

A MOMENTOUS MONTH OF MARCH FOR THE UNION

The Ides of March kicked off a fateful, frenetic and pressure-packed month for the Union and its institutions, especially the European Commission.

It all started on March 15, when a **Committee of Independent Experts**, appointed in the wake of the European Parliament's near censure of the Commission in January (see EURECOM, January 1999), delivered a critical report confirming allegations of mismanagement, fraud and nepotism in the College. In response, the 20 EU Commissioners, despite strong disagreement with the tone, scale and substance of the report, resigned *en masse*, a first in EU annals.

With "no desire or intention of remaining in office a moment longer" than necessary, the "old" Commission nevertheless remains in office as caretaker (as per the Treaty) until a new Commission is appointed, during which time it will only deal with current and urgent business, in line with legal obligations, undertaking no new political initiatives. Accordingly, the Commission urged the member states to appoint a new Commission without delay.

Hence, the Berlin European Council summit of March 24-25, where the daunting challenge of finding agreement on Agenda 2000 reforms loomed, suddenly had an institutional crisis on its hands.

EU Leaders Tap Prodi as Commission President in Berlin...

Moving with surprising speed, the EU heads of state and government unanimously agreed to nominate **Romano Prodi**, a former (and recent) Italian prime minister, as the next president of the European Commission at their summit in Berlin on March 24. Mr. Prodi, who must be approved by the European Parliament (most likely in its May session, right before its recess for June elections), would succeed **Jacques Santer**, who resigned with his fellow Commissioners on March 15 – and who will now run for a seat in the upcoming European Parliament (EP) vote in his native Luxembourg!

The quick decision on Prodi was widely hailed as a positive step toward reforming the Commission and restoring the credibility of EU institutions. As for installing a new Commission in its entirety, however, there are a number of scenarios, which depend heavily on how fast the newly elected EP can organize itself in July. At present, a September start for a new Commission is most likely; it would finish out the current care-taking Commission's mandate that would officially expire in December anyway, and then it would

go on to serve a full five-year term beginning January 1, 2000. EURECOM will certainly revisit this topic in coming issues.

...and agree on Agenda 2000 reforms, too

After addressing Prodi's appointment and the tragic situation developing in Kosovo, the EU leaders then turned to the contentious budgetary issues behind the **Agenda 2000** proposals, reforms designed pave the way for an expanded EU membership (see EURECOM, December 1998).

Going into "overtime" after two days of negotiations, and approximating (but falling short of) Commission proposals and some draft Council accords, the Berlin European Council managed to achieve a comprehensive deal on how to finance the EU, in light of expansion, for the 2000-2006 period. As foreseen by the Commission (see EURECOM, July/August 1997), the reforms can (and will) be accomplished within the EU's current budgetary ceiling of 1.27% of EU GDP, with a working assumption that accession of new member states will begin by 2002. According to the Berlin summit communiqué, the Agenda 2000 package is "a message of reassurance to the countries negotiating for accession. Enlargement remains a historic priority for the European Union. The accession negotiations will continue, each in accordance with its own rhythm, and as rapidly as possible."

It came as no surprise that reform of the **Common Agricultural Policy** (CAP) was the most difficult aspect of Agenda 2000 negotiations. In the end, the EU leaders revised an earlier accord reached by EU agriculture ministers on March 11, agreeing to stabilize CAP spending at an average of 40.5 billion euro (1 EUR=\$1.08) a year during 2000-2006. This includes: a 15% cut (in two equal steps) in guaranteed prices for "cereals" (grains), with lost income to be compensated by higher direct payments to farmers; a 20% reduction in guaranteed beef prices; and milk sector reform deferred until 2005/2006. "The effort made, notably in terms of reducing price supports, represents an essential contribution by the European Union in stabilizing the world's agricultural markets," read the communiqué. Even before Berlin, however, US Agriculture Secretary Dan Glickman had described the CAP reform as "not much more than maintaining the status quo", indicating that when the next WTO Trade Round commences, EU agriculture policy will once again be a hot international topic.

