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FLORENCE SUMMIT RESOLVES BEEF CRISIS, GETS ON WITH EU BUSINESS

Avoiding a deadlocked summit, the 15 EU heads of state reached a solution to the BSE ("mad cow disease") crisis early on at the European Council in Florence, Italy on June 21-22, which allowed them to cover other important issues facing the Union.

Under the agreement, based on the Commission's framework plan to eradicate BSE, the UK agreed to end its campaign of "noncooperation" (see EURECOM, June 1996) in return for a gradual lifting of the ban (subject to strict criteria and verifications). In addition, the UK agreed to increase significantly the slaughter of cattle most at risk from BSE.

"In a crisis like this, there are no winners, only losers," commented Commission President Jacques Santer. In the end, the same result "could have been achieved quickly and without political damage. But let us now concentrate on what is in front of us and not on history," he said.

Very much "in front" of the European Council was the issue of unacceptably **high EU unemployment.** The EU leaders asked that "new impetus" be given to a job creation strategy that largely reflects Commission President Santer's Confidence Pact for Employment. They also emphasized the single market's contribution and importance to growth and employment, calling on the member states to implement fully single market directives, particularly in the public procurement, investment services and insurance fields; to expedite the adoption of a European company statute and a legal framework for biotechnological inventions; to adopt a new action plan for small and medium-sized enterprises; and to review tax systems within the EU with regard to job creation and promoting a more efficient environmental policy.

With the analysis of issues "sufficiently advanced", the EU leaders agreed that the **intergovernmental conference** (IGC) to revise the EU's treaties and to reform the EU's institutions in preparation for enlargement (see EURECOM, April 1996) should now turn to "seeking balanced solutions." By the Dublin European Council in December (under the Irish presidency), they expect a draft revised treaty text. Further, they called for an additional European Council in the fall to propel the process forward. This implies that the IGC will be wrapped up by mid-1997.

Florence also confirmed that the momentum towards **full monetary union** continues. The heads of state charged the Council, the Commission and the European Monetary Institute with preparing the legal framework for the introduction of the Euro in time for a decision (again) by the Dublin summit.

Regarding **EU-US relations,** EU leaders welcomed the progress in implementing the New Transatlantic Agenda (see EURECOM, December 1995). Nevertheless, they also reiterated their concern about the extraterritorial impact of the US Cuban Liberty and Democratic Solidarity Act and similar pending legislation on Iran/Libya sanctions (see EURECOM, June 1996). In this respect, the European Council asserted "its right and intention to react in defense of the EU's interest in respect to this legislation and any other secondary boycott legislation having extraterritorial effects."

MANDATE SECURED FOR EU-US "OPEN SKIES" ACCORD

After 15 months of discussion, the Commission has secured a mandate from the EU Transport Council to negotiate an EU-US "open skies" agreement liberalizing civil aviation across the Atlantic.

Only the UK objected to the Commission's mandate (see next piece), but under the rules of qualified majority voting, it will be bound by its provisions.

In coordination with national experts, the Commission will now begin fleshing out exact details of the mandate, which will be largely based on its original draft (see EURECOM, May 1995). While all issues, including market access, will be on the table, the mandate will be divided into two stages: the first stage will cover "soft rights" — competition rules, code sharing, reservation systems and ownership rights — whereas the second, based on the success of the first, will tackle market access. Passenger and cargo services will be covered in both stages.

EU Transport Commissioner Neil Kinnock welcomed the mandate, saying that it "will ensure that EU carriers can take full benefit of liberalized global air markets and secure for them and their passengers free, fair...and reciprocal rights across the Atlantic...with the world's greatest air power."

"We start from here: EU carriers and air travellers can only benefit. There is no roll-back of any bilateral agreement in existence or under negotiation," said Kinnock.

In practical terms, the combined weight of 15 member states acting as a Union should better reflect the commer-

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cial realities of an aviation market that is no longer national, but global.

EU TO EXAMINE BA/AMERICAN AIRLINES LINK

Serving as a wake-up call to EU transport ministers, British Airways (BA) and American Airlines (AA) announced a strategic alliance on June 12 — shortly before the Commission's (above) mandate was agreed — that aims to coordinate their transatlantic schedules and introduce extensive code sharing (i.e. selling seats on a partner's flights).

Taken together, the airlines control 60% of US-UK flights at present, and 70% of traffic between New York and London. Their alliance would create the world's largest aviation network.

The deal, which is conditional on the US government granting antitrust immunity, will also be examined by the Commission for compatibility with EU competition rules.

According to the Commission, this link-up shows that European companies are anxious to increase their competitiveness through strategic alliances. The development of hub and spoke operations in Europe in cooperation with US airlines also highlights the importance of ensuring that competition is "free, fair and reciprocal" through an "open skies" accord.

The Commission will examine the BA/AA agreement and any other alliances concluded by European carriers to ensure they are not anti-competitive. As EURECOM went to press, the Commission announced that it will also probe six existing transatlantic airline alliances (e.g. BA/US Air, Northwest/KLM) to ensure that these "do not damage competition or erode consumers' interests."

