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CANNES SUMMIT REAFFIRMS SINGLE CURRENCY BY 1999

Marking the end of the French EU presidency, EU heads of government met in Cannes, France on June 26-27 for a European Council, where they restated their "firm resolve to prepare the changeover to the single currency by January 1, 1999 at the latest in strict accordance with the convergence criteria, timetable and procedures laid down in the (Maastricht) treaty."

Relatedly, the European Council welcomed the Commission's Green Paper on the single currency (see EURECOM, June 1995) and charged the EU finance ministers, in consultation with the Commission and the European Monetary Institute, with defining a reference scenario for the move to a single currency by the next EU summit in Madrid in December. And although it was not explicitly stated in the communique, they will also determine the name for the single currency by then as well.

On employment, the Commission's top priority, the European Council reaffirmed the conclusions reached at the Essen European Council (see EURECOM, December 1994): the need for rigorous budgetary discipline in the member states to create a stable macroeconomic framework, structural reform in labor markets, enhanced training and apprenticeship programs and support to small and medium-sized enterprises (the top job generators) to promote employment. To speed up the 14 priority Trans-European Network (TEN) projects identified at Essen, it decided to spend 75% of the EU budget line for TENs (around 500 million ecu for 1995 and 1996) as soon as the Council and the Parliament agree on the financial regulation (1 ecu=$1.33). The EU budget line, however, is only a catalyst (i.e. feasibility studies, possible interest rate subsidies); the lion's share of the financing must come from private and public sources in the member states.

In other matters, the European Council reached agreement — preceded by months of hard negotiations — on financing assistance to the countries of Central and Eastern Europe (6.7 billion ecu), Mediterranean countries (4.7 billion ecu) and 70 ACP (African, Caribbean and Pacific) nations (13.3 million ecu) for the 1995-99 period. And it welcomed the Commission's efforts, chiefly represented by the White Paper (see EURECOM, May 1995), to prepare the Central and Eastern European countries for integration into the single market. It also gave a high profile to the forthcoming EU conference with its Mediterranean partners in Barcelona in November 1995, which will explore all aspects of the relationship, including the prospect of a Euro-Mediterranean free trade area by 2010.

Noting the progress toward peace in Chechnya, the European Council decided in favor of signing an interim trade agreement between the EU and the Russian Federation, which has been on hold since the fighting in the breakaway republic began in January. This accord will govern two-way trade until the broader EU-Russian Partnership and Cooperation Agreement is ratified (see EURECOM, July/August 1994).

EU RELEASES ANNUAL REPORT ON US TRADE BARRIERS

The Commission has released its 1995 Report on US Barriers to Trade and Investment, which provides a comprehensive stocktaking of impediments faced by European industry in the US marketplace.

This year's report, 40 pages shorter than last year's (see EURECOM, May 1994) due to the achievements of the GATT Uruguay Round, underscores the importance of getting the World Trade Organization (WTO) off to a good start.

According to the Commission, despite some well-documented exceptions, EU-US trade, investment and economic relations are better than they have been for some time.

As in previous years, the EU's chief concern is the US' willingness to threaten or actually to engage in **unilateral trade action,** evidenced by the recent US-Japan dispute over autos (see EURECOM, June 1995 and next item) and the US walkout from the GATS negotiations in Geneva on liberalizing trade in financial services (see page 3). Most directly, the Commission considers the US retaliation against the EU's hormone ban in livestock a violation of international obligations. Further, it is monitoring US actions regarding EU banana imports to ensure that WTO procedures are respected (see EURECOM, January 1995).

The EU trusts that the US will abide by its WTO obligations, which rule out unilateral measures in the fields of trade in goods and services and on intellectual property issues.

Closely related to US unilateralism is the **extraterritorial reach of some US legislation,** which impedes international trade and investment by exposing foreign-incorporated companies to conflicting legal requirements. In particular, the report objects to the US embargo on Cuba, which runs the risk of being further tightened.

More positively, the Commission is upbeat about developments in the areas of public procurement, shipbuilding and conditional national treatment (only two of the many US bills containing CNT provisions became law before the end of the last Congress).

For the first time, the report includes a chapter on the growing web of contacts between EU and US experts in areas ranging from telecommunications to veterinary issues. The Commission expects that these contacts, which began with the 1990 Transatlantic Declaration, will result in more compatible regulations and reduced trade quarrels.

EU (CAUTIOUSLY) WELCOMES US-JAPANESE CAR ACCORD

Responding to the last minute agreement reached in Geneva on June 28 between the US and Japan on cars and car parts (under which the US immediately dropped its threat of trade sanctions and the Japanese government withdrew its complaint before the WTO), EU Trade Commissioner Sir Leon Brittan made the following statement:

"My first reaction is naturally one of relief that we have avoided an outright trade war between the US and Japan, although the real impact of such an agreement can only be assessed after a thorough analysis of the details.