ECI: 2



In other budgetary matters, the Berlin summit capped **EU Structural Funds** expenditure at 213 billion euro for the 2000-2006 period. And the UK's long-standing budget rebate will remain, but its financing system will be changed to lower the proportions paid by Austria, Germany, the Netherlands and Sweden (all net contributors to the EU budget).

As always with EU summits, the Berlin European Council issued some foreign policy statements and declarations covering, inter alia, Kosovo, the Middle East Peace Process and South Africa. For a full text of the Berlin Conclusions, please consult the Europa website at: <http://europa.eu.int/ocouncil/off/conclu/index.htm>.

COMMISSION UNVEILS SPRING ECONOMIC FORECASTS

In the Commission's Spring 1999 Economic Forecasts, **GDP growth in the EU (EU15) is projected at 2.1% for 1999 and 2.7% in 2000**, following robust growth of 2.9% in 1998. Equivalent figures for the euro zone (EUR11) are 2.2% in 1999 and 2.7% in 2000, after 3.0% growth in 1998. Compared with the Autumn forecasts (see EURECOM, November 1998), which anticipated growth of 2.4% for the EU15 and 2.6% for the EUR11 in 1999, the outlook for this year has weakened due to the effects of recent international economic difficulties on trade volumes and investment.

Nevertheless, strong economic fundamentals – no inflationary pressures, record low interest rates (now even lower after the European Central Bank's first ever interest rate cut!), buoyant consumer confidence and signs of a stabilizing international economic environment – suggest that the dip in EU growth will be short-lived, and that the EU economy will pick up again in the second half of 1999.

Economic activity in 1998 developed roughly as anticipated in the previous forecast (i.e., EU15: 2.9% GDP growth; EUR11: 3.0%). In particular, domestic demand proved remarkably robust, to an extent not witnessed since the beginning of the decade. In fact, for most member states, 1998 was a confirmation of the recovery

that started in 1996. By contrast, however, Italy's pick-up stumbled, while Denmark, Finland and the UK experienced slowdowns from high levels of growth. By the second half of 1998, the difficult global context sapped momentum from the EU economy, as faltering exports affected industrial activity and investment.

GDP at Constant Prices (annual % change)			
Est. 1998	Forecasts 1999	Forecasts 2000	
2.9	1.9	2.5	B
2.7	1.7	2.0	DK
2.8	1.7	2.4	D
3.7	3.4	3.6	EL
3.8	3.3	3.5	E
3.2	2.3	2.7	F
11.9	9.3	8.6	IRL
1.4	1.6	2.3	I
5.7	3.2	4.1	L
3.7	2.3	2.7	NL
3.3	2.3	2.7	A
4.0	3.2	3.3	P
5.3	3.7	3.9	FIN
2.9	2.2	2.7	S
2.3	1.1	2.3	UK
2.9	2.1	2.7	EU-15
3.0	2.2	2.7	EU-11
3.9	2.7	2.2	US
-2.9	-1.3	0.5	JAP

Employment grew by 1.1% in 1998, the largest rate of increase since 1990. The EU economy created 1.7 million new jobs in 1998, and is expected to generate a further 2.5 million over the next two years despite the slowdown in growth. Correspondingly, **aggregate EU unemployment** has fallen from a peak of 11.2% in 1994 to **9.6%** at present (as of February 1999). Because this year's slowdown is expected to be temporary, significant job shedding is not anticipated, and the trend toward lower EU-wide unemployment should continue (forecast: 9.2% in 2000).

Steadily declining since 1991, **inflation** remains subdued in the EU. It fell to 1.5% in 1998, and another decrease to 1.3% is projected for 1999, which would be the lowest level recorded since the Second World War. A slight pick-up to 1.6% is fore-

cast for 2000 as growth reaccelerates. Moderate wage increases have contributed greatly to this improvement, and should remain restrained over the forecast period.