EU-US SUMMIT: GOOD START TO NEW TRANSATLANTIC AGENDA

Although widely anticipated as a "Helms-Burton" (a.k.a. the US Cuban Liberty and Democratic Solidarity Act) show, the EU-US summit on June 12 in Washington, DC between US President Bill Clinton, Italian Prime Minister and (then) EU Council President Romano Prodi and European Commission President Jacques Santer marked a strong start to the New Transatlantic Agenda launched last December.

While one cannot "expect miracles in just six months," President Santer noted a number of concrete successes: a joint Task Force on Communicable Disease has been established; a deal that would help control trade in dangerous chemicals and illegal drugs is moving forward; studies on ways to cut remaining transatlantic trade barriers have begun (as requested by businessmen); and a joint assessment mission on the needs of refugees was sent to Rwanda and Burundi.

According to Santer, such progress demonstrates that the highly visible and on-going disagreements over Cuba, Iran, Libya and trade policy (see EURECOM, June 1996) represent only a fraction of the overall EU-US relationship. Nonetheless, Santer and Prodi once again raised EU concerns about the extraterritorial elements of these bills, believing that it is neither justifiable or effective for one country to impose its tactics on others, threatening to hit its friends while targeting its adversaries. President Clinton said that he was "very sensitive" to EU concerns and that they were under review.

"I am now convinced that we have a strong enough relationship to speak our minds on issues which bother us, without jeopardizing the vast range of things where we can and must work together to promote peace, freedom and prosperity around the world," said Santer.

"The New Transatlantic Agenda has given us a solid framework on which to build...joint leadership. We have made a good start, but we need to go much further."

COUNCIL STRIKES ENERGY DEAL

In a limited but important first step toward a single energy market, EU industry ministers have reached a Common Position on the progressive liberalization of EU electricity markets, which will lead to lower costs for energy-intensive industries (see EURECOM, April 1995).

Under the political agreement, by January 1, 1999 (two years after the expected implementation date), industrial users that consume over 40 GWh (GigaWatt hours) of electricity would be free to shop around for the lowest cost EU provider. Based on current figures, this represents an opening of 22% of the EU's total electricity market. One year thereafter, the threshold would fall to 20 GWh (a 27% opening). On January 1, 2003, the threshold would drop to 9 GWh, making 32-33% of the EU's electricity market — worth 45 billion ecu per year (1 ecu=$1.25) — open to free competition.

In a compromise, the directive recognizes the coexistence of the two current systems of market organization — negotiated Third Party Access and the Single Buyer approach — as long as they lead to "equivalent economic results". In addition, member states would be allowed to impose public service obligations on electricity companies "in the general interest" as long as they are clearly defined, transparent, non-discriminatory and verifiable.

Concerning implementation, both Ireland and Belgium will have an additional year to prepare for competition at each stage, while Greece will enjoy a two-year exemption. Greek islands will be completely exempt from the directive's provisions.

Now the legislation must go back to the European Parliament for a Second Reading before the Council can give its final approval.

SLOVENIA SIGNS "EUROPE" ACCORD, APPLIES FOR EU MEMBERSHIP

Immediately after signing a long-delayed association ("Europe") agreement with the EU on June 10, Slovenia submitted its application to join the EU, becoming the 10th Central and Eastern European country in line for membership (see EURECOM, February 1996).

"Slovenia has caught the train towards full membership in the EU and has moved one step further away from the Balkans," said Slovenian Foreign Minister Zoran Thaler.

Slovenia is also the 10th former communist country to sign an association agreement with the EU, but it is the first successor state of former Yugoslavia to achieve such an accord. Unlike the other ex-Yugoslav republics — except for a brief 10-day clash with the Yugoslav army in June 1991 — Slovenia has been able to distance itself from the bloody Yugoslav conflict.

Initialled over a year ago, Slovenia's association agreement was delayed by Italy in response to Slovenia's refusal to relinquish state-owned property confiscated from ethnic Italians who fled after Italy's defeat in World War II. Recently, Slovenia agreed to permit foreigners to own real estate four years after the Europe agreement takes effect, which was enough to convince Italy to drop its veto.

The EU is Slovenia's major trading partner, accounting for about 70% of its total trade. Of the 10 associated Central and Eastern European countries, Slovenia has the highest GDP per capita (based on purchasing power parity). In fact, it rates only slightly below Greece, which has the EU's lowest GDP per capita ranking. Given its relatively advanced economy, Slovenia is expected to be in the vanguard of new EU members.

