of national banknotes and coins would occur as soon as parities are fixed, the Commission envisages a three-stage "mounting wave" scenario.

In **Phase A**, the European Council decides to launch the single currency and identifies which countries will participate (sometime between the end of 1996 and July 1998).

Not more than 12 months after the start of Phase A, **Phase B** begins with the irrevocable fixing of parities, marking the effective start of the third phase of economic and monetary union (EMU). During this phase, a "critical mass" of European financial activities between central and commercial banks (including national payments systems) — around 90% of all monetary transactions — would be conducted in the single currency. This would avoid unnecessary costs in running parallel systems of accounts.

The final, physical switch to the single currency, **Phase C**, would take place about three years from the start of Phase B at a pre-agreed date. It would last for several weeks as national notes and coins are phased out, and the ecu (or whatever name eventually wins out) becomes sole legal tender.

The paper identifies the benefits of a single currency: a more efficient single market, without the headache of currency fluctuations; stimulation of growth and employment through enhanced price stability and more efficient capital markets; elimination of conversion costs between currencies; greater international monetary stability with the rise of a third main world currency (along side the dollar and the yen); and enhanced joint monetary sovereignty. With capital moving freely between interdependent economies, an autonomous national monetary policy is not a realistic option.

Along with the benefits, the up to four-year path to EMU is fraught with risk of monetary turmoil. The paper warns that during the year between Phases A and B, there could be heavy speculation on money markets against the actual rates at which parities would be fixed. It further cautions that differences between the expected timetable and participants and the actual decision (in Phase A) could spark monetary chaos. The only defense against rampant speculation is credibility, which "will be reinforced if markets are convinced that there is complete consensus concerning all aspects of the decision to move to the final stage of EMU. This consensus...can only be built on the basis of a strict interpretation of the convergence criteria," said the Commission paper.

The Green Paper also examines the legal and technical aspects of the switch, including the need for new legislation to ensure the legal continuity of contracts and to clarify how national definitions of legal tender will be affected.

Finally, the Commission is planning a communications strategy involving the public and private sectors in the member states. Commissioner de Silguy succinctly described the Commission's philosophy: "We want to encourage involvement in the process rather than impose a doctrine."

EU SLAMS US TACTICS IN US/JAPAN AUTO PARTS ROW

EU Trade Commissioner Sir Leon Brittan has roundly condemned a US proposal to impose 100% duties on 13 makes of Japanese luxury cars in an attempt to force Japan to open its market to more imports of US cars and car parts. If no settlement is reached, the punitive duties take effect on June 28.

Sir Leon has said that the unilateral US move threatens the credibility of the fledgling World Trade Organization (WTO), and warned that any "voluntary" deal between Japan and the US would amount to managed trade, breaching multilateral trade rules. "In practice it would be the Americans who benefit at the expense of European manufacturers of car and car parts...We would give serious attention to taking any voluntary (US-Japan) plan to the WTO," he said.

(The EU formally asked the US to include it in US-Japan consultations on the conflict, but the US declined.)

The Council has fully backed Sir Leon's approach, making the following statement on the US-Japan car dispute: "...the Council would emphasize its attachment to proper operation of the multilateral system and condemns unilateral measures and recourse to quantitative export objectives which infringe both the spirit and the letter of the WTO agreements...The Council encourages the US, before it withdraws any concessions, to make use...of the WTO multilateral system for resolving disputes."

On the Japan-EU relationship, one which also has its share of problems, Sir Leon believes the way forward is to treat Japan as a serious partner, taking account of Japanese sensitivities, and to tap into the new generation which is now coming into power and seeking an enhanced international role for Japan. The current US-Japan tensions over car parts highlight the different approaches of the EU and the US.

Relatedly, during his recent visit to Tokyo (June 3-6), Sir Leon reported that talks between the Commission and the Japanese government had yielded a "substantial breakthrough" on access to the Japanese car and car parts markets. In particular, the agreement makes it easier for European auto makers to get Japanese certification for the sale of their cars in Japan, until now an expensive and lengthy process. Throughout the discussions, conducted in "an atmosphere of cooperation", the Commission ensured that all agreements would apply, where relevant, on a "most-favored-nation" (MFN) basis, in line with WTO rules.

COUNCIL AGREEMENT ON DATABASE PROTECTION

After more than three years of debate, EU internal market ministers have reached agreement on a Common Position on a framework for the legal protection of databases in the EU, a vital step in developing the information society.