In 1999, slower growth and relatively modest budgetary adjustment efforts should leave **the average deficit in the EU unchanged at 1.5% of GDP**, but when compared with the peak of 6.1% in 1993, it shows just how much progress has been made. The average deficit is higher in the euro zone, at 2.1% of GDP in 1998, and it declined more slowly last year. Amazingly, five member states – Denmark, Ireland, Luxembourg, Finland and Sweden – are forecast to remain in budget surplus, with the UK more or less in balance. The main element behind the reduced deficit ratio comes from declining expenditure: between 1997 and 2000, the share of government expenditure in EU GDP is expected to fall from 49% to 47%.

BANANA RULING GOES AGAINST EU; US DAMAGE CLAIMS REDUCED

Ahead of an April 12 deadline, a World Trade Organization (WTO) panel ruled that EU measures taken to comply with an earlier WTO ruling against the EU's banana regime (see EURECOM, October 1997 and February 1998) are "not fully compatible" with the EU's WTO obligations. While it confirmed that the EU can give preferential duty-free access to African, Caribbean and Pacific (ACP) countries of the Lomé Convention, it said that the EU's quota and licensing system designed to favor ACP bananas still discriminates unfairly against Latin American suppliers and US-based banana marketing companies.

On the other hand, the very same panel, in an arbitrator's role, found that the level of damages claimed by the US – some \$520 million – was not in line with the actual impairment suffered from the EU's amended, but (now) non-compliant banana policy. Accordingly, the arbitrators determined the level of "nullification" borne by the US to be \$191.4 million, which the US accepts.



The US, a chief complainant in the long-running dispute, welcomed the WTO decision. "This is an important victory for the WTO dispute settlement process and sends a clear message that the WTO cannot be used to engage in endless litigation," said US Trade Representative Charlene Barshefsky. "This is the fifth time in six years that an international trade panel has found the EU's banana policy to be in violation of international trade rules. The EU's deliberate refusal to comply with WTO rulings leaves us no choice but to exercise our right to suspend concessions," she added.

According to EU Commission Vice President Sir **Leon Brittan**, the EU will comply, but reserves its right of appeal against the judgement – not the US sanctions – as it must first carefully study the long and complicated panel reports.

"It is, however, already clear from the arbitrators' report that the unilateral US retaliation currently in place against EU exports has been and remains largely illegal, as it is set at a level well over double that determined by the arbitrator," said Sir Leon. Further, the EU will challenge the US intention to backdate the sanctions to March 3.

On April 9, the USTR published its final, reduced list of EU products that will face 100% *ad valorem* duties in response to the WTO judgement against the EU banana regime. (The list is available at <http://www.ustr.gov>.)

On a related front, the EU will continue with its WTO challenge to the US Section 301 trade legislation, which clearly inhibits trade and places the US on a path of unilateralism and overprotection (see EURECOM, March 1999).

As to an appeal, the EU will make a decision before the WTO Dispute Settlement Body's meeting on April 19, where the panels' reports will be presented for adoption. The Commission also notes that the principle of preferential access for Caribbean bananas to the EU market has not been outlawed or jeopardized in any way. Hence, the EU will carefully assess the situation before deciding an appeal. In implementing the WTO ruling, the EU confronts a specific challenge: how to con-

QUOTES

"Our members have been very badly affected. The threat of sanctions has resulted in Americans canceling orders with EU suppliers, and our members will now have to begin the process of reestablishing these contacts." **Isabel Welch** of the UK Giftware Association, commenting on the WTO banana dispute.

"We have taken our responsibilities, even if we judge the report to be unbalanced. Sometimes criticism can be salutary; we must use this crisis as a catalyst for deep and lasting reform in all the European institutions." Outgoing European Commission President **Jacques Santer** in a statement after the Commission's March 15 resignation.