Our concern has been to guard against the undermining of the multilateral system and to ensure that European interests are not adversely affected. We have throughout this dispute been in close touch with both parties, and made clear to them that any solution must be one that brings benefits to all, not just the US. The statement made in Geneva...would appear to indicate that this is indeed the case.

I have already made clear to both parties that we will be seeking the inclusion of the EU in monitoring the arrangements...I am sure that European companies will also want to discuss with their Japanese partners what the announced agreement means for them."

COMMISSION PUSHES FOR OPEN EU MOBILE COMMUNICATIONS

In the latest move to open EU telecom markets, the Commission has put forward a draft directive to liberalize completely the EU mobile and personal communications sector by January 1, 1996 (see EURECOM, May 1994).

The mobile sector is by far the most dynamic in the EU telecommunications market, experiencing annual average growth of around 60%. In fact, from March 1994 to March 1995, the number of cellular subscribers in Europe went from 9 million to around 15 million. Commission studies forecast 38 million cellular phone users by 2000, and around 80 million by 2010.

Based on Article 90 of the EC treaty — which allows the Commission to issue legislation curbing public monopolies without Council approval — the directive would force member states to end state monopolies over mobile and personal communications services. It would also enable operators to establish their own network infrastructure, or to use "alternative infrastructure" (such as networks operated by utilities companies), bypassing the existing network of the main (often monopoly) national operator.

Access to infrastructure other than that controlled by the incumbent telecom operator is essential to the success of new entrants to the mobile market, giving them much more control over their cost base. At present, leasing capacity represents a cost factor of between 30 and 50% for second operators.

Further, the legislation would permit a mobile operator in one member state to connect directly with an operator in another EU country without having to route calls through a national phone company's fixed network.

After consultations with interested parties and the member states, the Commission hopes to adopt the directive formally in September. Greece, Portugal, Spain and Ireland — countries with less developed networks — would have up to five years (from January 1, 1996) to comply. Luxembourg, with its very small network would have a two-year derogation.

This legislation would not affect the granting of licenses to operate on the mobile phone market in member states (national authorities remain responsible), nor would it affect the liberalization of fixed voice telephone services or infrastructure, which is set for January 1, 1998.

"POST-BCCI" DIRECTIVE ADOPTED

Following a conciliation procedure with the European Parliament, EU finance ministers have formally adopted the "Post-BCCI" Directive to reinforce prudential supervision in the financial services sector (see EURECOM, June 1994).

Welcoming its passage, Financial Services Commissioner Mario Monti declared that the directive's adoption "marks the end of a pragmatic and open process to ensure that the lessons of the BCCI (Bank of Credit and Commerce International) collapse are properly applied to the (EU's) legislative framework."

"I am satisfied that we have managed to introduce new safeguards while maintaining the integrity of the single market," he said.

The directive, which member states must implement within one year of its (imminent) publication in the EU's Official Journal, amends seven existing EU directives on banking, insurance and securities.

It does not alter the basic approach of the financial services liberalization directives, whereby the supervisory authorities of a financial institution's home country are responsible both for authorizing the institution to operate and for the prudential supervision of the firm's activities throughout the EU. The legislation does, however, strengthen supervisory authorities' powers to monitor financial institutions falling within their jurisdiction.

The main items introduced by the directive are: 1) an additional requirement for authorization (i.e. if a financial institution is part of a group, the group structure must be made sufficiently transparent to enable effective supervision); 2) a requirement that credit institutions and insurance companies have their principal operating offices in the same member state as their legally registered headquarters; 3) extension of the list of bodies with which regulatory authorities may exchange confidential information for supervisory purposes; and 4) an obligation on external auditors to inform competent authorities of any irregularities they encounter in the course of their work.

QUOTES

"The European Union has a lot of internal problems that have to be resolved...For that reason I don't consider it very realistic to prepare for enlargement before the revision of Maastricht. I am not in a hurry. I am not impatient." Czech Prime Minister ***Vaclav Klaus.***

"...The European Union is the finest example of conflict resolution in the history of the world, and it is the duty of everyone in areas of conflict to study how it was done." ***John Hume,*** *leader of Northern Ireland's Social Democratic and Labor Party, MEP and key figure in the peace process.*

"Majority voting on foreign policy would not be right, either in principle or in practice. No EU member state should be obliged to follow policies against its national interests." (Still) British Prime Minister ***John Major.***

"...It is absolutely vital that we maintain stable and low inflation in the European Union. If we can achieve this in all the EU countries...I think we can realize EMU." European Monetary Institute (EMI) President ***Alexandre Lamfalussy.***

CAR DISTRIBUTION RULES FINALIZED

After extensive consultation with interested parties, the Commission has completed its revision of the EU's selective car distribution system, which will remain in force for seven years (until September 30, 2002), not 10 as was previously proposed (see EURECOM, October 1994).