The directive must still go to the European Parliament for a Second Reading under the co-decision procedure before the Council can formally adopt it.

"By putting in place this innovative and comprehensive measure, which will ensure an appropriate level of protection for creators and investors in databases, the EU will be showing an example to the rest of the world," said Internal Market Commissioner Mario Monti.

Aimed to combat piracy and unauthorized use of information, the directive's main feature is the creation of a new exclusive economic right protecting substantial investments made by database manufacturers. This "sui generis" protection would last 15 years from the finalization of a database — even if the contents do not qualify for "standard" copyright protection — giving the maker the right to prohibit the extraction or reuse of the database's content by third parties. Member states would have the ability to grant certain exemptions from the "sui generis" right, notably extraction of information for private use and teaching purposes.

Further, the directive provides for the harmonization of copyright law applicable to the structure of both electronic and paper-based databases manufactured in the EU. Such protection may be extended to databases manufactured in third countries if their legislation provides for a similar level of protection.

STEADY GROWTH FORECAST FOR EU ECONOMY

In its Spring 1995 Economic Forecasts, the Commission confirms that the EU economy's return to growth has become firmly entrenched, and that in spite of recent currency turbulence (see EURECOM, March 1995), the short-term economic outlook remains broadly favorable.

Europe's recovery from its worst postwar recession in 1993 has been stronger than anticipated, as the EU economy grew 2.7% in 1994 (see EURECOM, December 1994). Three principal factors underlie this rebound: a strong pick up in the world economy, a marked easing of the monetary conditions within Europe, and the adjustment efforts — i.e. restructuring — of EU enterprises toward higher productivity and profitability. Moreover, the recovery has been driven by the supply-side, led by the export sector and, increasingly, by investment, which has gained steam.

Both for 1995 and 1996, the Commission estimates economic growth at around 3%, compared with 2.9% and 3.2%, respectively, in the Autumn 1994 forecast. Were it not for the currency turmoil and the US dollar's weakness, which have cast a shadow on Europe's (and, in particular, Germany's) export sector, growth estimates would have been higher. Currency turbulence not only dampens activity in the Union, but also in the world at large; hence, international coordination of economic policies should be strengthened as a matter of urgency. And shifts in exchange rates between European currencies upset the proper functioning of the single market, underlining the importance of moving toward a single currency.

While the Commission welcomed the prospects of a net creation of 3 million jobs over 1995 and 1996, the forecast still indicates unacceptably high unemployment at 10.7% (for 1995) and 10.1% (1996). To reduce unemployment further, the current upturn must be sustained for a number of years without any resurgence of inflationary pressures. To accomplish this, the Commission urges the member states to implement, without delay, the policies and structural measures set out in the White Paper on Growth, Competitiveness and Unemployment.

There is also an urgent need for sounder public finances in the member states, especially in light of economic and monetary union. A number of EU countries need to introduce urgently additional fiscal consolidation measures, not only to meet the Maastricht treaty convergence criteria, but also to achieve lower interest rates and higher national investment essential for sustained economic growth. Based on present assumptions, only seven member states are expected to have a general government deficit at or below the reference value of 3% of GDP by 1996 (Denmark, Germany, Ireland, Luxembourg, the Netherlands, Finland and the UK).

INVESTOR PROTECTION PLAN MOVES FORWARD

EU finance ministers have reached political agreement on a directive providing minimum protection for small investors (see EURECOM, October 1993).

The legislation, which complements the Investment Services Directive, would cover investors for at least 20,000 ecu (1 ecu=$1.32) in the event an investment firm defaults or goes bankrupt.

Member states providing higher coverage would not be allowed to cover branches outside their country on the grounds that it would be unfair competition. However, a branch would be permitted to join its host country's compensation plan — if it is better — to complement coverage offered by its home member state.

Germany, as expected, voted against the proposal, saying there is no need for the measure. (Germany already offers high levels of investor protection.) Further, it has challenged similar rules on bank deposit protection at the European Court of Justice.

Details on the financing and administration of the compensation plans would be left to the member states. The directive would also allow member states to exclude sophisticated instruments such as options, swaps and financial futures, because investors in such products presumably understand the accompanying risks.

Now the directive goes to the European Parliament for a Second Reading. The directive will go into effect 18 months after formal Council adoption.