QUOTES

*"The Euro will be a quantum leap forward...it will change investment behavior in both bourses (stock exchanges) and capital markets and unleash enormous market forces." **Rolf Breuer,** supervisory board chairman, Deutsche Börse AG.*

*"Over the years, the EU has been seen by its citizens to be working on something which may be very important, but which the citizens found hard to say what it would mean to them. At this point in the Union we are working on programs which are much more relevant to citizens, such as the threat of organized crime." Irish Prime Minister and current Council President **John Bruton.***

*"Americans can now say, 'the dollar is our currency, but its your problem'. We (Europeans) need a currency that can stand up to the dollar." **Norbert Walter,** chief economist at Deutsche Bank.*

*"We reaffirm our commitment to working to strengthen the confidence in and credibility of the multilateral trading system by avoiding taking trade and investment measures that would be in contradiction with WTO rules and OECD codes." Excerpt from the **G-7's Lyon summit communique.***

GLOBAL COMPETITION POLICY FRAMEWORK PROPOSED

Favoring a "building-block" approach, the Commission has proposed a stronger international framework for competition rules to help all national governments deal more effectively with cartels and other anti-competitive practices that restrict access to foreign markets. It does not advocate, however, the creation of an international competition authority on the lines of the WTO.

The EU's interest in worldwide standards is clear: its single market is governed by some of the toughest competition rules in the world. Further, governments outside Europe may be tempted to protect specific industrial sectors through lax competition rules, particularly as their ability to support them through subsidies and other measures is now limited by WTO and other rules. With global trade and investment growing rapidly, creating stiffer competition everywhere, companies are increasingly tempted to use anti- competitive agreements to protect markets.

In its report, the Commission calls for individual countries to adopt domestic rules — based on a core of common principles agreed by WTO countries — to control mergers, prevent abusive monopoly power and address other restrictive agreements. These principles would promote equal conditions of competition worldwide, enabling competition authorities to coordinate global enforcement more effectively.

According to the report, "horizontal" restraints like price-fixing, market-sharing, bid-rigging, group boycotts and export cartels should be tackled first. Monopolies and "vertical" restraints, such as exclusive distribution and supply agreements, could take longer, but work could begin in parallel.

Once countries have established these competition standards, the WTO could be then used to resolve international disputes. The Commission believes the WTO would be a better forum than the Organization for Cooperation and Development (OECD) or UN Conference on Trade and Development (UNCTAD) because it has more global reach, and because its dispute settlement mechanism already incorporates procedures for negotiations, consultations and information exchange.

...IN BRIEF

...Taking over from Italy, Ireland now has the EU Council presidency until December of this year. And for a small country, the agenda is very full indeed (see lead story). Just for starters, Ireland must organize an extraordinary European Council on the IGC in the fall, ensure that a draft revised treaty is ready by the Dublin summit and have the legal framework for the Euro completed in December as well. Irish priorities for the six-month period include employment, citizens' security (crime, drugs) and the IGC.

Notwithstanding possible changes coming out of the IGC in the way the EU presidency operates, the following is the order of ensuing presidencies through the millennium:

Order of the Council Presidency

Year	1st Semester	2nd Semester
1997	Netherlands	Luxembourg
1998	UK	Austria
1999	Germany	Finland
2000	Portugal	France
2001	Sweden	Belgium

...With an average hourly wage of $31.83, Germany (excluding the former East Germany) remains — for the seventh year in a row — the most expensive country in the world in terms of manufacturing labor costs. This is based on the German Economic Institute's (IDW) 1995 annual survey of labor costs in the industrialized world, which finds Switzerland in second place at $29.85 per hour, followed by Belgium at $26.80. While the average hourly wage in the New Länder of Germany is considerably less than in the former West Germany, at $20.87, it is significantly higher than in the EU's lowest cost countries of Greece ($9.02) and Portugal ($6.49). According to the IDW, the US, which was the world's most expensive labor-cost country in the mid-1980s, is now one of the most competitive at $17.61 per hour. It has also had the lowest increase in costs of all industrialized nations in recent years.

...The EEA (European Economic Area) has almost 9,500 credit institutions employing some 2.5 million people according to a new report from Eurostat. This compares with over 11,700 such institutions in the US. Based on 1994 data, Germany has by far the most credit institutions, around 3,700 or almost 40% of the EEA total, many of which are small local savings or cooperative banks. In second place is Italy (1,000), followed by France (600) and the UK (500). Luxembourg, where banking plays a major role, has the highest number of employees as a percentage of total employment at 8.5%. Proportions in other EEA countries range from 1.4% in Greece and Portugal to 2.1% in Germany.

...The Fordham Corporate Law Institute will hold its 23rd annual conference on "International Antitrust Law and Policy" on October 17-18 at Fordham Law School in New York City (140 E. 62nd St.). As is customary, the program offers a top-flight roster of EU and US competition policy officials, legal practitioners and academics, including **Alexander Schaub,** Director-General of DG-IV (Competition) and **Christine A. Varney,** Commissioner, Federal Trade Commission. For more information, please contact T. Scott Lilly at: tel (212) 636-777, fax (212) 636-6984 or e-mail *"slilly@lex.lawnet.fordham.edu"*.

...The EU's Brussels-based Internet server, Europa, has changed its address to: **http://europa.eu.int** (see EURECOM, April 1996).

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