The new "block exemption" from EU antitrust rules aims to intensify competition in the car distribution system while maintaining balance between the diverse interests of producers, dealers and consumers. In particular, the new rules will: grant dealers the right to sell cars of other manufacturers provided that it is done on separate premises, under separate management and without confusion between makes; permit joint setting of sales targets between producers and dealers; give independent spare-part manufacturers and distributors easier access to producers' networks; provide independent service shops access to required technical information from manufacturers; allow dealers to advertise outside their territory (subject to certain conditions); and clarify the types of restrictive conduct that result in losing the exemption (e.g. obstacles to parallel imports).

The new regulation will take effect on October 1, 1995. To meet consumer group demands, the Commission will regularly monitor its implementation, especially the effect of car price differences in the same models among member states.

MONTI: FINANCIAL SERVICES ACCORD CRUCIAL

EU Financial Services Commissioner Mario Monti told the International Organization of Securities Commissions (IOSCO) in Paris on July 13 that the world cannot afford to fail on a multilateral financial services agreement.

In a speech to IOSCO's annual conference entitled "Regional Financial Areas: the EU Experience and Future Prospects", Commissioner Monti stressed that an agreement liberalizing trade in financial services by the July 28th deadline is essential both for the world economy and for the credibility of the WTO. "Financial services are the lubricant which keeps the wheels of world trade turning — without a liberal environment the whole system risks seizing up," he said.

It is thanks to EU efforts that an extension of the talks was secured, avoiding complete failure at the end of June after the US suddenly pulled out of the negotiations, he added. (The US feels that the market opening offers on the table are inadequate.)

According to Monti, the Commission is doing all it can to persuade countries not to pull out of the nine-year old talks, especially because many countries, in particular Hong Kong, Singapore, Australia and even traditionally recalcitrant South Korea, have "good offers on the table". On July 10, the six ASEAN countries (Thailand, Indonesia, Malaysia, Brunei, Singapore and the Philippines) agreed to maintain their present offers, buttressing Commission efforts to achieve a multilateral accord.

(On July 17, EU finance ministers unanimously backed an interim deal provided that it covers a sufficient portion of the world's financial services sector.)

Regarding the US, the EU's biggest partner, Commissioner Monti said that the EU will seek US guarantees of open access, freedom to expand geographically and the ability to take on new activities on a full national treatment basis.

REPORT URGES SIMPLIFICATION OF SINGLE MARKET

The EU must reduce the weight of excessive business regulations if it wants to stay competitive with the rest of the industrialized world according to a study submitted to the European Council in Cannes.

Chaired by Bernhard Molitor, a former German economic official, the independent "Molitor" committee called for an immediate action plan to simplify EU-wide (and member states') laws that increase the cost of doing business.

"Europe cannot ignore the fact that other industrial countries with which it competes are making strenuous efforts to reduce their own regulatory burdens," says the report.

The survey identified a number of areas where EU laws appear to impede competitiveness and employment, including machinery standards, food hygiene, labor law, workplace health and safety, and the environment.

In addition, the committee reported that each legislative proposal should be understandable, user-friendly, unambiguous and consistent with existing legislation. And the explanatory memoranda for legislation should indicate the expected impact on employment, costs and innovation.

...IN BRIEF

...On June 22, Romania submitted its official application for EU membership. Already one of the six Central and Eastern European countries (CEECs) "associated" with the EU through "Europe" agreements (see EURECOM, February), Romania becomes the third CEEC — joining Poland and Hungary — to file for formal accession.

...With 140 inhabitants per square kilometer, compared with a world figure of 40 and 13 in North America, the European Union is one of the most densely populated areas on earth. And in the Benelux countries, population density (300 people per sq.km) approaches that of Japan (330 per sq.km). These are just some of the many facts found in the Commission's report "The Demographic Situation in the European Union, 1994".

In terms of life expectancy at birth, it is best to be a French woman (81.1 years), not a Portuguese man (70.7 years). But if one makes it to the mandatory retirement age of 65 in the EU, one can expect, on average, to live to 83.5.

...The Fordham Corporate Law Institute will hold its twenty-second annual conference on October 26-27 at Fordham Law School in New York City (140 W. 62nd St, adjacent to Lincoln Center). Entitled "International Antitrust Law and Policy", the program offers a stellar cast of US and EU antitrust officials, legal practitioners and academics. This year's featured speaker is EU Competition Commissioner **Karel Van Miert.** For further information, please contact T. Scott Lilly at: tel (212) 636-6777, fax (212) 636-6899, or e-mail *"slilly@law.fordham.edu".*

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