QUOTES

"It all too often occurs that the EU fields two representatives in international meetings...to present its views, one on behalf of the presidency, the other for the Commission. I find this awkward, embarrassing even, incomprehensible for the audiences concerned..., dysfunctional, and sometimes counterproductive. Outgoing EU Ambassador to the US ***Andreas van Agt.***

"Consider the legislation for industrial and similar products proposed in 1994. The Commission put forward 13 proposals covering 200 pages. Perhaps that was too much. However, the member states notified us (the Commission) of 442 national proposals covering 20,000 pages — a striking fact, I hope you agree." Commission President ***Jacques Santer*** *in a speech to the Confederation of British Industry.*

"The good news is the reforms have worked extremely well...the Czech Republic and other leading reform economies look a lot like Western Europe. The bad news is Western European economies aren't working very well." Harvard economist ***Jeffrey Sachs.***

"Now that the WTO has become stronger than the GATT was, we must review and reconsider the rationale of free trade areas (FTAs), which lose much of their attraction...FTAs should not proliferate simply because countries or regions have no better idea of how to deepen and strengthen their relations." Commission ***Franz Fischler****, during a recent visit to Washington, DC.*

COMMISSION REPORT CARD ON MAASTRICHT TREATY

Commission President Jacques Santer recently presented the Commission's report on the working of the Maastricht treaty, which will feed into the preparation for next year's intergovernmental conference (IGC) on the future of the EU. It does not call for extension of the EU's powers, but rather for existing provisions to be used more effectively.

According to the Commission, Maastricht's positive aspects include the projected single currency and the enhanced role of the European Parliament, while its shortcomings consist of inadequacies in EU citizenship and foreign policy and structural weaknesses in social policy and justice and home affairs.

The paper points out that democracy and efficiency must be the EU's primary aims at the IGC. To accomplish this, the Union's decision-making structures have to be simplified — entailing more majority voting — to make the EU more transparent, understandable and efficient as it inevitably takes in new members from Central and Eastern Europe. With over 20 different EU voting procedures in place (where three would suffice), decision-making has become unacceptably complex.

Enlargement will also require a closer look at different speeds of integration, something which already exists in the EU (e.g. economic and monetary union), but the Commission utterly opposes "opt-out" clauses — i.e. the UK's social policy exemption in Maastricht — which raise the specter of Europe "a la carte". Allowing each country to pick and choose the policies it takes part in would inevitably cause the EU to collapse.

Intergovernmental cooperation in the second (common security and foreign policy) and third (justice and home affairs) pillars of the treaty has been seriously inadequate. And even if 18 months is too soon to judge the EU's record on foreign and security policy, "the loss in terms of impact and identity on the international scene is considerable, in terms of public opinion, far too high," said the report. Improvements in both "pillars" could be achieved by extending qualified majority voting into areas covered by intergovernmental cooperation.

...IN BRIEF

...Copenhagen is the most expensive EU city in terms of overall living costs, followed by Paris, and Athens and Lisbon the cheapest according to cost-of-living comparisons recently published by Eurostat.

...Drawn from its work calculating cost-of-living adjustments for EU staff posted to member state capitals, Eurostat's up-to-date report uses Brussels as its reference city (**Brussels=100**). The comparisons on some 3,000 items cover the costs to foreign government and business officials "with a relatively high standard of living", not those of the resident national population.

...For the epicurean business traveller, Madrid (82) is the least costly city for food, drink and tobacco, with Athens (83) and Lisbon (84) in close competition. Scandinavia, and especially Helsinki (135), is most expensive for cocktails, meals or a smoke.

...If one needs to buy clothing or footwear, Paris, the capital of *haute couture*, is most dear (109), while London is the best bargain (60). Yet in terms of housing, London is by far the most expensive (198). It's best to be hospitalized in Paris (85), and to have leisure time in Dublin (78).

...US President Clinton, Commission President Jacques Santer and, representing the current French EU presidency, recently elected French President Jacques Chirac met in Washington on June 14 for the semi-annual Transatlantic Summit. After discussing Russia (normalization of Chechnya), Ukraine (decommissioning of Chernobyl) and Turkey (its strategic position, but with the need for improved human rights), the presidents focused on the transatlantic relationship itself. Although it is too early for precise concepts, there was a clear political will to explore new structures in view of the 21st century. However, President Santer said that a formal free trade area is unrealistic in the short term. Any future arrangement will clearly have to take into account the sensitive sectors (e.g. textiles, agriculture) on both sides of the Atlantic. And any arrangement will have to be in full conformity with the multilateral WTO rules.

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