"Many of Europe's most persistent and troubling policies are, to borrow a

term from medicine, iatrogenic, or 'physician induced'. No matter how well-intentioned, Europe has relied too much and too long on policies that to some extent have aggravated the very policies they were meant to address." US Treasury Assistant Secretary for International Affairs **Edwin M. Truman** at a conference organized by the World Affairs Council and Niche Systems, Inc. on April 6 in Washington, DC.

"This is it." European Central Bank (ECB) President **Wim Duisenberg's** comment on the larger-than-expected cut in the ECB's interest rate on its main refinancing operations from 3.0% to 2.5% on April 8.

tinue to help some of the world's poorest countries whose economies largely depend on banana exports to the EU.

BT/AT&T VENTURE APPROVED (WITH CONDITIONS)

After an in-depth examination under the EU's Merger Regulation, the Commission has approved a joint venture (JV) between **British Telecommunications** (BT) and **AT&T** that will provide global telecommunications to multinational companies and international carrier services to other telecom companies (see EURECOM, December 1998).

Before the deal was cleared, however, the parties had to resolve certain coordination issues between their existing operations and investments in the UK.

AT&T clinched EU authorization by giving various undertakings, including the proposed sale of ACC UK, its wholly-owned British long-distance telephone subsidiary, to ensure sufficient competition both within Britain and between the US and the UK.

BT and AT&T welcomed the ruling, and

said they expect clearance from US antitrust authorities later this year.

The Commission examined four major areas where the operation could possibly lead to a creation or strengthening of a dominant market position: global telecom services for multinational corporate customers; international carrier services; telecom services on the UK-US route; and certain international voice telephone services in the UK. After its four-month probe, the Commission acknowledged that even though the new entity would have a 30-50% share of the global telecom services market, "the current state of competition in these international markets offered the necessary environment to enable the venture to go forward." It added that it is a "dynamic market", with a number of existing (e.g. MCI WorldCom, GlobalOne and Equant) as well as potential competitors. On the UK-US route, the parties have about half the traffic flows in either direction, but less than 20% of the capacity, with plentiful additional capacity available that is falling in price (and thus permitting the entry of new competitors).

Apart from ACC, there were concerns about BT and Telewest, in which AT&T



holds a 22% stake through TCI (see EURECOM, December 1998), and with the distribution of AT&T/Unisource telecom services in the UK. To meet these caveats, AT&T has agreed to create "greater structural separation" between the new JV and Telewest, and it will wind-up its AT&T UK operations and withdraw from its Unisource partnership, leaving distribution of AT&T/Unisource services to some other company. The Commission did not demand these actions; they were offered by AT&T.

In light of this examination, the Commission will review the lifting of certain conditions it imposed on the Atlas/GlobalOne venture (see EURECOM, September 1996) in these markets "in order to foster further competition."

...IN BRIEF

...After three-and-a-half years of complex talks, EU leaders approved a **trade, development and cooperation agreement with South Africa** at the Berlin summit on March 24. The agreement provides for the establishment of a free trade area between the EU and South Africa (in conformity with WTO rules), and the strengthening of European development assistance to South Africa beyond 1999.

EU Development Commissioner and chief negotiator **João de Deus Pinheiro** welcomed the agreement, underlining that this is the beginning of a new phase in EU-South Africa relations after decades of isolation during apartheid, and that it would pave the way for future partnership between the EU and ACP countries. Now member states' parliaments as well as the European Parliament must ratify the agreement before it can enter into force.

...The European Commission has proposed to allocate 150 million euro in supplementary humanitarian aid to refugees fleeing the repression in Kosovo, and up to 100 million euro to help countries neighboring Kosovo cope with the refugee crisis. This new aid is a necessary complement to the humanitarian assistance the EU is already providing to fund camps, food and medicines for the region's refugees (worth 43.6 million euro since 1998).



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